

ECONOMIC UPDATE

GLOBAL & INDIAN November 2013

Asian stocks stumbled

Asian stocks stumbled and the dollar stood tall on Thursday after minutes from the U.S. Federal Reserve's October meeting hinted at stimulus tapering, while the euro was pressured by speculation of more easing by the European Central Bank. Stocks dropped on talk of the Fed's stimulus withdrawal, with MSCI's broadest index of Asia-Pacific shares outside Japan .MIAPJ0000PUS and Australia's S&P/ASX 200 index .AXJO both shedding about 0.3 percent. Federal Reserve officials indicated at the bank's October 29-30 policy meeting that they could decide to start scaling back the asset purchases at one of its next few meetings provided this was warranted by economic growth.

FDI in USA

Over the past 30 years, FDI has grown from a small to an important creator of jobs and economic activity. During that period the US has gone from a somewhat inefficient, waning manufacturing power to the global leader in services, high technology and innovation. But so far this year foreign capital inflows are lagging behind even the anemic 2012 figures. The US brought in \$66 billion in the first six months of 2013 versus \$84 billion in the first half of last year. The numbers are troubling and could suggest that traditional heavy investors — from German and Japanese carmakers that site plants on US soil to the Chinese, Gulf and other sovereign wealth funds (SWFs) that buy America's debt — may have decided their money would best be spent elsewhere. Foreign purchases of US Treasury bills, the bonds that underwrite America's debt, are measured separately. However, FDI and “T bill” purchases are closely related, both based on calculations about the stability and potential growth of our economy. “The case for investing in the world's biggest economy is no longer self-evident,” the Financial Times wrote.

US position in the world Economy

America may be the richest economy in the world, but is it the most prosperous? Not if you go by the Legatum Institute's latest annual prosperity index, which doesn't even include the United States in the top 10. Considering such factors as the economy, security and personal freedom, the index places the US in 11th place, just below Luxembourg. Our neighbors to the north (we're talking about

Canada, of course) ranked third. What's to blame? While the United States ranked 2nd in health and 5th in education, it wasn't even in the top 20 in the economy sub-index. The report explains: "This drop in ranking was caused by a decline in the following variables: gross domestic savings; high-tech exports; access to adequate food and shelter; confidence in financial institutions; and overall satisfaction with standards of living."

Azevêdo continues intensive consultations as members head for the final stretch to Bali

Director-General Roberto Azevêdo, on 18 November 2013, continued without a pause his intensive consultations over the weekend and the previous weeks on a Bali package consisting of agreements on trade facilitation, agriculture and development issues as members head for the final stretch to the WTO's 9th Ministerial Conference on 3-6 December 2013. DG Azevêdo is due to report to the final General Council meeting before Bali — on 21 November — on progress in his consultations. WTO ambassadors resumed consultations on Section II of a draft agreement on trade facilitation. This section provides the basis for special and differential treatment and for technical assistance and capacity building needed for the implementation of the agreement. In agriculture, members are focusing on proposals about reducing export subsidies and related policies known collectively as “export competition”, reducing the chances that the methods used to share out a particular type of quota among traders become trade barriers in their own right, on how to deal with developing countries' food stockholding for food security when the purchases could distort trade, on adding a number of environmental and development services to the list of programmes considered not to distort trade and therefore allowed without limit, and on cotton produced by least-developed countries (LDCs).

Slowdown in France

A deepening slowdown in France has rekindled fears that Europe's second-largest economy could slip back into recession.

Data out Thursday also revealed the country is acting as a brake on the region's already frail recovery. This month's preliminary reading of sentiment among purchasing managers revealed a sharper slowdown in France than economists were expecting.

Manufacturing activity fell to a six-month low of 47.8 in November, down from 49.1 a month earlier. Services activity dropped to 48.8, from 50.9. Both indexes now sit below the 50-level that separates growth from contraction. It comes on the back of data showing France's economy contracted in the third quarter. Together, the figures provide a worrying assessment of the country's ability to compete at a time of subdued global growth and a strong euro.

