NIRMAL BANG
a relationship beyond broking

Institutional Equities

India Macro Meter

24 January 2018

Economy Update

Teresa John, CFA
Research Analyst (Economist)
teresa.john@nirmalbang.com
+91 22 6273 8114

Recovery Entrenched; Interest Rates Moving Up

Data for November and December 2017 indicates that the recovery is well entrenched, after a dip in activity in October. In November 2017, 33 out of 41 indicators (80.5%) were in the positive territory, up from 57% in October 2017. The recovery sustained well into December 2017, with 84% of available indicators in the positive territory. While a favourable base on account of demonetisation has a role to play in this, the sequential momentum is also encouraging. We believe that growth in 2HFY18 is likely to be above 7%, surpassing the Central Statistical Organisation's or CSO's estimate. Rural recovery will require the government's push, which we expect in the forthcoming budget, with wage growth witnessing some tapering and rabi crop sowing lagging last years' level. Manufacturing sector's recovery appears to be on a firm footing with the PMI for December 2017 coming in at a five- year high of 54.7. Services sector activity is chugging along with services PMI recovering to 50.9 in December 2017, after slipping into the negative territory in the previous month. The pick-up in real economic activity along with an upturn in market interest rates supports the banking sector's credit growth. Short-term market interest rates are moving up, following the rise in G-Sec yields, with inflation on a rising trajectory and liquidity declining. As a result, disintermediation by the commercial paper (CP) market is slowing. Please read our earlier report: Mapping the credit cycle. Bank lending rates are also edging up in a bid to protect margins, driven by the recent increase in bulk deposit rates, and rise in G-Sec yields which adversely impacted treasury profits of banks.

Recovery entrenched: In November 2017, 33 out of 41 indicators (80.5%) were in the positive territory, up from 57% in October 2017. The recovery sustained well into December 2017, with 84% of available indicators in the positive territory. We believe that growth in 2HFY18 is likely to be above 7%, surpassing the CSO's estimate.

Rural growth requires some push: The rise in currency in circulation is usually a favourable indicator of robust rural sector activity. However, this time around the pick-up is driven by the base of demonetisation, although the sequential momentum also remains strong. On the other hand, rural wage growth is showing signs of tapering, on the back of a high base. Rural wage growth is down to 4.4%YoY in November 2017, from an average of 7.6% in 1HFY18. Rabi crop sowing is down 0.5% YoY, while kharif crop production is down 2.8% YoY. Prices of agricultural crops such as vegetables have witnessed some improvement, but prices of pulses are below minimum support prices. Therefore, we expect some push in the upcoming budget to sustain the rural recovery.

Manufacturing sector on a firm footing: Manufacturing sector's recovery appears to be on a firm footing with the PMI for December 2017 coming in at a five-year high of 54.7. The Index of Industrial Production or IIP also rose 8.4%YoY in November 2017. While certain categories such as pharmaceutical products rose by nearly 40% YoY, the recovery was quite broad-based with sectors such as automobiles, metals and electronic goods also doing well. Global recovery, in our view, is also aiding exports, and consequently recovery in domestic manufacturing. Exports rose 12.4% YoY in December 2017. Signs of a nascent capex recovery also continued to persist. Capital goods imports were up 15.1% YoY, on an average, between August-December 2017, while capital goods production rose 7.3% YoY over August-November 2017. Nevertheless, we believe that capex recovery will be a slow and long-drawn process.

Services sector chugging along: Services sector activity is chugging along along with services PMI recovering to 50.9 in December 2017, after slipping into the negative territory in the previous month. Indicators such as air, port and rail traffic, and foreign tourist arrivals continue to hold up quite well.

Bank credit on a rising trajectory: The pick-up in real economic activity along an upturn in market interest rates is supporting the banking sector's credit growth. Non-food credit growth continued to recover, rising 11.3% YoY in December 2017, up from 10% in the previous month. Retail credit continues to lead, rising 17.3% YoY in November 2017. However, credit to industry turned positive for the first time in several months. rising 1% YoY. Credit to services rose 14.0% YoY in November 2017, up from 9.4% in the previous month.

