Rupee hits all-time low against dollar

REUTERS, *Mumbai*

THE rupee breached formidable resistance of 60 to the dollar to slump to a record low on Wednesday, reinforcing the vulnerability of a country with limited reserves and struggling to narrow a record-high current account deficit.

The rupee's fall in the afternoon session was swift despite a feeble attempt by the RBI to defend the currency as end-of-month dollar demand from importers triggered stop-losses at around 60 the dollar that accelerated rupee falls.

The faltering currency hit bonds and stocks as foreign investors, worried about an early end to US stimulus and looking to see their returns eroded, have sold a combined net of more than $6 billion in both markets so far this month.

The problems are being compounded by perceptions India is ill suited to defend the currency in the near-term. The Reserve Bank of India has around $291 billion in currency reserves, enough for only seven months of import cover.

The government has promised measures to attract foreign investment, but remains hampered by a perception that previously announced measures such as opening up the retail sector have faltered in their implementation.

"The advertised reason is the CAD, but this has been purely an excuse by markets," said Suresh Kumar Ramanathan, head of regional interest rate and FX strategy at CIMB Investment Bank in Kuala Lumpur.

"The real fact is that the market has attempted to take on the RBI by adding the pressure to intervene and to identify how much resolve the RBI has to defend the 60 level," he added, noting the rupee slumped once the central bank was unable to defend it.

The partially convertible rupee fell to an all-time low of 60.76, breaching the previous low of 59.9850 hit on June 20. It closed trading at 60.7150/7250 versus its Tuesday close of 59.66/67.

The rupee fell 1.8 percent for the day, the worst performance of the day among emerging Asian currencies and has slumped 11.3 percent since the start of May.

An Indian man counts US dollar notes as he poses for a picture at the local currency exchange shop in Mumbai. AFP

India is due to post current account deficit data for the first three months of the year on Friday, and any data that shows that gap has not narrowed from a record high of 6.7 percent of gross domestic product in the October-December quarter could spark more selling in domestic markets.

For now, a cautious RBI is likely to remain the first line of defence. The RBI was seen intervening on more than one occasion on Wednesday to stem the fall, selling dollars via state-run banks, but failed to prevent a slump.

The central bank has also been asking banks about the nature of flows and intraday open positions, which is being eyed by traders as a potential precursor for rules mandating a cut in speculative trades.

The RBI did that in December 2011 when it mandated lenders to reduce their intraday net open positions by 50-75 percent.

"The RBI now needs to come out with administrative strictures to cut speculation, curb excessive import/foreign currency loan hedges and take oil imports out of the market," said Moses Harding, head of asset liability management at IndusInd Bank in Mumbai.

The government is also due to announce measures such as opening up the telecom and defence sectors for foreign investment, adopting the same playbook in September when the country sparked a rally in markets by opening up the retail and aviation sectors to foreign investment.

By contrast, promises to adopt measures have so far failed to encourage investors.

Bond yields jumped on Wednesday, with the 10-year bond yield rising 8 basis points to 7.58 percent, its highest since May 14.

India's fixed income association relaxed trading bands for government bonds for Wednesday's session after some of the debt hit their upper yield circuits, dealers said.

Interest rate swaps also surged with the benchmark five-year OIS rate 14 bps up at 7.44 percent, while the one-year rate closed 10 bps higher at 7.53 percent.

The BSE Sensex ended down 0.3 percent.

Talks in New Delhi to strengthen power sector cooperation

STAR BUSINESS REPORT

A delegation from the power ministry is now in New Delhi to follow up various power sector initiatives between the two countries.

Power Secretary Monowar Islam is leading the Bangladeshi team at the two-day talks that began yesterday, according to a statement of the Indian High Commission in Dhaka.

Islam will co-chair, along with his Indian counterpart P Uma Shankar, the sixth meeting of the India-Bangladesh joint steering committee on cooperation in the power sector.

Officials of both the countries will discuss the status of various initiatives for power sector cooperation including the bulk transmission of 500 megawatt power from India, the statement said.

They will also discuss grid inter-connectivity, the Rampal power project and other cooperative ventures.

Danish retailers sign Bangladesh safety reform plan

REUTERS, *Copenhagen*

PWT Group, a user of the clothing factory that collapsed in Bangladesh in April, and five other Danish firms, have agreed to sign an international accord on fire and safety in Bangladesh.

The accord was worked out and endorsed by several large mainly European retailers in May after the Rana Plaza factory collapsed on April 24 killing at least 1,129 people.

Denmark said IC Companys, DK Company, Bestseller, COOP Denmark, Danish Supermarket and PWT Group, with its Texman and Wagner brands, had agreed to join retailers such as Hennes & Mauritz, Inditex, PVH Corp and Tesco Plc in endorsing the accord.

PWT Group, which had been using a supplier in Rana Plaza for seven years, said the day after the collapse that, while it checked working conditions at the factory, it could not be held responsible for how it was built. It later said it planned to offer financial help to victims' families.

"It is encouraging that several Danish companies today have decided that they will sign the international agreement," Danish Trade Minister Pia Olsen Dyr said in a statement.

