India pushes to develop money markets

REUTERS, Mumbai

THE era of easy money for Indian banks may be coming to an end. Unlimited access to cheap overnight funding from the Reserve Bank of India (RBI) was tightened mid-year as part of measures to support a plunging rupee, and now the central bank is keen to use the restrictions to help it deepen money markets.

The ability of banks to continuously tap funds through the central bank's Liquidity Adjustment Facility (LAF) lowers their need to raise cash in the markets, which has thwarted the development of a proper money-market yield curve.

That seems set to change under new Governor Raghuram Rajan, who has pledged to deepen and develop India's financial markets. As a first step, he wants to encourage use of new term repos.

Sources say the RBI will deliberately go slow in removing the cap on funds banks can borrow via the LAF, even as it unwinds other emergency measures imposed to prop up the rupee.

Having a money-market yield curve would help investors and companies better price risk across a range of maturities, and should make markets more liquid.

"Globally, many central banks rely more on term lending than overnight lending. We also want to move to that kind of a system where the reliance on overnight borrowing from the RBI will be reduced to the minimum. This will help in building a smooth yield curve," said an official aware of the issue.

REUTERS

Reserve Bank of India Governor Raghuram Rajan smiles after arriving for a quarterly interest rate review briefing at the RBI headquarters in Mumbai.

Under the LAF, banks borrow overnight funds at the central bank's main lending rate, the repo rate, currently at 7.75 percent.

The facility is intended to help lenders smooth over daily fluctuations in their liquidity needs, but banks have instead used it to borrow easy money, and fund longer-term lending by repeatedly rolling over their collateral.

That changed since mid-year when the RBI limited borrowing first to 1 percent of bank deposits and then to 0.50 percent, about 400 billion rupees daily, in measures to tighten the supply of rupees and support its exchange rate.

"LAF is a liquidity management tool. But banks are using it to fund their loan book and they are not very actively mobilising deposits," said a second official familiar with the central bank's thinking.

Estimates are that banks now have to raise at least about 800 billion rupees each day outside of the LAF.

Some of that can be tapped via other central bank facilities, including an export refinance window where funds are borrowed at the repo rate, and the Marginal Standing Facility, emergency funding at a more punitive rate of 8.75 percent.

Banks can also raise funds from 7-day and 14-day term repurchase agreements (repos) that were launched in October. The first three auctions have attracted strong demand, and the RBI can eventually add more tenors to create a yield curve.

Having become accustomed to unlimited low-cost cash, the shift to market-based funding has led to some volatility as banks adjust to the new environment.

The Mumbai Inter-Bank Offer Rate, or MIBOR, an overnight rate that determines the pricing of short-term debt such as commercial paper, is moving in a range of about 100 basis points, compared with 10 to 20 basis points in mid-July.

Last week, MIBOR was at 8.80 percent, higher than even the 8.75 percent the RBI charges for emergency funding. But bankers acknowledge the long-term benefits of creating a yield curve.

"We are using the term repo facility. We are not facing any issues due to the repo cap. The RBI should gradually move to longer tenors to cover the duration till the 91-day T-bills. It will eventually help the development of an interbank term money market," said NS Venkatesh, treasurer at IDBI Bank.

It is not just a matter of commercial banks changing their practices. The Reserve Bank may also need to change some of its rules before the money markets can fully develop.

One of the major issues seen restricting the interbank term repo market is a set of regulations preventing collateral pledged in a repo being reused by the party providing the funds, a common feature in more developed markets.

"The RBI is trying to wean away banks from using the overnight window to support their balance-sheet activities," said R Sivakumar, head of fixed income at Axis Mutual Fund.

"The ultimate success will be if they can develop a term money market outside the central bank's window."

Too many banks survived crisis: regulator

AFP, Frankfurt

TOO many European banks survived the financial crisis, the head of Europe's banking regulator said in a newspaper interview on Monday.

"I'm convinced that too few European banks were dismantled and disappeared from the market," European Banking Authority (EBA) chief Andrea Enria told the daily Frankfurter Allgemeine Zeitung in an interview.

"Barely 40 (disappeared), compared with around 500 in the United States," he said.

"Governments wanted to keep their banks alive and that has hampered the healing process" of Europe's financial system, Enria said. The EBA organised a series of stress tests for European banks in recent years which have been criticised as being too lenient.

Europe is currently in the process of setting up a new banking union to strengthen its financial system. And Enria is favour of putting in place truly Europe-wide structures, he told the Financial Times.

"You need European decision mechanisms rather than having always a committee-type of decision in a crisis," he said. "Committees in a crisis don't work because you have conflicts."

Sony sells 1m PlayStation 4 units in first 24hrs

REUTERS

SONY Corp said on Sunday it had sold 1 million units of its new PlayStation 4 gaming console in the first 24 hours that it was available in the United States and Canada. The console, which Sony is counting on to kick-start a revival of its consumer electronics business, went on sale on November 15.

Andrew House, the head of Sony Computer Entertainment, the unit of Sony that oversees PlayStation, said in a statement that "sales remain very strong in North America."

"We expect continued enthusiasm as we launch the PlayStation 4 in Europe and Latin America on November 29," House said.

