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ECOBUZZ



JANET YELLEN V/S THE REST OF THE WORLD

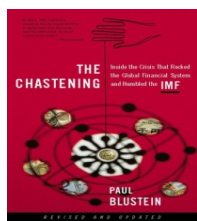
The Federal Bank on 17th September, 2015 made an unexpected move to keep the Interest Rates Unchanged to 1.80%. The US Fed has always caused Anxiety amongst the global markets due to its dominant Dollar. Here is a brief explanation as to what interest rates are and why it was kept unchanged –

WHAT ARE INTEREST RATES –

In a simple Layman term, Interest rates are the Cost of Borrowing which banks charge to its customers. But, in the case of a Central Bank, the cost of Lending to the Banks is referred to as interest rates. The business houses have to face an increase in their Cost of Capital eventually with the hike in interest rates and vice versa.

WHY RATES UNCHANGED –

1. The real unemployment levels of the USA reached a record low of 10%. So, it is rather important for the government to first create jobs in the labour industry so that the population is able to cope up with the hiked rates.
2. The Quantitative Easing program of the US did not prove that beneficial as the real growth of the nation did not rise as expected.
3. Unstable world economy: the recent turmoil in the Greece and China made the world markets volatile with the VIX reaching to 60% levels of that of 2008-crisis.



THE Chastening By-Paul Blustein
The book examines the role of IMF in the series of economic crises that rocked the globe in the last decade and continue to reverberate today.

4. Pressure from the IMF: IMF has been building pressure on the Fed to delay the decision of hike in rates as the real growth of the country as well as the globe has failed to meet its standards.
5. Inflation unable to reach at 2%: the US is currently facing a low inflation of 0.2% which has failed to reach a mark of 2% because of several factors like falling crude and commodity prices.
6. Falling Crude prices affecting the US Shell Oil exports as Iran is set to enter the Oil Markets: Iranians have yet again entered the Oil markets regardless of the falling crude prices which has affected the exports of US Shell Oil.
7. Falling Commodity prices: The commodity prices in the US as apparent from the CRB BLS has dived to the levels last seen in late 2009. This reduces cost of raw materials which will have a direct impact on the prices of the finished goods. Yet again, the inflation will cease to be under-control.

Thus above are the factors that withheld the US Fed from raising the interest rates this September season. Though Mrs. Yellen says the rates may be hiked in this October session but the chances are bare minimum as this session is without the press conference.

By- Harsh Thakrar
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ECONOMY UPDATES –

1. The US Fed has decided to further delay the increase in interest rates due to volatility persisting amidst global economies.
2. FinMin further softens MAT blow.
3. PM talks with CEOs at the US to convince them to 'Make in India'.
4. RBI proposes easier ECB norms.