

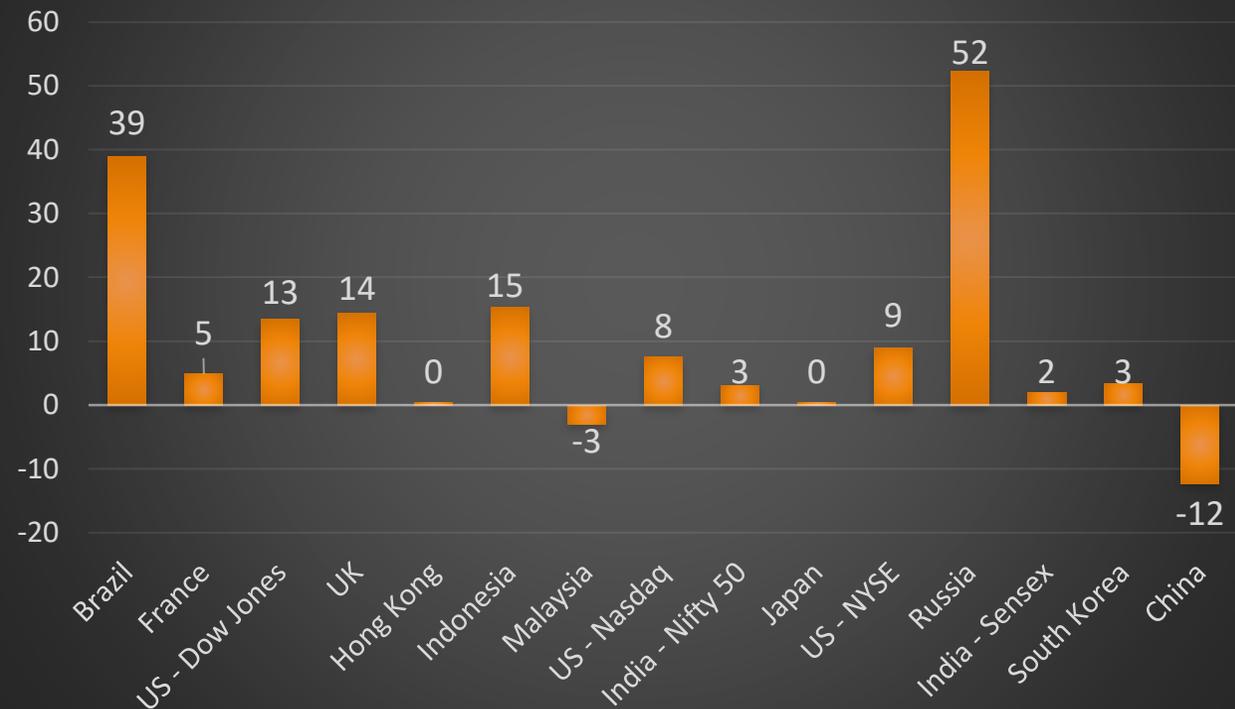


TOP 10 ISSUES FOR 2017

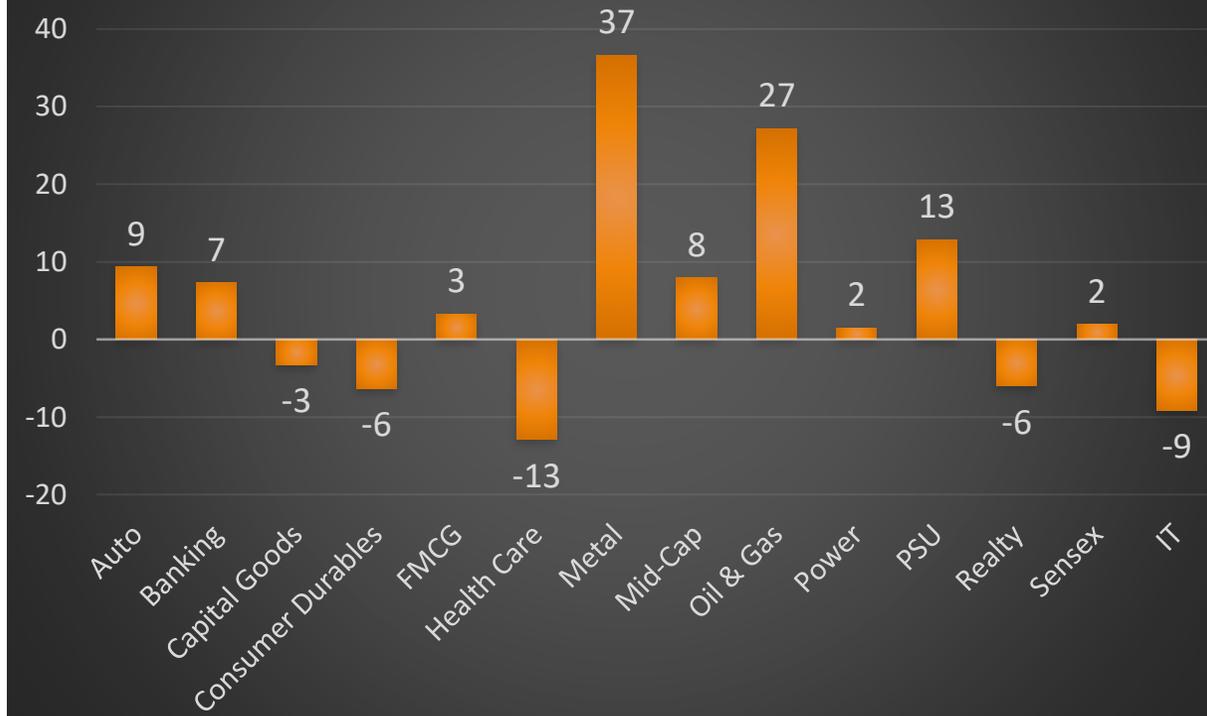
Citrus Advisors

2016: INTERNATIONAL & DOMESTIC MARKET PERFORMANCE

CY 2016 International Indices Returns (%)



CY2016 - Domestic Indices Performance (%)



1. IMPACT OF DEMONETISATION

- The Government decided to demonetise Rs. 500 and Rs. 1,000 notes on 8th November'16 in order to curb the black money menace.



GDP

- GDP Growth could be negatively impacted in 2017
- **Short term impact**



Cash dependent Sectors

- Real estate, Construction, Auto, Private educational institutions, Jewellers could take a hit
- **Short term impact**



Unemployment

- AIMO projects 60% job loss by March 2017 in micro and small industries
- **Short term impact**



Tax Collection

- Govt's tax collection will improve
- **Both short term and long term impact**



Interest Rates

- High liquidity to keep interest rates low
- **Both short term and long term impact**

2. GOVERNMENT POLICY

(A)

A. UNION BUDGET: What we expect

Higher tax exemption limit for individuals and lowering of income tax

Increase in deduction available for housing loan

Lowering of corporate tax rate

Incentives to promote a digital economy

Capitalisation of banks

Fiscal deficit target of 3% for FY18

Some form of higher taxes from the capital markets

Focus on agriculture and farmers

Focus on micro, small and medium enterprises

Focus on affordable housing

Safety and modernisation of Railways

2. GOVERNMENT POLICY – (B)



– B. INFRASTRUCTURE SPENDING

- In the first seven months of FY'17, the length of highway construction stood at 3,591 km against the target of 15,000 km. (Source: Minister of State in the Ministry of Road Transport and Highways)
- Reasons cited for the sluggish pace:
 - Land acquisition challenges
 - Utility shifting
 - Non-availability of soil/aggregates
 - Poor performance of contractors
- **We expect: The government will make some announcements to entice foreign as well as private investors to invest in the infrastructure sector**

– C. REVIVAL OF DOMESTIC DEMAND

- What could help revive demand:
 - Good monsoon
 - Adoption of the 7th Pay Commission by states
 - Gradual easing of cash withdrawal limits
 - Higher government spending