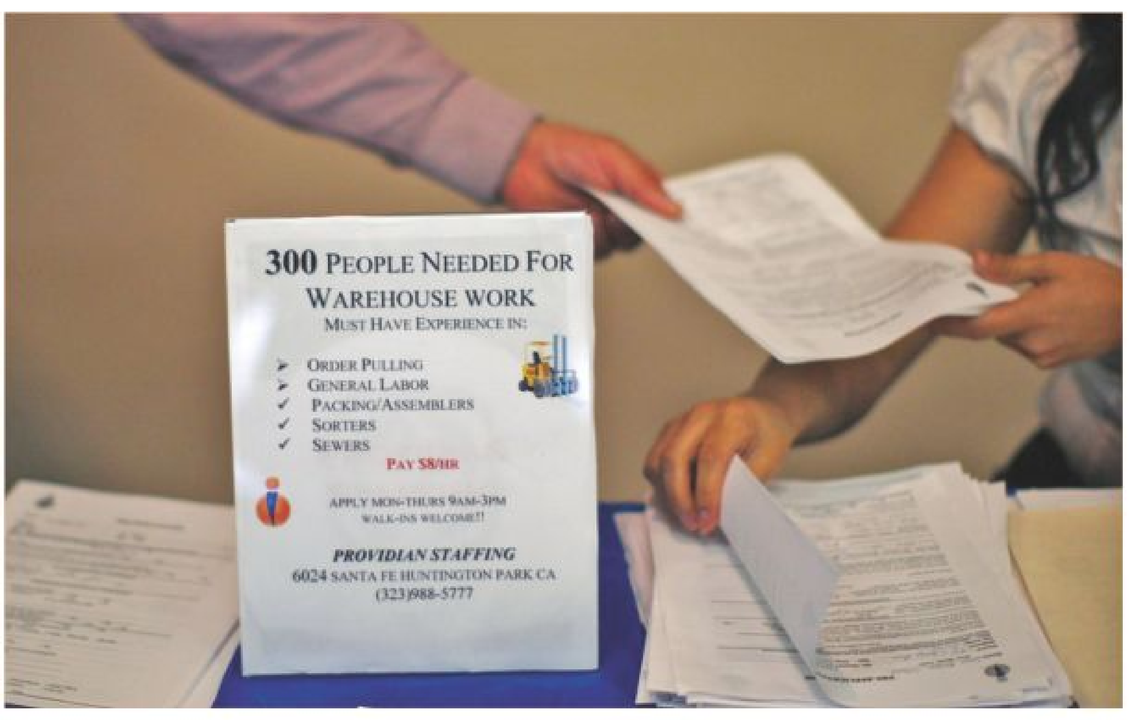
The Rana Plaza building collapse followed a fire at the Tazreen Fashion factory on the outskirts of Dhaka that killed 112 people in November 2012 and another incident at a factory in January in which seven people died, compounding concerns about worker safety and low wages in Bangladesh.

America's wage crisis

RICHARD L TRUMKA *and* CHRISTINE L OWENS

WORKING families are suffering today in a wage crisis. Job quality is eroding, the ranks of low-wage workers are expanding and income inequality in America is downright shameful.

Ironically, Tuesday, June 25, marks the 75th anniversary of the Fair Labor Standards Act, the landmark New Deal legislation mandating a federal minimum wage that now applies to most work, and most workers, in the United States. Originally set at 25 cents, the minimum wage has risen occasionally since 1938 to its current hourly level of $7.25, where it has been since 2009.



REUTERS

Representatives of Providian Staffing offer positions to job seekers in Los Angeles, California.

The minimum wage isn't what it once was. When the minimum wage was roughly half the average wage, in the late 1960s, full-time, year-round minimum wage earnings for one worker lifted a family of three from poverty. Not anymore. Today, a minimum wage worker lives on $3,000 less than the poverty line -- and the minimum wage is worth only 37 percent of the average wage.

If the minimum wage had just kept pace with inflation since 1969, it would be around $10.70 today. If it had kept up with productivity growth, it would be $18.72. Meanwhile, if it matched the wage growth of the wealthiest 1 percent, it would be $28.34.

While the value of the minimum wage has fallen -- thanks largely to congressional inaction for long stretches of time -- the wealthiest 1 percent are doing quite well, thank you. Their real earnings have skyrocketed 275 percent over the past 30 years.

While the value of the minimum wage was falling, so was the quality of low-wage workers' jobs. Wages grew and hours increased across the board between 1979 and 2007 -- but hours increased the most and wages the least for the lowest income workers. The share of workers in "good jobs"– paying more than $37,000 a year and providing healthcare and retirement benefits -- fell even though the average age and education level of workers rose.

The 2008 economic collapse and the recent recession cost America decent middle-class jobs. The cost has proved steep and lasting. Most job growth now -- and six in 10 jobs expected to be added over the next decade -- are in low-wage fields.

