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What you need to know.

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NEWS BUZZ

Raghuram Rajan Finally Annointed

The government on 6th Augusts, 2013, named chief economic advisor Raghuram Rajan as the new Reserve Bank of India governor for a term of three years.

Dr Rajan, is a former IMF economist, visiting professor to the World Bank and US Federal Reserve Board. He was one of the few economists who predicted the 2008 credit crisis.

Rajan takes over from Dr. D Subbarao on 4 September. He takes over the reins of the central bank at a time when the economy is facing crisis, the Indian Rupee (INR) is on a free fall, equity and bond markets are nervous and the government at the center wants quick fixes before the 2014 general elections. The challenge before him is to frame policies so as to control inflation and boost economy.

NSEL Incident

Adding to already critical economic conditions of India, Financial Technologies promoted National Spot Exchange suspended trading from 1st August, 2013 in most of its contracts and deferred payouts to its members, triggering fears of a default.

The government has swung into action and asked Forwards Markets Commission (FMC), to probe into NSEL's trading suspension.

NSEL launched contracts with more than 11 days tenure, while spot exchanges are not allowed to offer such contracts. The exchange also reportedly allowed members to do short selling, which is not permitted on spot exchanges, where delivery of the commodity traded is mandatory.

NSEL
ELECTRONIC SPOT EXCHANG

The government raised objections on NSEL's functioning, and on 12 July directed the exchange not to launch any more such contracts, also to settle all existing contracts on the due date. On 31 July, NSEL stopped trading in all contracts, barring e-Series, and also deferred payments to members, triggering fears of a default. The general assumption is that a fall in trading volumes on the exchange could have triggered a liquidity crunch.

The fears of a payment default are looming large. At stake is Rs. 5,600 crore of investor money in NSEL. In response the exchange has declared a settlement plan of 30-week schedule to clear investor dues. FMC has raised various critical issues about NSEL and has called for a forensic audit of NSEL's books. PMO is also planning to set up a special team headed by economic affairs secretary to look into the issue.

Emerging Markets Losing Luster: A Myth

The Emerging Markets (EMs), supposedly the 21st-century juggernauts have not fared well in the past year. The question now is whether this downfall is temporary or have they permanently lost their edge. In the past decade, the 21 EM economies have performed stupendously well jumping from 38% of world output to 50% (in PPP terms); Refer to Exhibit I for the break-up.

Graph showing the declining performance of emerging markets compared to developed markets

These EMs, predominantly the BRICS nations, have also pulled forward the world economy in the times of financial crisis.

The S&P 500 and Dow Jones Industrial Average (DJIA), both well known indices of the US stock market are in record territory. European markets are subdued and emerging economies have underperformed as compared to developed markets. The U.S., Japan and nine other economies make up the developed markets, while the emerging markets comprise of 14 countries (as per JPMorgan Chase & Co.) which include the BRICS nations - Brazil, Russia, India and China. (Refer to Exhibit II)

Emerging markets have become a talking point of financial press over the past two years. They were once considered attractive for their natural resources, low-labour cost and low-manufacturing cost and are now considered more promising for their population growth, growing middle-class and sustained economic growth. Many companies from emerging markets are posing a serious competition to their global counterparts (MNCs). This trend will continue in the years to come as emerging economies grow in size and increase their dominance in the global arena. IMF forecasts suggest that GDP of emerging economies will overtake GDP of developed countries by 2014.

The emerging markets already attract almost 50% of foreign direct investment (FDI) global inflows and account for 25% of FDI outflows.

Between now and 2050, the world's population is expected to grow by 2.3 billion, eventually reaching 9.1

billion. The combined purchasing power of the global middle classes is estimated to more than double by 2030 to US$ 56 trillion. Over 80% of this demand will come from Asia.

Most of the growing middle class will live in emerging economies. There will be a surge in urbanization, which will stimulate business and there will be a huge strain on infrastructure development. Physical infrastructure like roads, sanitation, water supply, and electricity system needs to be either built or upgraded. Addressing this need will require additional US$ 7.5 trillion investment by 2020 as per Ernst & Young report.

