



THE FINANCIAL BUG

Brazil: The Endangered Reign of Dilma Rousseff

A moribund economy, A multi-billion-dollar corruption scandal at Petrobras (the state-controlled oil giant), The critical need to find savings equal to 1.8% of GDP this year to stave off a credit-ratings downgrade: If all that were not enough for Dilma Rousseff, Brazil's president, to worry about, March 15th brought the country's largest mass demonstrations since the *diretas já* ("elections now") movement that helped end military dictatorship in 1985. There were 2.2m people taking to the streets to protest against the president and her Workers' Party (PT).

Massive protests pose a grave threat to Dilma Rousseff's presidency and tanked her approval ratings. A poll taken in the days following the protests and published on March 18th showed that just 13% think she is doing a good job, down from 42% in December. Fully 62% disapprove of her, the highest figure for a sitting president since Fernando Collor hit 68% in September 1992, on his impeachment.

This remains a remote possibility. Under the law, a serving president can only be removed for misdeeds committed during his or her current term of office. The Petrobras gumshoes have focused on alleged bribery that took place well before Ms Rousseff began her second term, on January 1st. None of which has stopped the Free Brazil Movement (MBL), a grassroots liberal outfit which helped organize the latest demonstrations, from collecting signatures on an impeachment motion it intends to submit to Congress. The MBL believes it has found legal grounds in the government's ongoing efforts to strike leniency deals with the big construction firms embroiled in the scandal—to forestall their collapse, the government claims, and with it that of many infrastructure works around the country.

The MBL argues that these accords fall foul of an anti-corruption law enacted last year, by limiting or eliminating statutory fines guilty companies must pay for their misdeeds. Most lawyers think this is a long shot. Yet as Christopher Garman of Eurasia Group, observes, impeaching a president is a political process, not a legal one. Ms. Rousseff enjoys the backing of the PT, a heavyweight with ties to organised labour and social movements.

Brazil's economic woes, in charts and the interests of the other players do not align, as they would need to. The centre-right opposition, led by the Party of Brazilian Social Democracy (PSDB), might be favourably inclined so long as Ms Rousseff's ousting led to fresh elections, which it would stand a good chance of carrying. This, the law stipulates, can only happen if the vice-president were also booted out—over the ticket's shady campaign finance, say—and only in the first two years of the four-year term. In all other circumstances Ms Rousseff's vice-president, Michel Temer of the centrist Party of the Brazilian Democratic Movement (PMDB), would take over. This may please the PMDB, but not the opposition, which would much rather see Ms Rousseff "bleed", than give Mr Temer a chance to govern, and throw the presidential election in 2018 wide open.

The PMDB and PSDB together lack the supermajority in Congress needed to impeach Ms Rousseff. But if the economy continues to founder and more Brazilians begin voicing their discontent on the streets, they could recruit the two dozen smaller parties—and possibly the PT itself, parts of which are already queasy about Ms Rousseff's new-found zeal for the entitlement cuts and tax rises that are against the traditional working-class base. Such an outcome remains highly unlikely but not inconceivable.

- Collated By
Vrishank Shukla, TY B.F.M

Link: www.economist.com/topics/brazil

Forex kitty continues to rise, scales new high at \$341.4 billion

India's foreign exchange reserves surged \$1.39 billion in the week to March 27, scaling a new high at \$341.378 billion, the Reserve Bank of India (RBI) data showed on Friday. This is the second straight week the reserves have risen as RBI purchased dollars from the open market to prevent the local currency from appreciating. The rupee closed Friday at 62.09 a dollar against 62.41/42 a dollar last Friday. Overseas investors are pouring dollars into Indian equities and debt with the economy gaining from Narendra Modi's reform push. Foreign investors helped Indian corporate bonds market to grow 32% year-on-year to a record. `3,56,382 crore between April 2014 and February 20. India's strong economic fundamentals lured overseas investors back, forex dealers said. RBI Governor Raghuram Rajan said last week that the central bank was fully prepared to deal with volatility in the Indian market.

The Indian reserves hold nearly 20-25% of non-dollar currencies. In the week under review, foreign currency assets rose by \$1.35 billion to \$316.24 billion, the RBI data showed. Foreign currency assets constitute the bulk of reserves and reflect the change in the value of reserves held in other global currencies, including the euro, pound and yen due to exchange rate movements. The Indian reserves hold nearly 20-25% of non-dollar currencies. In the week under review, foreign currency assets rose by \$1.35 billion to \$316.24 billion, the RBI data showed. Foreign currency assets constitute the bulk of reserves and reflect the change in the value of reserves held in other global currencies, including the euro, pound and yen due to exchange rate movements. The RBI said the foreign currency assets, expressed in US dollar terms, include the effect of appreciation or depreciation of non-US currencies such as the pound sterling, euro and yen held in reserve. India's reserve position with the International Monetary Fund (IMF) in the week ended March 27 increased by \$8.5 million to \$1.29 billion. The value of special drawing rights (SDRs) was higher by \$26.2 million at \$4 billion. Gold reserves in dollar term remained unchanged at \$19.84 billion. They had plunged by \$346.2 million in the week ended March 6. According to analysts, RBI is building up reserves to absorb any future global financial shock like the one witnessed in June 2013. "The RBI is building up the reserves to counter any future financial shocks like the one which was witnessed at the time the tapering announcements were made. Apart from that, the reserves will also act as a support to the rupee," Anindya Banerjee, Kotak Securities senior manager, currency derivatives, said. The RBI is cautious about the US Fed's stand that the rate hike might take place in the later part of the year. With higher interest rates in the US, foreign portfolio investors (FPIs) are expected to be led away from emerging markets such as India.