Interest rates move up, disintermediation slows: Short-term market interest rates are moving up, following the rise in G-Sec yields with inflation on a rising trajectory, and liquidity declining. Commercial paper or CP yields have risen by over 50bps in the past couple of weeks. As a result, disintermediation by the CP market is slowing. CP issuance slowed to 13.1%YoY as of end-December 2017, down from 22.8% in the previous month. Bank lending rates are also edging up in a bid to protect margins, driven by the recent increase in bulk deposit rates, and rise in G-Sec yields which adversely impacted treasury profits of banks. Private sector banks have hiked their benchmark marginal cost of funds-based lending rate (MCLR) by 5bps to 15bps effective from January 2018. Moreover, along with the rise in CP yields, interest rates on certificate of deposits (CDs) issued by banks have also moved up.

Exhibit 1: Minor bumps on the road to recovery

	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17
Currency in circulation (% YoY)	(23.6)	(39.9)	(37.8)	(30.3)	(19.6)	(16.7)	(14.2)	(11.6)	(10.8)	(10.0)	(8.1)	(8.0)	39.7	79.9
M3 (% YoY)	8.1	6.2	6.0	6.1	10.1	6.7	6.6	7.0	6.7	6.7	5.6	6.5	8.8	10.5
Rural wage (% YoY)	7.2	7.7	7.5	7.6	8.1	8.5	8.0	7.1	7.4	7.3	7.0	5.7	4.4	-
Consumer durable production (% YoY)	10.9	(4.3)	(1.1)	(2.9)	(3.9)	(0.7)	0.6	(3.5)	(2.4)	4.3	(3.4)	(8.6)	2.5	-
Consumer non-durable production (% YoY)	3.6	1.1	11.5	12.4	6.2	8.8	9.7	4.8	4.1	7.2	10.3	7.9	23.1	-
Motor vehicle sales (%YoY)	(5.5)	(18.7)	(4.7)	0.9	1.3	6.8	10.1	1.3	13.3	14.5	10.0	(1.8)	24.0	36.4
Passenger vehicle (% YoY)	1.8	(1.4)	14.4	9.0	10.0	14.7	8.6	(11.2)	15.1	13.8	11.3	(0.3)	14.3	5.2
Commercial vehicle (% YoY)	(11.6)	(5.1)	(0.7)	7.3	9.3	(22.9)	(6.4)	1.4	13.8	23.2	25.3	6.4	50.4	52.6
Two-wheeler (% YoY)	(5.9)	(22.0)	(7.4)	(0.0)	0.3	7.3	11.9	4.0	13.7	14.7	9.1	(2.8)	23.5	41.5
Petrol consumption (% YoY)	14.3	7.9	(0.6)	3.1	2.9	4.5	15.4	11.9	11.8	(0.7)	17.8	5.5	4.8	10.3
Diesel consumption (%YoY)	10.5	1.2	(7.7)	(3.9)	0.3	3.0	8.1	6.5	8.5	(3.5)	16.6	(2.0)	7.5	8.5
Cement production (% YoY)	0.5	(8.7)	(13.3)	(15.8)	(6.8)	(5.2)	(1.4)	(3.3)	1.1	0.7	0.1	(2.7)	17.3	-
Steel production (% YoY)	5.5	14.9	11.4	8.7	11.0	9.0	3.9	6.0	9.4	2.1	3.7	8.4	16.6	-
IIP (%YoY)	5.7	2.6	3.8	1.9	3.8	2.8	2.8	(0.2)	0.9	4.5	4.1	2.0	8.4	-
Mining (% YoY)	8.1	10.8	8.6	4.6	10.3	3.2	0.2	0.4	4.5	9.2	7.8	(0.1)	1.1	-
Manufacturing (%YoY)	4.9	0.9	3.0	1.4	2.4	3.2	2.6	(0.5)	(0.3)	3.4	3.8	2.2	10.2	-
Electricity (%YoY)	9.5	6.4	5.1	1.2	6.2	5.4	8.3	2.1	6.6	8.3	3.4	3.2	3.9	-
Capital goods production (%YoY)	5.4	(6.1)	(0.4)	(3.1)	9.4	(3.5)	(1.4)	(6.6)	(1.3)	5.2	8.2	6.6	9.4	-