The latest HSBC forecast states that China will grow at 7.4%, India at around 5% while Brazil and Russia will clock around 2.5 %. These figures indicate that collectively EMs might just match last year's figure of 5%. Although this sounds fast compared with the sluggish G7 economies, but it is the slowest emerging-economy expansion in a decade, except for 2009 when the whole world slumped.

History has witnessed that all the super powers, once emerging economies, have undergone quite similar phases that BRICS nations are going through today.

	Europe & Middle-East	Pacific
USA	Germany	Hong Kong
	UK	Japan
	Sweden	Singapore
	Finland	Australia
	Switzerland	
	France	

Exhibit I - Developed Economies

Americas	Europe, Middle East & Africa	Asia
Brazil	Czech Republic	China
Chile	Hungary	India
Colombia	Morocco	Indonesia
Mexico	Poland	S. Korea
Peru	Russia	Malaysia
	S. Africa	Taiwan
	Russia	Philippines
	Turkev	Thailand

Exhibit II - Emerging MArket Economies

	2011		2030		2050	
PPP Rank	Country	GDP at PPP (2011 US$ bn)	Country	Projected GDP at PPP (2011 US$ bn)	Country	Projected GDP at PPP (2011 US$ bn)
1	US	15,094	**China**	**30,634**	**China**	**53,856**
2	**China**	**11,347**	US	23,376	US	37,998
3	**India**	**4,531**	**India**	**13,716**	**India**	**34,704**
4	Japan	4,381	Japan	5,842	**Brazil**	**8,825**
5	Germany	3,221	**Russia**	**5,308**	Japan	8,065
6	**Russia**	**3,031**	**Brazil**	**4,685**	Russia	8,013
7	**Brazil**	**2,305**	Germany	4,118	Mexico	7,409
8	France	2,303	Mexico	3,662	**Indonesia**	**6,346**
9	UK	2,287	UK	3,499	Germany	5,822
10	Italy	1,979	France	3,427	France	5,714
11	Mexico	1,761	**Indonesia**	**2,912**	UK	5,598
12	Spain	1,512	Turkey	2,760	Turkey	5,032
13	South Korea	1,504	Italy	2,629	Nigeria	3,964
14	Canada	1,398	Korea	2,454	Italy	3,867
15	Turkey	1,243	Spain	2,327	Spain	3,612
16	**Indonesia**	1,131	Canada	2,148	Canada	3,549
17	Australia	893	Saudi Arabia	1,582	South Korea	3,545
18	Poland	813	Australia	1,535	Saudi Arabia	3,090
19	Argentina	720	Poland	1,415	Vietnam	2,715
20	Saudi Arabia	686	Argentina	1,407	Argentina	2,620

The last two decades witnessed a dramatic rise of the emerging economies. However, the current figures are indicative of the end of this boom.

If we look into the past, these booms are usually followed by busts, but scrutinizing the emerging market scenario it is evident that these economies will still rise but moderately.

China is in the midst of a precarious shift from investment-led growth to a more balanced, consumption-based model. Its investment surge has prompted plenty of bad debts. However, the central government has the fiscal strength to absorb losses and to stimulate the economy, if necessary. That is a luxury few emerging economies have ever had. It makes disaster much less likely. And with the rich-world economies still feeble, there is little chance that monetary conditions will suddenly tighten. Even if they did, most emerging economies have better defenses than ever before, with flexible exchange rates, large stashes of foreign-exchange reserves and relatively less debt (much of it in domestic currency).

Vietnam and Indonesian economies will remain more focused on low cost production whereas China, Brazil and Russia, will become increasingly important as consumer markets as real wages increase over the period of time. At a time, when advanced economies are projected to grow at a tepid speed of 2%, companies seeking growth opportunities will have to explore these emerging markets. Emerging economies will be the future growth engines of the world and the current downturn in EMs is a temporary phase which will ease out by 2014, when the global economy will be back on the growth trajectory.

