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Macro-economic developments

- As part of the Union Budget, the government stuck to the fiscal consolidation path; with fiscal deficit being kept at 3.2% for FY17-18 vs. 3.5% budgeted for FY16-17. The budgeted fiscal deficit for FY17-18 is kept at Rs. 5.46 lakh crore vs. Rs. 5.34 lakh crore for FY16-17.
- Government's net borrowing has been reduced to Rs 3.48 lakh crore for FY17-18 vs. Rs. 4.25 lakh crore for FY16-17; while the quality of government's expenditure has improved, with capital expenditure increasing by 25% y-o-y to Rs 3.1 lakh crore and revenue expenditure increasing by 6% y-o-y to Rs 18.37 lakh crore in FY17-18.
- Currency in circulation reduced by ~ Rs 8 trillion from Rs 17.77 trillion in October, 2016 to ~Rs 9.6 trillion on January 20, 2017 on account of government's demonetization move and restrictions in cash deposits and withdrawals in banks.
- Liquidity in the system continues to be in surplus mode by ~ Rs 6.35 trillion (including cash management bills of Rs 3.5 trillion).
- Fiscal deficit for April - December 2016 was 5.01 lakh crore viz. 93.9% of 5.34 lakh crore of the budgeted fiscal deficit for FY17 (against 87.9% during the same period last year).
- December CPI inflation moderated to 3.41% YoY as against 3.63% in November; primarily on account of moderation in food inflation to 1.37% YoY in December as against 2.03% in November.
- IIP expanded by 5.7% in November as against contraction by 1.8% in October, primarily on account of expansion in manufacturing (5.5%) and electricity (8.9%) sectors.
- Brent crude fell by -1.97% in January to close at USD55.70/barrel; versus USD56.82/barrel in December.
- INR appreciated by 0.09% in January to close at INR67.87/USD; versus INR67.92/USD in December.

Equity market developments and Outlook

- The Nifty posted spectacular gains in Jan'17. The index closed 4.6% higher in the month, after declining in each of the last two months. The broader market outperformed the benchmark index; the NSE500 rose by 5.7% in the month. Mid and smallcap stocks gained sharply, with the NSE mid and smallcap indices rising by 5.6% and 8.3%, respectively.
- Almost all the NSE sectoral indices posted gains in Jan'17. The CNX metals index was the top performer, rising by 15.8% in the month. This was followed by the CNX realty, auto and bank Nifty, which rose by 6-9% in the month. The CNX IT and pharma indices were the worst performers, declining by 5.3% and 0.3%, respectively.
- FIIs continued to withdraw money from Indian equities in Jan'17. Their equity sales exceeded purchases by US$0.2bn in the month – this was the 4th consecutive month of FIIs selling out of equities. FII selling was more-than offset by by mutual funds, which continued to put in money into Indian equities for the 6th consecutive month in Jan'17. Their equity purchases exceeded sales by US$0.8bn in the month.
- The uptrend in global equity markets largely continued in January. US equities posted gains; the S&P500 rose by 1.8% in the month. The index has risen by 7.2% since November, after the US elections. Most Asian markets rose in January. Philippines, Singapore, Hong Kong, China and India were the top performers, rising by 1.5-6% during the month. Japan closed flat in January. The performance of European markets was mixed. The Stoxx Europe 600 (index of 600 European companies) declined marginally by 0.4% in January, after rising by a sharp 5.7% in the preceding month.

Fixed Income market developments and Outlook

- 10 year G-Sec yields closed lower at 6.41% in January v/s 6.52% in December, due to liquidity surplus in the banking system and lower inflation reading in December which renewed hopes of rate cut by RBI in February.
- With the Banking system liquidity in surplus mode, RBI is expected to continue with the temporary measures to absorb the surplus liquidity through MSS (Market Stabilization schemes), OMO sales etc.
- We believe that CPI inflation readings would continue to be benign with the expectations of lower food prices and subdued demand on account of demonetization move, with RBI maintaining CPI inflation target for 2016-17 at 5%.
- We expect the government's demonetization move and the Fiscal prudence maintained in the Budget have opened up room for rate cut by RBI in order to support growth. We expect RBI to cut policy rate by 0.25% in February, 2017 and continue with its accommodative stance.
- Key factors to watch out for will be –impact of demonetization on growth and inflation, pace of US Fed rate hikes, sustained uptick in commodity prices (especially crude), GST framework, and upcoming state elections.
- In view of the improving macro-economic dynamics, policyholders would be well placed to benefit from the economic revival and further rate cut going forward, if they continue to remain invested in the India growth story.