Capital goods imports (%YoY)	9.8	7.3	0.4	(28.8)	14.8	38.9	5.6	8.7	2.4	18.3	14.6	15.2	18.4	9.1
PMI Manufacturing Index	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	51.2	50.3	52.6	54.7
PMI Services Index	46.7	46.8	48.7	50.3	51.5	50.2	52.2	53.1	45.9	47.5	50.7	51.7	48.5	50.9
PMI Composite Index	49.1	47.6	49.4	50.7	52.3	51.3	52.5	52.7	46.0	49.0	51.1	51.3	50.3	53.0
Rail freight traffic (% YoY)	5.5	(0.1)	0.3	3.5	7.7	4.6	3.9	2.8	5.6	7.7	5.9	2.6	3.1	7.0
Air traffic (% YoY)	22.7	24.0	25.3	15.8	15.0	15.2	17.6	20.2	12.5	15.7	16.5	20.6	16.9	17.8
Major port tarffic (%YoY)	10.3	13.7	3.6	0.4	9.5	6.3	4.9	4.5	1.0	(0.3)	3.1	3.4	4.8	5.0
Foreign tourist arrivals (%YoY)	7.6	11.9	16.4	12.7	11.8	25.0	19.5	22.5	7.4	11.0	18.9	18.1	14.4	15.1
Export growth (% YoY)	2.6	6.1	4.7	17.5	27.6	17.9	8.3	3.7	3.0	10.4	25.7	(1.1)	30.5	12.4
Import growth (% YoY)	10.8	1.1	11.0	20.8	45.3	47.7	33.1	16.9	16.2	21.4	18.1	7.6	19.6	21.1
Bank non-food credit growth (%YoY)	6.5	6.2	4.3	4.3	5.1	5.6	5.5	6.7	6.5	7.1	7.1	7.4	10.0	11.3
Personal credit (%YoY)	15.2	13.5	12.9	12.0	16.7	20.4	13.7	14.1	15.0	15.7	16.8	16.0	17.3	-
Credit to industry (%YoY)	(3.4)	(4.3)	(5.1)	(5.2)	(1.9)	4.2	(2.1)	(1.1)	(0.3)	(0.3)	(0.4)	(0.2)	1.0	-
Credit to services (%YoY)	7.1	8.3	8.1	7.7	19.5	7.6	4.0	4.7	4.9	5.0	7.0	9.4	14.0	-
Deposit growth (%YoY)	15.6	15.7	12.7	12.0	13.0	10.9	10.4	12.8	9.5	8.9	8.2	8.7	3.4	4.0
Commercial Paper issuance (%YoY)	17.9	17.3	7.3	4.7	52.9	31.1	7.7	(2.4)	(14.6)	(4.8)	12.7	23.5	22.8	13.1
Central government expenditure (%YoY)	12.6	6.6	20.9	13.2	(5.6)	49.5	59.4	(10.3)	8.9	(2.0)	(12.1)	16.5	37.1	-
Indirect tax (%YoY)	36.4	12.2	20.5	12.4	13.7	23.0	11.9	11.2	15.1	(8.4)	(14.2)	(10.5)	(20.2)	-
CPI (%YoY)	3.6	3.4	3.2	3.7	3.8	3.0	2.2	1.5	2.4	3.4	3.3	3.6	4.9	5.2
Core CPI (%YoY)	5.0	4.9	5.0	4.8	4.9	4.5	4.3	3.9	4.0	4.5	4.6	4.6	4.9	5.1
WPI (%YoY)	1.8	2.1	4.3	5.5	5.3	3.9	2.2	0.9	1.9	3.2	2.6	3.6	3.9	3.6
10-year G-Sec yields (%)	6.2	6.5	6.4	6.9	6.7	7.0	6.7	6.4	6.5	6.5	6.66	6.86	7.06	7.33
Weighted average lending rate of Banks (%)	11.1	11.1	11.0	11.0	10.8	10.7	10.7	10.7	10.6	10.6	10.5	10.4	-	-
Median MCLR (%)	9.3	9.2	8.6	8.6	8.6	8.5	8.6	8.5	8.5	8.5	8.4	8.3	8.4	-
Negative (Red+ Amber)	16	26	20	23	7	8	12	20	16	13	8	18	8	4
Positive (Green + Blue)	26	16	22	21	35	34	30	22	26	29	34	24	33	21

Red- Negative, Amber-Watch, Blue-Neutral, Green-Positive

Source: Reserve Bank of India, Central Statistical Organisation, Government of India, Bloomberg, CEIC, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Teresa John, the research analysts are the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:

Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010