

CORPORATE SNAPSHOT- WORLD-SEPTEMBER 2013

Microsoft agreed to acquire Nokia for \$7 billion:

Microsoft agreed to acquire Nokia for \$7 billion to bolster its lagging mobile phone business. It remains uncertain whether the acquisition move will enable the software giant to attain the dominant smartphone positions of Apple and Google, which was not accomplished as partners. Seattle-based Microsoft is a distant third in smartphones world-wide, with its mobile software accounting for about 4% of the market compared with a combined 90% share for Apple and Google software. Nokia, which was a pioneer in smartphones, had a 35% market share in 2007, when the iPhone was just getting off the ground and the business was dominated by Blackberry and Microsoft. It rapidly lost ground to rivals like Apple and Samsung, selling 6% of all smartphones last year. To be successful, Microsoft must now a) create mobile devices that attract both consumers and business, b) find its footing in hardware manufacture, c) win over skeptical shareholders and app developers, and d) successfully integrate 32,000 Nokia's employees with Microsoft's 100,000. Microsoft purchased Skype for \$8.6 billion in 2011. The Nokia deal is its second-biggest acquisition.

Nokia's Last Great Deal: Zero to \$7.2 Billion

Most of the world's attention will wander from the Finnish company when it completes its sale to Microsoft Corp. in March. Nokia, however, won't fade into obscurity as 56,000 people will continue competing with Ericsson on wireless networks and Google Inc. on mapping software.

The Dow Jones Gets Less Industrial

For almost 130 years, the Dow Jones industrial average has replaced companies to reflect the shifting U.S. economy. The most recent changes included removing Alcoa (AA) and adding Nike (NKE). Since 1980, industrial companies have been supplanted by retailers, technology companies, and others on the 30-member index.

Wind Blows on Treasuries' Yields Expected to Keep Rising, But at Slower Pace

The bond market is likely headed for more pain this fall, as many investors say the prices of ultra safe U.S. Treasuries' will have to decline further before the debt starts looking like a good buy. This year is on track to be the worst for fixed-income investors since 1994, when the Federal Reserve surprised the market with rate increases. Money has flowed out of bond funds in 2013 at the fastest clip in nine years, with \$57.3 billion leaving U.S.-listed taxable mutual funds and exchange-traded funds in the past three months alone.

Chinese Home Prices Outpace Construction

The pent-up demand driving China's housing prices ever higher was on full view at the launch of the manicured Shanyucheng apartment complex in Beijing's outermost suburbs. A shouting match flared up when 500 people came to

sign up to buy 200 units on Saturday and the latecomers realized they had little chance. Prices nationwide climbed 8.6% year-over-year in August and soared in major cities, according to data provider China Real Estate Index System.

U.K. Manufacturing Sector Expands

Activity in the U.K.'s manufacturing sector expanded at its fastest pace in 2½ years during August, an indication that the economic recovery is gathering pace. A survey of purchasing managers also pointed to a fourth month of additional hiring at factories, a development that should help sustain the recovery. The purchasing managers' index for manufacturing, compiled by data firm Markit and the Chartered Institute of Purchasing & Supply, rose to 57.2 in August from 54.8 in July, to reach its highest level since February 2011.

Kenya to Issue \$1.5 Billion in Bonds

Analysts Say Country Should Find Buyers Even Though Investors Turn Away From Emerging Markets.

Treasury Yields Pierce 3% with Employment Data Ahead

Milestone Shows That Traders Believe Tapering by Fed Is Just Around Corner, Hours ahead of U.S. employment data that could seal the deal for the U.S. Federal Reserve to start pulling back on monetary stimulus this month, the decline in U.S. government debt prices has hit a new milestone. Ten-year bond yields traded above 3% for the first time in over two years, reaching a peak of 3.007% in Asian trading hours Friday—a clear signal that traders and investors believe the so-called tapering by the Fed is just around the corner.

At Apple, the Slideshow Goes On

Steve Jobs Pioneered Unique Presentations, but Imitators Have Made It Harder to Stand Out in Crowd, Chief Executive Tim Cook is expected to walk on a darkened stage and show slides because the presentation style perfected by Apple co-founder Steve Jobs may generate \$300 million in free publicity from newspapers, blogs and television through coverage, estimates Yankee Group analyst Carl Howe.

Europe's Illegal Transaction Tax

The EU's own lawyers reject the extraterritorial levy. Europe's great sprint to tax financial transactions. In a leaked opinion dated September 6, the EU Council's Legal Service argues that the proposed levy is "not compatible" with European Union treaties because it "infringes upon the taxing competences of non participating Member States." Translated from the legalese, that means France, say, would be collecting revenue on certain trades conducted in the U.K. though the U.K. government hasn't agreed to the tax.

China on right Track?

