ECONOMIC UPDATE

GLOBAL & INDIAN

IN TURMOIL EMERGING MARKETS RAISE RATES

The U.S. Federal Reserve's ultra-easy monetary policy beginning in 2008 sent investors to emerging markets to earn higher yields, pushing up their currencies and stock markets. The trend is now reversing. In anticipation, the U.S. Federal Reserve may begin to scale its $85 billion-a-month bond-buying program, signaling the end of its five-year ultra-easy monetary policies, investors are withdrawing money from emerging markets and investing in the U.S. and where yields are higher. But 1) Most emerging economies are allowing their currencies to be market-determined. Therefore, their central banks do not have to take measures to defend a fixed exchange rate as they did during the Asian crisis. 2) The government debt levels in countries like Indonesia, India and Brazil are not particularly high, and are denominated mainly in local currency..

HIGH YIELD INVESTORS TURN TO EUROPE

High yield investors once viewed Europe as a distraction from the developed US market, but are now increasing their exposure to the region

WARNING TO US BANKS

Moody's Investors Service warned on Thursday that it has placed the six largest US banks on review to consider reduced government support. The credit rating agency put Goldman Sachs, JP Morgan, Morgan Stanley and Wells Fargo under review for a possible downgrade while Bank of America and Citigroup are “on review direction uncertain, as the rating agency considers the potentially offsetting influence of improvements in the standalone credit strength of their main operating subsidiaries, the ratings on which were simultaneously placed on review for upgrade”.

TRADE BALANCE OF BRITAIN

Britain's trade balance worsened sharply in July as industrial production disappointed, raising doubts that the UK can export its way back to prosperity. The trade deficit in goods – the gap between imports and exports – rose to £9.9bn, approaching the record £10.3bn in April 2012, the Office for National Statistics said. Exports to non-EU countries dropped by £2.2bn to £11.8bn with exports to Europe little changed, even though the UK is targeting trade with fast-growing emerging markets.

CHINA'S AUGUST INFLATION EASES AS ECONOMY RECOVERS

China's August inflation edged down as an economic recovery gathered strength, easing pressure on communist leaders who want to focus on longer-term reforms. Consumer prices rose 2.6 per cent, down from July's 2.7 per cent, government data showed Monday. Food prices rose 4.7 per cent, down from the previous month's 5 per cent. Slower price rises and improved economic activity could allow Chinese leaders to shift attention from propping up weak growth to work on longer-term reforms to make the economy more efficient and productive. Economic growth declined to a two-decade low of 7.5 per cent in the second quarter but trade, factory output, auto sales and other indicators suggest the slowdown is leveling out.

US CONSUMER CONFIDENCE RISES IN AUGUST

Americans' confidence in the economy inched closer to a 51/2-year high on growing optimism that hiring and wages could pick up in coming months. The Conference Board, a New York-based private research group, said Tuesday that its consumer confidence index rose to 81.5 in August. That's up from a revised reading of 81 in July. And it's just below the 82.1 reading in June, which was the highest since January 2008.

INDIA'S ECONOMY JUST CAN'T SEEM TO CATCH A BREAK

The nation's gross domestic product -- the broadest measure of economic growth -- came in at 4.4% annual rate for the April to June quarter. That's India's lowest quarterly growth since the beginning of 2009, heightening concerns about a nation that is struggling with a falling currency, dysfunctional politics and a highly volatile stock market."This number is a little bit lower than consensus expectations, but expectations were quite low to begin with," said Anjalika Bardalai, a senior analyst at Eurasia Group in London.

Equity markets have also taken a big hit in recent days. The benchmark Mumbai Sensex index has quickly turned into one of the worst performers in Asia. The government has responded with a series of policy changes, but none have been particularly effective in stabilizing the recent volatility.

INDIA'S LOVE FOR GOLD HURTS ECONOMY

Economists have long argued that India needs to implement structural economic reforms to bring about meaningful progress. Last year, parliament lifted restrictions on foreign direct investment after much debate -- a key step. But Eurasia's Bardalai said India is simply not making enough progress with its economic reforms, and that's hurting the country's future prospects.