So as we look back over the years since the Fair Labor Standards Act passed, and compare the wage and job quality erosion for lower income workers to the good fortune of the wealthiest -- we should be ashamed. U.S. income inequality is greater today than in any other developed nation on earth and exceeds that of many developing countries. Worse, the Congressional Budget Office projects U.S. income inequality will continue to grow through at least 2034.

The bottom line is that working families are paying the price for America's neglect of basic wage standards. The decline in the minimum wage accounts for more than half of the inequality that has emerged between the lowest-paid workers and those in the middle over the past 30 years, according to the Economic Policy Institute.

Fortunately, the solution to this part of the wage crisis is simple: Fix the minimum wage. Raise it, boost the guaranteed rate for tipped workers (frozen at a scandalous $2.13 since 1991), and index the overall wage to the cost of living.

This would accomplish several urgent and important priorities at once. It rewards work; gives consumers -- also known as workers -- money to spend; and best of all, doesn't cost taxpayers a dime.

President Barack Obama supports a minimum wage increase. So do congressional Democrats. The Fair Minimum Wage Act of 2013, sponsored by Senator Tom Harkin (D-Iowa) and Representative George Miller (D-Calif.), would raise the minimum wage over time to $10.10 an hour, restore the guaranteed tipped rate to 70 percent of the minimum and index the overall rate to rise annually.

The Harkin-Miller bill doesn't make up all the ground the minimum wage has lost. But it makes up a good deal of it. It would benefit 30 million workers, pump $32 billion into the economy and add 140,000 new jobs -- all without increasing the national deficit.

America's wage crisis threatens working families who make impossible choices every day -- choices between paying for light or food or rent. The Fair Minimum Wage Act of 2013 alone won't end that crisis, but boosting wages for those who have lost the most is an important step toward rebuilding a strong economy on the foundation of good jobs with decent wages for all who want and need to work.

Trumka is the president of the AFL-CIO and Owens is the executive director of the National Employment Law Project.

Indian firms queue for bank licences, eyeing bonanza

AFP, *Mumbai*

DOZENS of Indian companies are finalising their applications for banking licences this week, eyeing the first opportunity to enter the vast but still thinly exploited market in more than a decade.

Several dozen applicants are expected before the July 1 deadline, but only eight to 10 are likely to be selected by the Mumbai-based Reserve Bank of India (RBI).

"It is a rare opportunity. There is massive potential for growth in India's banking sector," said Pradip Shah, founder of financial advisory group IndAsia.

"Technology-savvy new private banks can grab market share from those which have been slow to change."

India's banking sector is still dominated by state-run lenders and in the last 20 years only 12 private banks have been allowed to open.

The new lenders, which have a minimum capital requirement of five billion rupees ($85 million), will also be obliged to favour "priority" sectors of housing, agriculture and education.

Successful applicants will have 18 months to set up operations once licences are handed out from March next year, but must also place at least a quarter of their branches in rural areas.

The rural requirement is part of the RBI's policy of pushing "financial inclusion" by providing affordable banking to swathes of Indians without bank accounts.

About 480 million of India's 1.2 billion people, mostly living in the country's 630,000 villages, currently have no banking access, according to the RBI.

Such a large number of untapped potential customers should be a financial boon over the medium- to long-term, but analysts warn that new banks face formidable challenges in entering the market.

Data shows that the country's biggest lender, State Bank of India, has generated 10 percent of its assets from the rural 30 percent of its branches, said Espirito Santo Securities analyst Santosh Singh.

Banking in rural India is challenging due to high costs of "doorstepping" -- or visiting villagers door-to-door -- to encourage them to use official banking services, analysts said.

Such customers also generally have low incomes, making them a less profitable prospect for bankers.

"It will take a long time before new banks will be able to leverage the benefits from a banking licence," Singh said.

Indian pedestrians walk past an advertising poster for a bank in Mumbai. AFP

There are also concerns that the new licences could concentrate further economic power in the hands of the country's business giants, mostly family-run firms who dominate the economy but have been barred from banking for decades.

Large industry houses have been allowed to apply, with engineering giant Larsen and Toubro, the Aditya Birla group and the Anil Ambani Reliance group confirming their interest.

The huge Tata and Bajaj groups have said they are looking into the process, while financial firms Religare Capital Markets and Infrastructure Development Finance Company (IDFC) have begun applications.

"It raises the risk of crony capitalism, with captive banks," said a financial consultant and former banker, declining to be named, explaining that the big players may use the banks to lend to their own empires.

"The whole process appears tilted to suit the industry giants," he added.

India's large conglomerates already run investment and financial arms, but without bank licences they have been unable to raise large deposits from the public, which has capped their size.

Industrialists owning banks would be reminiscent of the pre-1970s, before the government nationalised several lenders to gain more control over the industry and channel funding to agriculture and small-scale industries.

To protect the new system, the RBI says that those seeking to set up a bank "should have a past record of sound credentials and integrity, be financially sound with a successful track record of 10 years".

Shah of IndAsia remains unconvinced of the need for new banks, fearing the private sector may gain at the cost of state-owned banks.

"Fragmenting the banking sector is not good. We should also consolidation and improve efficiency in the existing structure," he said.