

ECONOMIC UPDATE

Global & Indian-September 2013

India's Trade Deficit Narrows

India's trade deficit narrowed to a five-month low in August as slowing gold demand helped cool imports, while the government's efforts to encourage exporters tap newer markets drove merchandise exports higher.

Dalal Street Runs Like Usain Bolt as Economy Starts Warming up

After the despondency of past few weeks comes a rush of euphoria. Helped by Rupees newfound resilience and a slew of positive data, stocks record their biggest single-day gain since 2009. From the worst to the best performer: Rupee to touch 60 as Raghuram Rajan reverses sentiment. The currency tide has turned in spectacular fashion. Asia's worst performer until last week, the rupee has become the world's best performer in the past five days as investor confidence has surged following a series of steps to boost inflows and the receding likelihood of a US strike on Syria.

Global value chains offer opportunity for growth and progress, says joint report to G-20

Global value chains (GVCs) have become a dominant feature of world trade and investment, offering new prospects for growth, development and jobs, according to a new joint report by the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO) and the United Nations Conference on Trade and Development (UNCTAD). Effective participation in GVCs will require significant further investment in technology dissemination, skill building and upgrading, the report says.

NSEL crisis: Market regulator puts MCX-SX on watch list

Market regulator Securities and Exchange Board of India put MCX-SX stock exchange on watch on Wednesday, noting its recognition could be withdrawn if there is "adverse findings by any other regulator" about it. MCX-SX and the troubled commodity market entity NSEL have been promoted by the same Financial Technologies led by Jignesh Shah.

Director-General Azevêdo launches Global Seminar on WTO Accessions

WTO Director-General Roberto Azevêdo launched on 23 September 2013 the first Global Seminar on WTO Accessions, a week-long event at the WTO bringing together officials from 17 governments seeking to join the WTO. "The event provides an important platform for dialogue between WTO members and acceding governments and for capacity building in this highly important area for the future of the WTO," said DG Azevêdo.

Concerns Mount over Impact of Monetary Policy Unwinding

The impact of the tapering off of the US Federal Reserve's

quantitative easing will affect emerging markets in different ways, depending on their respective fundamentals. The variation in performance makes it difficult for global businesses to formulate strategy and manage risk. The unwinding of monetary policy is one reason that global growth has slowed, including in emerging markets, said Min Zhu, Deputy Managing Director of the International Monetary Fund (IMF). "This will bring volatility to the capital market," he said. The tapering off of the stimulus will have a negative impact on growth, argued economist Li Daokui, Director of the Center for China in the World Economy at Tsinghua University. "Not everybody will be hit in the same fashion. It will depend on fundamentals." Some economies such as India and Brazil may see their problems amplified, while "there will be countries like China which have a bigger buffer that will enable them to muddle through," Li said. Added Adam S. Posen, President of the Peterson Institute for International Economics in Washington DC, "It is the fundamentals in these countries that matter at least as much as what the Fed does."

Surprise from US Fed: No pullback in bond purchases

In a surprise that sent the stock market soaring, the Federal Reserve concluded on Wednesday that the US economy isn't yet healthy enough for the central bank to ease its stimulus even slightly. The Fed's cautious message pleased investors, who had expected a slight cut in the bond purchases that have kept long-term interest rates low as the nation recovers from the Great Recession. Wall Street celebrated the prospect of continued low interest rates by lifting stocks to a record high. In a statement after a policy meeting, the Fed signaled it has no set timetable for reducing the stimulus, which has stood at \$85 billion a month for the last year. Chairman Ben Bernanke explained later at a news conference that there are good reasons to be cautious: The Fed has yet to see conclusive evidence that the job market and economy are approaching full health.

Fairfax Financial led consortium to buy BlackBerry for \$4.7 billion

BlackBerry signed a letter of intent with a consortium led by Fairfax Financial late on Monday (September 23), which will buy the company for \$4.7 billion. Fairfax has offered to pay \$9 per share in cash. With this the speculation about who would buy the once mighty but now struggling smartphone manufacturer, which had been looking for a buyer for some time, seems to have ended. Fairfax already owns approximately 10 per cent of BlackBerry's common shares.

Greece resumes talks with its creditors

Greece has resumed talks with its creditors to review progress in stabilizing the indebted country's finances. Finance Minister Yannis Stournaras met for more than four hours on Sunday with representatives of the so-called troika of creditors -

the European Commission, the European Central Bank (ECB) and the International Monetary Fund (IMF). Talks with the troika will continue throughout next week and are then expected to resume in mid-October. At stake is the continuation of the financing of Greece by the creditors, including a Euro 1 billion (\$1.35 billion) bailout installment to be paid in October.