Concerns about a weakening Chinese economy have largely abated. China's industrial output climbed 10.4% in August from a year earlier, while exports were up 7.2% year-on-year

(yoy), exceeding market Expectations. Inflation softened, rising 2.6% yoy, suggesting the authorities have room to loosen monetary policy if required. A revision in Japanese Q2 gross domestic product from 2.6% to 3.8% (annualized rate) also provided a boon to Asian markets. Additionally, Bank of Japan governor Kuroda Provided reassurances that the impact of the government's proposed sales tax hike next year would be offset by pro-growth policies.

U.K. Service-Sector Growth Picks Up Speed

Growth Rate Hits High of More Than 6½ Years. The U.K.'s service sector grew at its fastest pace in more than 6½ years in August, a further sign that the economic revival is strengthening. The continued surge in output in a sector that accounts for more than two-thirds of the U.K.'s economy follows strong performances in construction and manufacturing last month, highlighting the broad-based nature of the economic recovery.

Fed Refrains from Taper as It Seeks Signs of Sustained Growth

The Federal Reserve unexpectedly refrained from reducing the \$85 billion pace of monthly bond buying, saying it needs more evidence of lasting improvement in the economy and warning that an increase in interest rates threatened to curb the expansion.

Blankfein and SAC Capital—Still Trading

Goldman Sachs Chief Executive Lloyd Blankfein once again highlighted the close relationship between his firm and embattled hedge fund SAC Capital. “They’ve been indicted, they haven’t been convicted,” Blankfein said during an interview. They are a big liquidity provider, we’re a major prime broker. That would be a quite an existential decision for them if all the liquidity providers withdrew liquidity on the

basis of an indictment which they’re contesting.”

Apple's China Strategy Meets Manhattan Reality

There has always been strong demand for U.S.-purchased Apple products in China, because there is a significant markup on the devices in the country. This year, the newest model of the iPhone will be available in China much sooner than in years past, prompting hopes that it would reduce the trade in grey-market phones.

Greece: Selling Assets Among the Ruins

The government is targeting annual sales of €35 million to €50 million from the auctions. Since starting the e-auctions in July, the fund has raised €7.4 million selling three properties—including a tract of seaside land. Greece is in a sixth year of recession, with unemployment at a record 27.9 percent. House prices dropped almost 12 percent in the second quarter, according to the central bank.

With Clock Ticking, Verizon Adds Billions

Verizon agreed to pay \$130 billion for Vodafone's stake in their U.S. joint venture, an enormous deal that gives Verizon the 45% chunk of Verizon Wireless which it doesn't already own is huge in the telecommunications industry. Vodafone has allocated around \$10 billion to invest on its infrastructure over the next three years under a plan known as Project Spring, pay tax and use the remaining cash (about \$20 billion) to reduce net debt, which stood at \$38.78 billion on June 30. so far is that a big slug of the money—\$84 billion—will go straight back to shareholders.

That leaves nothing obvious left for acquisitions, a move that surprised many analysts at a time when a major European telecoms deal seems to happen every day.

CORPORATE SNAPSHOT-INDIA-SEPTEMBER 2013

RBI unexpectedly raises rates; trims rupee support steps.

Reserve Bank of India (RBI) Governor Raghuram Rajan surprised markets in his maiden policy review on Friday by raising interest rates to ward off rising inflation, while scaling back some of the emergency measures recently put in place to support the ailing rupee. Rajan, who took office early this month amid worst economic crisis since 1991, increased the RBI's policy repo rate by 25 basis points (bps) to 7.50 percent, defying most forecasts that he would leave the rate on hold to bolster a sluggish economy. As expected, the former IMF chief economist struck a hawkish tone on price pressures in Asia's third-largest economy. He was non-committal about the direction of the next policy rate move but said he intends to continue withdrawing liquidity tightening steps that had been implemented to stabilise the currency as market conditions allow. While raising the traditional policy rate, Rajan freed up

market liquidity with a three-quarter point cut in an overnight borrowing rate that the central bank had temporarily raised by 200 bps in July to support the rupee. The wholesale price index (WPI) inflation rose to a six-month high of 6.1 percent in August, with consumer price inflation (CPI) at 9.52 percent. Rajan, 50, said in a policy statement that reaffirmed his penchant for surprise. In his first day on the job, Rajan unexpectedly outlined an action plan to revive the rupee and bolster financial markets and the banking system.