Real debt ceiling deadline could hit in March

Treasury Secretary Jack Lew this week again noted that political brinkmanship over raising the debt ceiling benefits no one. And he urged lawmakers to raise the limit soon to create certainty for the economy. The budget focus on Capitol Hill is whether lawmakers will do the bare minimum and agree on a spending level for this fiscal year before funding runs out on January 15. But soon enough, they will have to turn their attention to raising the debt ceiling. If they don't they will risk a potential default on U.S. debt as early as March, according to a report released Wednesday by the Congressional Budget Office. The deal lawmakers brokered in October to end the government shutdown let the Treasury Department continue borrowing new money through February 7 without regard to the debt limit. Then, on February 8, the debt limit will automatically reset to a higher level that reflects how much Treasury borrowed during the nearly 4-month debt ceiling suspension period.

Gold prices have tumbled this month and are back near their lowest levels of the year

The precious metal is trading at about \$1,245 an ounce, down 25% from the beginning of 2013. Gold dipped as low as \$1,211 an ounce in June. Gold has been under pressure since the European Central Bank announced a surprise interest rate cut earlier this month, said Carlos Sanchez, analyst at precious metals firm CPM Group. That drove up the value of the dollar versus the euro and made dollar-denominated assets, such as gold, less attractive. The selling accelerated Wednesday after minutes from the latest meeting of the Federal Reserve raised speculation that the central bank could scale back, or taper, its bond-buying program, known as quantitative easing, as soon as December. But gold prices managed to hold above \$1,240 an ounce, which is an important support level for technical traders, said Sanchez. "I think we're at the lows," he said. "This is a good buying opportunity for mid to long-term investors." Sanchez said the economy is not yet strong enough for the Fed to begin tapering next month.

European banks under fire in global forex probe

It's unwelcome timing for an industry already fighting a raft of

legal battles over foreclosure abuses, misleading investors over mortgages and payment protection insurance. And then there's the Libor scandal. A global investigation into the setting of the London interbank lending rate, and related global benchmarks, has so far yielded about \$3.6 billion in fines. Penalties for some of the biggest players are still to come. Traders have also faced criminal charges. As the extent of damage caused by Libor-rigging is revealed, lawyers say the probe into fixing currency rates could unfold in a similar way, and rival its impact. London is the center of the loosely regulated foreign exchange market, the biggest in the world's financial system with average daily turnover of \$5.3 trillion.

India in talks with 10 countries for currency swap pacts

India is in talks with major trading partners, including Singapore and Japan, as well as oil suppliers like Iraq and Venezuela, to accept payment in rupee for a part of their exports. This is one of the key recommendations of a government panel that was set up in August to study currency swaps and is now understood to have won support from the finance ministry, commerce ministry and the Reserve Bank of India. The move will also make the rupee more acceptable in international trade. The report of the taskforce under Rajeev Kher, additional secretary in the commerce ministry, which is likely to be finalised over the next few days, is expected to call for currency swap pacts with 10 countries, the agency said. The assumption is that the rupee is now acceptable de facto as a unit of currency by traders in markets like Singapore and so the barter trade will give it legitimacy.

India surpasses China as most attractive investment destination: Survey

India has overtaken China as the most attractive investment destination according to a survey conducted by Ernst & Young (EY) a global professional services firm. The top three investing countries into India, as per this survey will be United States of America (USA), France and Japan. As per the government's statistics relating to Foreign Direct Investments (FDI) over the past years — April 2000 to August 2013, these three countries were among the top ten investing countries in India. FDI inflows from USA, France and Japan during this period were: Rs 53, 673 crore; Rs 17,718 crore and Rs 71,870 crore respectively. India has emerged at the top of the list of most attractive investment destinations, according to EY's ninth bi-annual Capital confidence barometer, encompassing insights culled from a survey of 1,600 senior executives across more than 70 countries. The observation underscores the long term confidence that investors continue to maintain in India as an investment destination.