“The Fed is the greatest hedge fund in history,”

Billionaire investor Warren Buffett compared the US Federal Reserve to a hedge fund because of the central bank's ability to profit from bond purchases while accumulating a balance sheet of more than \$3 trillion. “The Fed is the greatest hedge fund in history,” Buffett told students yesterday at Georgetown University in Washington. It's generating “\$80 billion or \$90 billion a year probably” in revenue for the US government, he said. “And that wasn't the case a few years back.” The central bank has been buying \$85 billion of bonds a month to help the US recover as it emerges from the deepest slump since the Great Depression. Chairman Ben S Bernanke and other Federal policy makers unexpectedly opted this week to sustain that pace of asset purchases instead of tapering it, saying they need to see more signs of lasting improvement in the economy.

Asia Will Account for 70% of Incremental Energy Demand

At the Annual Meeting of the New Champions 2013, Lin Boqiang, Director, China Center of Energy Economics Research, said that 70% of global incremental energy demand over the next 20 years will come from Asia. Commenting on recent overseas embassies made by Chinese government officials, Lin said that, due to China's limited domestic energy supplies, Chinese diplomatic efforts will continue in energy trade deals. While renewable technologies, particularly solar energy and clean coal technologies, will play an increasingly important part in the Asian energy mix, coal will continue to dominate, at least for the next 20 years. “One way or the other, we're going to be dealing with coal for a long time to come,” said Lin.

India's economy panel cuts growth forecast sharply

The Indian prime minister's economic advisory council has lowered the growth outlook for the current financial year. It now expects the economy to expand by 5.3% this year, down from its earlier projection of 6.4% growth. The new growth outlook is in line with the projections of the central bank and many other economists. The council also warned that keeping the fiscal deficit within the budget target of 4.8% of gross domestic product (GDP) “could be a challenge”. In its latest economic outlook, the council said that the fiscal deficit during the first four months of the current financial year had already reached 62.8% of the budgetary provision for the full year. The council—a group of five prominent economists who help create the government's economic policies—had earlier predicted 6.4% growth for this fiscal year.

India's growth rate has fallen dramatically, from 9.3% in the year ended March 2011, hurt by widening fiscal and current account deficits as well as chronic delays in industrial and infrastructure projects.

China manufacturing activity growth picks up speed

China's manufacturing activity picked up speed in September, an initial survey by HSBC has shown, adding to signs of a rebound in its economy. The bank's Purchasing Managers' Index (PMI), a gauge of the sector's health, rose to 51.2 from 50.1 in August. A reading above 50 shows an expansion. This is the second month in a row the HSBC reading has been above that level. China has been trying to boost its economy after the recent slowdown in its growth rate. It has taken various steps, including suspending value-added tax for small businesses, to try and boost domestic consumption.

RBI POLICY REVIEW -An exercise in continuity

Not to be forgotten Dr. Rajan has already 'delivered' — the markets and most analysts have welcomed him unabashedly. The rupee was miraculously stronger and the stock markets on the upswing. A reduction in the marginal standing facility rate (MSF) by 75 basis points to 9.5 per cent, and a surprise increase in the policy repo rate by 25 basis points to 7.5 per cent are the key measures announced. From now on, the MSF and the policy repo rate will have a gap of 200 basis points. Operationally, it has been claimed that the hike in repo may be more than offset by the reduction in the MSF. After all, the latter has recently emerged as the policy rate (consequent on restrictions placed on borrowings through the repo window).

Gold-rich temples refuse to unlock idle assets to help govt bring down gold import

Some of India's richest temples such as Tirumala Tirupati, Sree Padmanabhaswamy, Shree Krishna temple of Guruvayur, Shree Siddhivinayak and Vaishnodevi are in no mood to part with their treasure to ease the supply crunch and control the outflow of dollars. The gold trade is keen to get a slice of a possible 20,000 tonne of gold stashed away in peoples' homes and temples, which at the current gold price is worth around \$980-\$1000 billion.

India shies from diesel hike, seeks \$5 bln fuel savings

India has no plans to raise diesel and other key subsidised fuel prices at present, Oil Minister M. Veerappa Moily told reporters, as he announced measures aimed at saving \$5 billion from the country's huge fuel bill. Moily, who has said he wants to find savings of up to \$25 billion on oil bills, outlined measures including public awareness campaigns which he said could help the world's fourth-biggest energy consumer reduce fuel costs. He said India has a “serious engagement” with sanctions-hit Iran over oil imports. Moily has said he could save \$8.5 billion in foreign exchange outflows by raising imports of Iranian crude, which India pays for partly in rupees.