Planning Commission likely to cut average GDP growth in 12th Plan to 6%

Planning Commission is likely to cut the annual average economic growth rate target of 8 per cent for the 12th Plan (2012-17) to around 6 to 6.5 per cent in its mid-term review of the five year policy document. As per the practice, the

Commission comes out with a mid-term review of Plans during the third financial year of the policy period. In its last mid-term review, the Commission had cut the annual average growth rate target of 9 per cent to 8.2 per cent for the 11th Five Year Plan period (2007-12). But only 8 per cent average annual economic growth was achieved in 11th Plan. Reeling under the impact of slowdown, Indian economy grew by 5 per cent in 2012-13, the first year of the 12th Plan. The economic growth is expected to be flat this year. The first quarter (April-June) economic growth in this fiscal has slipped to 4.4 per cent from 4.8 per cent the previous January-March quarter. According to experts, with a presumption that the economic growth remains 5 per cent in first two years of the 12th Plan, the country has to maintain a rate of around 10 per cent in remaining three financial years of policy period to achieve the targeted 8 per cent which was not possible. The Plan itself talks about the different growth scenarios. The document said that in absence of sufficient action to promote economy, the average growth would range from 6 to 6.5 per cent.

Manufacturing sector contracts for second consecutive month in September: HSBC

India's manufacturing sector activity contracted for the second consecutive month in September as both output and new orders witnessed a decline, an HSBC survey disclosed. The overall rate of contraction was, however, marginal and eased since August, when it had slipped sub 50.0 reading (below which it indicates contraction) for the first time since March 2009. The HSBC India Manufacturing Purchasing Managers' Index (PMI) for the manufacturing industry stood at 49.6 in September, higher from 48.5 in August, but remained below the crucial 50 mark (below which it indicates contraction) for the second consecutive month. Faced with fewer projects, companies reduced their workforce numbers for the first time since February 2012. Although new orders fell at a slower and marginal pace, the contraction of export business was very significant. According to HSBC, a depreciation of the rupee versus the US dollar had resulted in higher prices paid for inputs and limited firms' ability to price "competitively".

The findings of the survey come at a time when the country is battling slower growth rate, wider current account deficit and a battered currency. According to official data, high imports of gold and oil pushed Current Account Deficit (CAD) to 4.9 per cent of GDP at USD 21.8 billion in the April-June quarter of the current fiscal. The Reserve Bank of India, in its September 20 policy review, had unexpectedly raised the policy rate by 0.25 per cent as it kept its focus on controlling inflation.

Private companies can now list, raise capital abroad

Private Indian companies will now be allowed to get listed and raise capital in foreign markets without the requirement of prior or subsequent listing in India. At present, unlisted companies that are incorporated in India are not allowed to directly list in overseas markets without prior or simultaneous

listing in Indian markets."It has now been decided with the approval of the Union Finance Minister (P Chidambaram) that unlisted companies may be allowed to raise capital abroad without the requirement of prior or subsequent listing in India," the finance ministry said in a statement. The new scheme will be implemented on a pilot basis for a period of two years from the date of notification of the scheme. After the initial two year period, the impact of this arrangement will be reviewed, it said. Ministry of Finance, Department of Industrial Policy and Promotion (DIPP) and Reserve Bank of India (RBI) will issue necessary notifications in due course in order to implement the required changes to the existing rules, the statement added.

RBI bans zero per cent EMIs on consumer goods purchase

The Reserve Bank of India (RBI) has asked banks to stop the zero per cent interest rate scheme for purchase of consumer goods and said that no additional charges can be levied on payment through debit cards. In a notification, the central bank said banks should not resort to any practice that would distort the interest rate structure of a product as this "vitiates the transparency in pricing mechanism which is very important for the customer to take informed decision."In the zero per cent EMI schemes offered on credit card outstanding, the interest element is often "camouflaged" and passed on to customer in the form of processing fee. "Similarly, some banks were loading the expenses incurred in sourcing the loan (viz DSA commission) in the applicable rate of interest charged on the product," RBI said. The central bank said the very concept of zero per cent interest was non-existent and fair practice demanded that the processing charge and interest charged should be kept uniform, product-wise or segment-wise, irrespective of the sourcing channel, since such schemes only serve the purpose of alluring and exploiting the vulnerable customers. The notification said the only factor that can justify differential rate of interest for the same product, tenor being the same, was the risk rating of the customer, which may not be applicable in case of retail products where the interest is generally kept flat and is indifferent to the customer risk profile. With regard to subvention, RBI said the loan amount sanctioned for the purchase should be after taking into account the discount, rather than giving effect to the benefit by reducing the interest.

RBI governor Raghuram Rajan receives Deutsche Bank Prize, 2013

Reserve Bank of India governor Raghuram G Rajan has been awarded the Fifth Deutsche Bank Prize for Financial Economics 2013, in recognition of his ground-breaking research work which influenced financial and macro-economic policies around the world. The academic prize is sponsored by the Deutsche Bank Donation Fund and carries an endowment of euro 50,000. The Centre for Financial Studies (CFS) awards the prize bi-annually in partnership with Goethe University Frankfurt.