Sony Corp had previously announced it had received more than 1 million advance orders for the console. Still, the initial sales figures are Sony's first salvo in a battle brewing with Microsoft Corp's Xbox One console, which goes on sale Nov 22. Sony is also hoping its console can help build a platform for recovery at the Japanese company's money-losing consumer electronics operations.

Malaysia Airlines posts third-quarter loss

AFP, Kuala Lumpur

FLAG carrier Malaysia Airlines said Monday it recorded its third straight quarterly loss in the three months to September due to high fuel costs and a weak ringgit.

The airline reported a net loss of 375 million ringgit (118 million dollars) in the third quarter.

It blamed increased competition, higher expenses due to the weakening of the ringgit against the dollar and increased charges at overseas airports.

The airline said higher overflying charges, an intensive advertising programme and increased financing costs also contributed to the loss.

For the nine months ended September the airline registered a net loss of 830 million ringgit, but recorded a positive cash flow from operations of 555 million ringgit.

It carried 12.5 million passengers from January-September, up 29 percent from the previous year.

The poor results come at a time when the carrier is embroiled in a dispute with its cabin crew union, after its president was suspended for calling on airline CEO Ahmad Jauhari Yahaya to quit for alleged failure to address the crew's plight.

Ahmad Jauhari said that in July-September, the carrier saw traffic increase 37 percent.

"This contributed to a 13 percent increase in operating revenue to 3.8 billion ringgit. However, intensifying competition and new competitors with additional capacity in the market has put pressure on pricing, which affected yield," he said.

AFP

An employee of Japanese jeweller Tanaka Kikinzoku Jewelry displays a 500 million yen ($5 million) Christmas tree, decorated with pure gold plate ornaments and designed with Disney characters, in Tokyo. The 2.4-metre tall Christmas tree with 26 ornaments, weighing 43kg, was up for sale yesterday on the birthday of Mickey Mouse.

China reform plan impresses, but analysts watch effects

AFP, Beijing

CHINA'S quick release of a surprisingly detailed national reform plan shows leaders are serious about economic change, analysts say, but uncertainties remain over its implementation.

Just days after an initial outline announced at the end of a closely watched Chinese Communist Party meeting was largely panned as vague and disappointing, the ruling body added weight to the framework for change in the world's second-largest economy.

Reforms approved at the so-called Third Plenum meeting, a year after the party revamped its top leadership, include requiring powerful state-owned companies to pay larger dividends to the government to beef up a weak social security system.

China will also encourage a bigger role for the private sector, further champion interest rate reform, loosen currency controls and allow farmers more room to profit from state-owned land they currently till on contract, according to documents released by state media.

"The new leaders really delivered and promised a number of concrete changes," Hong Kong-based Societe Generale economist Yao Wei wrote in a report.

The lengthy and detailed final "decision" document released late Friday was "encouragingly specific" compared with the initial communique three days earlier, she wrote.

State-owned businesses will have to pay 30 percent of their profits into the Social Security Fund by 2020, up from a current maximum of 20 percent, and Yao said: "This ratio may not impress everyone, but it is laudable that the leaders are willing to set this target explicitly."

While analysts mostly expressed pleasant surprise at the final plan's contents, they stressed its ultimate success can only be judged based on implementation, which will be complex.

AFP

Workers are busy in sewing in a clothing factory in Bozhou, east China's Anhui province.

"I would take it as essentially positive," said Christopher Balding, who teaches economics at Peking University's HSBC Business School in the southern city of Shenzhen, near Hong Kong.

"I think the concern is going to be when the rubber hits the road," he told AFP, citing the nuts, bolts and speed of how it is carried out, including the issue of when it becomes law.

"China has been talking about rebalancing the economy for upwards of a decade and there's really been no progress."

The country's leaders have said its credit-fuelled state investment model must yield to one where consumers and private businesses drive demand, as in advanced economies such as the United States, Europe and Japan.

Annual growth rates above 10 percent were once common during China's metamorphosis from a classic communist-style command economy to the state-private hybrid unleashed by reforms introduced by Deng Xiaoping in the late 1970s.

In the process, hundreds of millions of Chinese were lifted out of poverty as the economy enjoyed a decades-long boom, becoming a lynchpin of global commerce and influencing everything from Australian iron ore prices to US interest rates.

But with growth slowing -- last year's 7.7 percent expansion was the weakest since 1999 -- the impetus to find new engines to keep the huge ship sailing forward grows ever more acute.

London-based Capital Economics analysts Mark Williams and Wang Qinwei called the final plan "the most impressive statement of reform intentions that we've seen this century". Though they emphasised words are one thing, action another.

"A policy document, however weighty and well put-together, does not in itself change anything on the ground," they wrote.

"Whether or not the plenum ends up a turning point in China's development depends on how well reforms are implemented."

Helping shore up optimism among some was what they saw as the strong hand of Xi Jinping, who took over the reins of the party last November before becoming state president in March in a once-a-decade leadership change.

"The bold reform package is a powerful demonstration of President Xi Jinping's personal authority within the system after only a year at the helm," Christopher K. Johnson of the Center for Strategic and International Studies in Washington said in a report.

Now the emphatic public declaration of the pledges is likely to heighten expectations on the ruling party to deliver.

"It does put them on the spot," Peking University's Balding said.