 - Budget could focus on the bottom of the pyramid and the rural segment
- The government will have to decide how to spend the extra taxes collected by the demonetisation drive along with the special dividends from RBI. The choices are spending on populist measures or spending on productive sectors of the economy.



2. GOVERNMENT POLICY (C)

– D. GST ROLLOUT & PACE OF OTHER REFORMS

- GST: The initial deadline of 1st April, 2017 looks difficult to be met due to differences between the Central and State governments.
 - *To present the GST Model Law for approval in the Budget Session which begins on 31st January, 2017 the GST Council will have to reach an agreement in time.*

– Other Reforms in Pipeline

Land Reform

Labour Reforms

Improving Ease of Doing
Business

Political funding reforms

- Our expectation: GST Rollout might happen by July'17. These reforms will be positive for the markets.

3. STATE ELECTIONS

	<p>Uttar Pradesh</p> <ul style="list-style-type: none"> • Contending parties: SP, BSP, BJP and Congress • Ruling SP mired in family disputes – a positive for BJP
 	<p>Punjab</p> <ul style="list-style-type: none"> • Punjab has seen 2 dominant parties - Shiromani Akali Dal and Congress • This time the Aam Aadmi Party (AAP) has emerged as a strong contender.
	<p>Goa</p> <ul style="list-style-type: none"> • Contending parties: BJP, Congress and AAP • This time BJP has lost support of the parties who were their allies in 2012
	

- State elections of 2017 will indicate if the bold step of demonetisation pays off for BJP and will prove to be a litmus test for Indian political parties. A BJP victory, especially in the crucial UP elections, will be positive for Indian equity markets
- Elections in UP, Punjab, Goa, Uttarakhand and Manipur in Feb-Mar'17

4. FII & DII FLOWS

FII NET FLOWS IN CY 2016 (RS. CRORE)



– **FII FLOWS**

Net Equity FII inflows for 2016: + 20,566.18 crore (INR)

Net Debt Inflows for 2016: (-) 43,645.30 crore (INR)

- FIIs were net sellers post November because of factors like demonetisation, US Dollar appreciation, low growth in corporate earnings, uncertainty of Trump policies and US Fed Rate hikes
- In 2017, India runs the risk of continued trend of FII money flowing into markets like Taiwan, Korea and Thailand.