Companies Bill 2012

The Rajya Sabha passed the Companies Bill on August 8,2013. The new legislation, which now needs the President's nod to become law, will replace the ancient Companies Act of 1956 and has brought in new measures for investor protection, better corporate governance and corporate social responsibility.

Highlights of the bill

1. Concept of One Person Company (OPC limited) introduced. OPC will be treated as Private Limited Company only.

Benefits: Encouragement to one person entrepreneurship.

2. The bill increased the number of members of private companies from 50 to 200.

Benefits: Allows companies access to a large pool of capital without going public.

3. Companies are required to spend at least 2 % of their net profit on CSR in and around the area where they operate.

Benefits: Emphasizes the fact that corporate are expected to contribute to the welfare of the society in which they operate and where from they draw their resources to generate profits.

4. The Bill requires auditors to be changed every five years and audit firm after 10 years.

Benefits: Prevents collusion between the auditors and the management.

5. The new bill bans the company from holding 'Treasury Stock', the stock which has been bought back by the issuing company itself.

Benefits: Treasury stocks are often used by companies to increase shareholding or future monetization after consolidation. Hence the new law prevents this action.

6. The new bill requires companies to appoint one woman director.

Benefits: Enforcement of gender equality.

7. While the old bill only permitted merger of a foreign company with an Indian company, the new bill allows merger of Indian companies into foreign companies

Benefits: This would aid in consolidation of cross-border businesses/assets.

8. Provisions in respect of vigil mechanism (whistle blowing) proposed to enable a company to evolve a process to encourage ethical corporate behavior, while rewarding employees for their integrity and for providing valuable information to the management on deviant practices.

Benefits: This will help in bringing transparency and ethics into the company affairs.

9. The changed law allows more statutory powers to the government's investigative arm Serious Fraud Investigation Office (SFIO)

Benefits: This will help in tackling corporate fraud.

10. Introduces punishment for falsely inducing a person to enter into any agreement with bank or financial institution, with a view to obtaining credit facilities.

Benefits: This will help in curbing a major source of corporate wrongdoing.

11. The term 'private placement' has been defined. "Private placement" basically means any offer of securities or invitation to subscribe securities to a select group of persons by a company (other than by way of public offer) through issue of a private placement offer letter

Benefits: This will help to establish more clarity on the concept of "private placement."

12. Whole-time director' has been included in the definition of the term 'key managerial personnel'.

Benefits: This will help in effective corporate governance.

13. The new law makes it mandatory for the publication of consolidated balance sheets by companies with unlisted subsidiaries.

Benefits: This will help to ensure transparency.

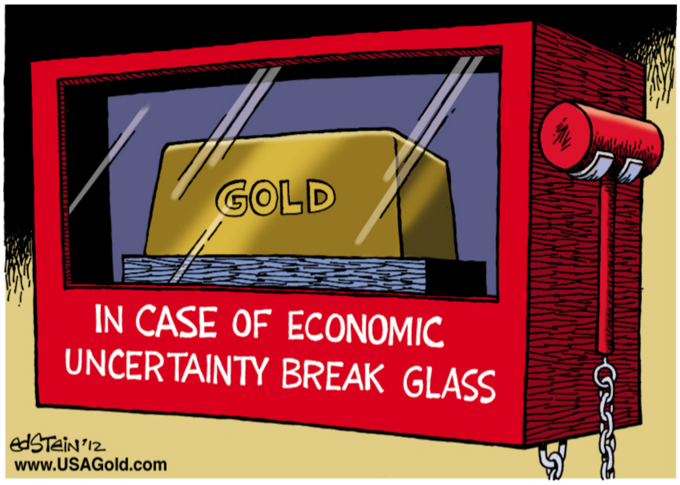
14. The new legislation introduces the concept of an independent director. For every listed company, at least one-third of the directors should be independent, with every such board member allowed a maximum two terms of five years each.

Benefits: The cap on tenure prevents the independent director from getting too close to the management.