-YASHIKA MEHTA, TYBFM

Source: <http://economictimes.indiatimes.com/news/economy/finance/forex-kitty-continues-to-rise-scales-new-high-at-341-4-billion/articleshow/46797093.cms>

Raghuram Rajan indicates banks have no excuse not to pass on rate cuts

NEW DELHI: Adding pressure on banks to cut rates, RBI governor Raghuram Rajan on Tuesday slammed any notion that the marginal cost of funding for banks has not come down. "Banks marginal cost of funding has fallen, the notion that it hasn't fallen is nonsense," Rajan said.

In its monetary policy review, the RBI kept key policy rates unchanged, citing lack of transmission of earlier rate cuts. "Transmission of policy rates to lending rates has not taken place so far despite weak credit off take and the front loading of two rate cuts. With little transmission, and the possibility that incoming data will provide more clarity on the balance of risks on inflation, the Reserve Bank will maintain status quo in its monetary policy stance in this review," the central bank. "We want to facilitate the transmission of rate cuts. Banks marginal cost of funding has fallen, they can borrow at the margin at 7.5%. There is plenty of liquidity in the markets," Rajan said. "There is an incentive for banks to lower rates in April as a high amount of liquidity would be released into the banking system," Rajan said. According to Rajan, banks will be forced to cut lending rates due to competitive pressures. "At some point the competitive pressures on banks will tell. Many corporations are borrowing directly from the market. I have no doubt, that this (transmission of rate cut) will happen, If it happens sooner, it is better for the economy, but banks have to make their own decision," Rajan said. "What we (RBI) have to make sure from a regulatory perspective is that regulation does not stand in the way of cutting rates. Remember that the base rate does not seem to stand in the way of banks, when they raise the rate as a result of interest rate hike. It only seems to come in the way when interest rates are cut," Rajan said. The RBI review says that outlook for growth is improving gradually. "Comfortable liquidity conditions should enable banks to transmit the recent reductions in the policy rate into their lending rates, thereby improving financing conditions for the productive sectors of the economy," RBI said. RBI has even said that any further cut in rates will be contingent on banks passing on rate cuts. "Going forward, the accommodative stance of monetary policy will be maintained, but monetary policy actions will be conditioned by incoming data. The Reserve Bank will await the transmission by banks of its front-loaded rate reductions in January and February into their lending rates," the policy statement said.

- Collated by Nalini Gupta
Nalini Gupta, SY B.F.M

Source: <http://economictimes.indiatimes.com/news/economy/policy/raghuram-rajan-indicates-banks-have-no-excuse-not-to-pass-on-rate-cuts/articleshow/46835022.cms>

Two sides of the SEBI-FMC merger

The proposed merger will present more opportunities to the exchanges but could also pose serious challenges for the watchdog

The proposal to merge the Securities and Exchange Board of India (SEBI), the stock market regulator, with the Forward Markets Commission (FMC), which regulates the commodities market, was proposed by Finance Minister Arun Jaitley in his Budget for 2015-16. So that it doesn't require separate parliamentary approval, the legal changes required for the merger were incorporated in the Finance Bill. Once the president gives his assent to the Bill, the changes will get automatically notified. The implications of the merger are significant.

Read more at.. http://www.business-standard.com/article/markets/two-sides-of-the-sebi-fmc-merger-115032401103_1.html

India to grow at 7.8% in FY16, to outpace China: ADB

Says India will contribute more to global economic growth than the US, although less than what China would chip in.

The Asian Development Bank (ADB) projected India's economy to grow by 7.8 per cent in 2015-16. This is lower than the official estimate of 8.1-8.5 per cent, but higher than China's estimated growth of 7.2 per cent in 2015. At this rate, India's economy would contribute more to the world economic expansion than the US, although less than what China would chip in, ADB said in its World Development Outlook 2015.

Read more.. http://www.business-standard.com/article/economy-policy/indian-economy-to-grow-by-7-8-in-2015-16-adb-115032400104_1.html

- Collated by
Priya Muralidaran, SY B.F.M

US crude oil stocks surge 11 million barrels, biggest rise since 2001

US crude stocks surged by nearly 11 million barrels last week, the biggest gain in 14 years, as imports jumped, while oil stocks unexpectedly increased and distillate inventories dipped, data showed on Wednesday. Crude inventories rose by 10.9 million barrels in the last week, compared with analysts' expectations for an increase of 3.4 million barrels, according to data from the Energy Information Administration. Crude stocks at the Cushing, Oklahoma, delivery hub rose by 1.232 million barrels, which was also a bigger than expected build. US crude imports rose last week by 869,000 barrels per day. US oil prices extended losses by as much as 25 cents following the data. Refinery crude runs rose by 201,000 barrels per day to 15.9 million bpd, EIA data showed, remaining at record highs for this time of year. Refinery utilization rates rose by 0.7 percentage points. Gasoline stocks rose by 817,000 barrels, compared with analysts' expectations in a Reuters poll for a 1.0 million barrels drop. While inventories are still above normal for this time of year due to unusually high refinery output, until this week stocks have been falling at their usual spring pace due to robust consumer demand, data show. Distillate stockpiles, which include diesel and heating oil, fell by 250,000 barrels, versus expectations for a 829,000 barrels increase, the EIA data showed. Colder weather this winter has kept stocks below their seasonal highs.

- Collated by
Tejas Desai, TY B.F.M

Source - <http://economictimes.indiatimes.com/markets/commodities/us-crude-oil-stocks-surge-11-million-barrels-biggest-rise-since-2001/articleshow/46854076.cms>