4. FII & DII FLOWS

CY 2016 DII Flows (Rs. Crore)



- **DII FLOWS**
Healthy DII Flows
Totaling
Rs. 3.26 lakh crore in
CY2016
- The trend is likely
to continue
in 2017
- This will be positive
for equity markets

5. TRUMPONOMICS & FED POLICY

– TRUMPONOMICS

Donald Trump campaigned on the promise of a massive economic stimulus – which was a combination of tax cuts and higher spending on infrastructure.

– Trump’s fiscal policies will have a huge bearing on global economic growth. Protectionist policies will have an adverse impact.

– There is one risk in this scenario: If the US is already close to full employment, any stimulus will push up inflation which will lead to more rate hikes. That will lead to faster US Dollar appreciation, hamper economic growth and lead to higher deficits.

– US FED POLICY

– US FED indicated in its last policy that it will hike interest rates thrice in 2017

– We expect: US Fed will hike rates twice totaling 25 to 50 basis points



6. UK & EUROPEAN INSTABILITY



Country	Early Poll Indication of lead	Party
Netherlands	Geert Wilders	Far-right Freedom Party
France	Francois Fillon	Republican
Czech Rep	Andrej Babiš	ANO 2011
Germany	Angela Merkel	Christian Democratic Union Party

BREXIT

For the UK to leave the EU it has to invoke an agreement called Article 50 of the Lisbon Treaty which gives the two sides two years to agree the terms of the split.

UK is expected to exit the EU by the summer of 2019.



7. INTEREST RATES & RBI POLICY

LIQUIDITY

Demonetisation could lead to temporary slowdown in growth. This, coupled with comfort in meeting the March 2017 inflation target, creates a case for further rate cuts.

RISKS:

- Impact of GST uncertain
- Rising commodity prices
- Food prices will depend on how the monsoon pans out
- Rising US yields

We expect: 25 basis point rate cut in the first quarter of 2017. This could be followed by another 25 basis point rate cut.

INTEREST RATES

8. DISRUPTIONS



• A. TECHNOLOGY

- Biggest challenge to Digital India initiative is slow pace of infrastructure development

We expect: The government will invest in setting up digital infrastructure. There will be more incentives to promote digital transactions and awareness.



• B. COMMODITY PRICES

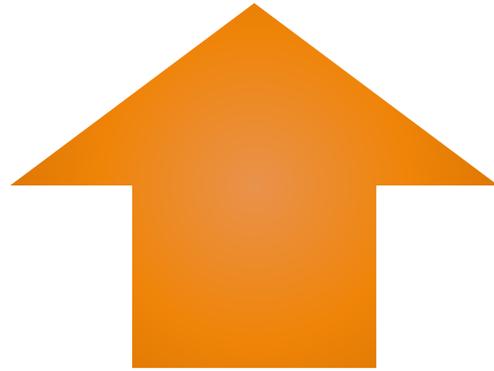
- Crude Oil - In case the OPEC agreement is carried out, it will lead to lower supply and hence an increase in crude oil prices. However, higher oil production from US shale and other lower-cost producers could keep prices range bound.
- Gold: Outlook bearish.



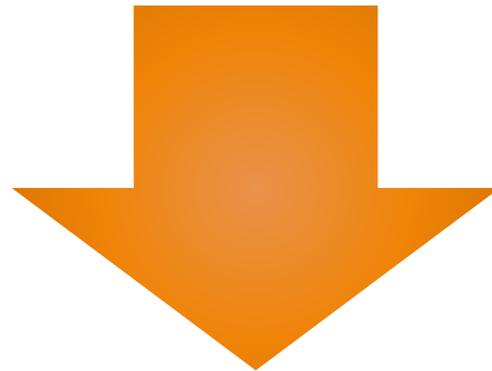
• C. CHINA

- The Chinese economy seems to have rebounded because of cheap credit
 - At the same time, China's growing debt-to-GDP ratio is a cause of concern. The credit fuelled growth will only make this worse.
 - China will also be affected by Donald Trump's trade policies.

9. FINANCIAL VS PHYSICAL ASSETS



Higher flows of savings into financial assets away from physical assets after Demonetisation. Financial Assets to give higher returns



- Bond Yields will fall on account of rate cuts and liquidity. Equity markets may remain volatile for a couple of quarters till the impact of demonetisation on corporate earnings is clear. However, Indian markets are expected to deliver a good performance after this phase of uncertainty is behind us.
- Mid caps likely to outperform large caps

10. CURRENCY MOVEMENT

- Towards October-end the Indian Rupee started depreciating against the US Dollar. This was on account of FII outflows, rising US Dollar and higher US bond yields.
- Indian Rupee was relatively less volatile compared to other Emerging Market currencies. It depreciated by 2.5% in CY 2016.
- We expect: The Indian Rupee could come under further pressure because of rising commodity prices and a strengthening US Dollar.



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