15. The new law will mandate the setting up of a National Financial Reporting Authority, which will monitor compliance with accounting and auditing standards. It will also have the power to investigate auditors that are registered under section 22 of the Chartered Accountants Act, 1949.

Benefits: Keeps a check on the auditing practices.

Gold Rush?



Gold has been used throughout history as money and has been a relative standard for currency equivalents specific to economic regions or countries, until recent times. Beyond its use in industries and cosmetic, gold performs two other functions: it's a store of value and object of speculation. The price of gold is considered as a major indicator of the status of global economy.
Gold price has shown a long term correlation with the price of crude oil. Investors generally buy gold as a hedge or harbour against economic, political, or social fiat currency crises (including investment market declines, burgeoning national debt, currency failure, inflation, war and social unrest).
The Fed's activities result in increasing quantities of money being added to banking reserves, which finds its way into the stock and bond markets and fuels fears of future price inflation. Investors' fears of inflation will send gold prices skyward. . When gold prices drop, it usually means the economy is healthy. That's because investors have left gold for other, more lucrative, investments like stocks, bonds or real estate. After the 12 years of bull run, Gold has fallen 20% to $1363.68 (17TH Aug, 2013) from $1675.83 (1st Jan, 2013) in 2013, against a backdrop of strengthening U.S. dollar and easing of Fed policies.

There are 4 main factors that affect the price of gold.

1. Value of US dollar
The foremost factor that governs the price of gold is the value of US Dollar. A stronger US dollar will keep the price of gold controlled and low. A weak dollar will set the price of gold spiralling to a very high price. US economy plays a major role in shaping the macroeconomics of the world. When the dollar is strong, people invest, buy and trade in dollars. However, in recent times, the US economy has suffered a lot. Dollar has not remained as powerful and promising as ever; this is the reason why people and nations start investing and hoarding in bullion. The high gold reserves strengthen the national economies and act as a hedge against inflation.

2. Production of gold
Due to the rising cost of production in gold mining, strikes by gold-miners, worsening political situation, the sharp increase in the oil prices after the Iraq war, and terrorist attacks, a decline in the gold-mining production has been recorded for the past 5 years. The world population is constantly rising, and so is the demand of investment in bullion. Man has always believed in investing in bullion since ages. So, the prices of gold are also affected by the natural desire of man to hoard gold.

3. Demand for jewellery by the China and India markets
China and India are the biggest buyers of bullion for their jewellery market. In the year 2004, Chinese citizens were granted the ownership of gold for the first time in history. This triggered a very high demand of bullion, which subsequently affected the price of bullion worldwide. In 2009, a record 32% decrease in the demand for gold-jewellery was recorded, due to the global economic crisis, which resulted in a slight decline in the gold-price.

4. Central Banks Reserves
Central banks keep reserves as a hedge against inflation. Other monetary policies of the central banks also affect the price of gold. Low interest rates discourage people to invest in paper money; they turn towards the golden metal in the hope of better returns. If the central banks give high interest rates, the chances are that the gold price will fall.

TERMINOLOGIES

LOAN JARGONS

Title Loans:

A car title loan, also called an auto title loan, pink slip loan or simply title loan
It is a type of secured loan where the borrower can use their vehicle title as collateral.
Borrowers who get title loans must allow a lender to place a lien on their car title, and temporarily surrender the hard copy of their vehicle title, in exchange for a loan amount. When the loan is repaid, the lien is removed and the car title is returned to its owner. If the borrower defaults on their payments then the lender is liable to repossess the vehicle and sell it to repay the borrowers' outstanding debt.

These loans are typically short-term, and tend to carry higher interest rates than other sources of credit.
Lenders typically do not check the credit history of borrowers for these loans and only consider the value and condition of the vehicle that is being used to secure it.

They can be approved very quickly and for small amounts as well without bothering about a borrower's credit score.

The amount a borrower can be loaned is dependent on the worth of their vehicle. A lender will typically look up the auction value of the car being used as collateral and offer a loan that's between 30% and 50% of the worth of the vehicle. This leaves lenders a cushion to make profit if ever they need to repossess the vehicle and sell it at auction, in the event the borrower defaults.

Logbook Loan

A logbook loan is a British term for a bill of sale securing a loan on a debtor's vehicle (with the lender retaining the vehicle's "logbook", or vehicle registration certificate).
The structure of the loan means that the lender can repossess the debtor's vehicle without a court order. This distinguishes it from a car title loan, as used in the United States.

Logbook loans are used for people who have bad credit that need cash quickly.
Logbook loans can be completed in as little as 15 minutes. You must have a steady source of income and proof of income to be approved for a logbook.

Leveraged loan

Loans extended to companies or individuals that already have considerable amounts of debt.
Lenders consider leveraged loans to carry a higher risk of default and, as a result, a leveraged loan is more costly to the borrower.

Syndicated loan

A loan offered by a group of lenders (called a syndicate) who work together to provide funds for a single borrower is called a Syndicated loan. The borrower could be a corporation, a large project, or a sovereignty (such as a government). The loan may involve fixed amounts, a credit line, or a combination of the two.
Interest rates can be fixed for the term of the loan or floating, based on a benchmark rate such as the London Interbank Offered Rate (LIBOR).
The main goal of syndicated lending is to spread the risk of a borrower default across multiple lenders (such as banks) or institutional investors like pension funds and hedge funds.
Because syndicated loans tend to be much larger than standard bank loans, the risk of even one borrower defaulting could cripple a single lender.
Syndicated loans are also used in the leveraged buyout community to fund large corporate takeovers with primarily debt funding.

Payday loan

Also called a payday advance, is a small, short-term unsecured loan, "regardless of whether repayment of loans is linked to a borrower's payday."

It is a type of short-term borrowing wherein an individual borrows a small amount at a very high rate of interest.
The borrower typically writes a post-dated personal check in the amount they wish to borrow plus a fee in exchange for cash. The lender holds onto the check and cashes it on the agreed upon date, usually the borrower's next payday.

The loans are also sometimes referred to as "cash advances"

Though that term can also refer to cash provided against a prearranged line of credit such as a credit card.
Payday advance loans rely on the consumer having previous payroll and employment records.

Loan sale

It is a sale, often by a bank, under contract of all or part of the cash stream from a specific loan, thereby removing the loan from the bank's balance sheet.
Loan sales are often accomplished through the sales of individual loans or pools of whole loans. Loan sales are non recourse sales that are also sometimes accomplished through the securitization of the bank's receivables.
These types of transactions are used to mitigate asset-related risk, obtain free-cash flows and for liquidation requirements.
Basically, the lender will sell your loan to another lender. They match the interest rate so there is no impact to you, other than a different company to make the check out to every month.

Abuses In Lending

Predatory lending

It is one form of abuse in the granting of loans. Unscrupulous actions carried out by a lender to entice, induce and/or assist a borrower in taking a mortgage that carries high fees, a high interest rate, strips the borrower of equity, or places the borrower in a lower credit rated loan to the benefit of the lender.

It is the practice of a lender deceptively convincing borrowers to agree to unfair and abusive loan terms, or systematically violating those terms in ways that make it difficult for the borrower to defend against.
Where the moneylender is not authorized, they could be considered a loan shark.

Loan shark

A loan shark is a person or a body that offers loans at extremely high interest rates above the legally defined rates.
For example, A loan shark would lend Rs.20,000 and expect a repayment of Rs. 40,000 in a month's time.
Loan sharks sometimes enforce repayment by blackmail or threats of violence or damage to a person's reputation.

Usury

Usury is the practice of making unethical or immoral monetary loans.
It is a different form of abuse, where the lender charges excessive interest.
Usury first became common in England under King Henry VIII, and originally pertained to charging any amount of interest on loaned funds. In different time periods and cultures the acceptable interest rate has varied, from no interest at all to unlimited interest rates.
Credit card companies in some countries have been accused by consumer organizations of lending at usurious interest rates and making money out of frivolous "extra charges".
Today, usury laws help protect investors from predatory lenders.

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