India keeps policy rate unchanged, sounds tough on inflation

REUTERS, *Mumbai*

Raghuram Rajan

The Reserve Bank of India (RBI) kept its key policy repo rate unchanged on Tuesday as widely expected, and voiced a commitment to bringing down inflation that convinced many analysts that markets will have to wait until next year for the next cut in rates.

The RBI left the repo rate at 8.00 percent, as expected by nearly all 43 economists surveyed by Reuters for a poll published last week.

The repo rate has been unchanged since January, when the RBI increased it by a quarter percentage point.

"The upside risks to the target of ensuring CPI inflation at or below 8 percent by January 2015 remain, although overall risks are more balanced than in June," Governor Raghuram Rajan wrote in the RBI statement on its policy review. "It is, therefore, appropriate to continue maintaining a vigilant monetary policy stance as in June, while leaving the policy rate unchanged."

Rajan stressed that the next goal was to bring inflation down to 6 percent by January 2016, while warning of upside risks to that target also.

Analysts said the RBI statement could put to rest any prospect of rate cuts for a while, with many ruling out the chances of any reduction this year.

"I think we will be in a pause mode for an extended period of time," said Mohan Shenoi, treasurer at Kotak Mahindra Bank.

The RBI did, however, announce steps to free up resources for banks to lend, a priority for Prime Minister Narendra Modi's government as it seeks to encourage investment in order to put momentum back in sluggish economic growth.

The central bank said it would continue to focus on spurring more lending and lowered banks' minimum bond holding requirements, known as the statutory liquidity ratio (SLR), by half a percentage point to 22.0 percent of deposits to free up more money for lending, effective from Aug. 9.

The RBI also cut the ceiling on debt that must be held-to-maturity (HTM) by lenders half a percentage point to 24 percent. It did not provide an estimate on how much credit growth that could spur.

The measures come after the RBI had also cut the SLR by half a percentage point in June.

India's benchmark 10-year bond fell, sending its yield up 9 bps to 8.82 percent, as cuts in both the SLR and HTM are likely to pressure bond prices due to new supply.

The partially convertible rupee strengthened to 60.73/74 per dollar versus Monday's close of 60.93/94, partly due to the RBI's caution over the prospects for rate cuts.

Rajan again reiterated a commitment to developing money markets after introducing term repos, or cash for loan transactions in 7- and 14-day increments, this year. The RBI retained its economic growth forecast of 5.5 percent for 2014/15, depending on whether monsoons or geo-political tensions intensify.

The crucial goal for India is the creation of enough jobs to absorb its rapidly increasing workforce, and growth of below 5 percent in each the last two years was far below what was needed. Industrialists have been calling for lower interest rates, but for sustainable growth, inflation has to be conquered first, and the RBI said there were upside risks.

In June, the retail inflation rate was the lowest since the government started publishing the data series in January 2012, with the consumer price index (CPI) showing a 7.31 percent rise from a year earlier.

Following a weak start to the monsoon rains, food price inflation remains one of the biggest challenges for India, despite government measures to curb hoarding of food articles and setting limits on the export of onions and potatoes, two staples in Indian cooking. Rajan said the pressure was on to meet both inflation targets for 2015 and 2016.

"We are getting close to the end of the year when our first target has to be met," Rajan told a news conference after the review. "We need to also be confident in reaching the 6 percent (target)."

Credit Agricole reports profit plunge on BES bank collapse

AFP, *Paris*

French bank Credit Agricole SA on Tuesday said the collapse of Portuguese lender BES had slashed its second-quarter profits, and warned that it faces a US probe for possible sanctions-busting.

But the bank, one of the biggest in Europe by capitalisation, reported a strong underlying performance and its shares surged 5.74 percent to 10.88 euros.

Credit Agricole SA (CASA) said net profit for the three months through June slumped to 17 million euros ($23 million) from 696 million euros a year ago after it wrote off its stake in Banco Espirito Santo.

The group said it had been deceived by the family behind the Espirito Santo companies, and would back any legal action by a new management team.

This was a second such blow for Credit Agricole: two years ago during the Greek debt crisis it lost a total of 8.7 billion euros on its investment in Greek bank Emporiki.

Portugal narrowly averted a national disaster and a fresh eurozone crisis on Monday by launching a new bank as part of a rescue for BES totalling nearly 5.0 billion euros.

CASA now deemed its 14.6-percent share in BES to be worthless, and its total costs from the collapse to be 708 million euros.

Murdoch's Fox might build case for Time Warner merger

REUTERS

Rupert Murdoch's Twenty-First Century Fox Inc is expected to make an aggressive case for merging with Time Warner Inc during its quarterly earnings call on Wednesday, though people familiar with the company's plans have said it would not use that forum to raise its bid.

Time Warner is due to report its financial results on Wednesday as well, marking the first time executives from both companies will publicly speak since the offer was first revealed on July 16.

It will be an opportunity for Time Warner Chief Executive Jeff Bewkes to defend his record for shareholder value. Fox's Chief Operating Officers Chase Carey and James Murdoch will have the chance to discuss the more than $1 billion in cost savings and powerful combination of cable networks and sports programing. It is unclear whether Rupert Murdoch, chairman and CEO of Fox, will make an appearance given the stakes.

Fox has offered to buy Time Warner for about $80 billion, or about $85 per share, in a mix of cash and stock. Time Warner turned it down, saying its plan to go it alone "is superior to any proposal" from Fox.

Though Fox is expected to raise its offer it will not rise beyond the range of $90 to $95 per share, a person familiar with Fox told Reuters on July 25. The timing of another offer is unclear. Some analysts have said that an even higher bid would be needed to win over Time Warner management and shareholders.

A spokesman for Fox declined to comment.

A potential tie-up would create one of the world's largest media conglomerates, dominating content production with two major studios, a stable of cable networks like Fox News and TNT, broadcast networks and pay-TV channel HBO.

Faced with a rash of media distribution mergers, such as Comcast Corp's proposed $45 billion takeover of Time Warner Cable and AT&T's $48.5 billion deal to buy DirecTV, programing creators are responding with their own potential deals to add clout for negotiations with cable and satellite distributors and new entrants like Netflix and Amazon.

Bernstein Research analyst Todd Juenger wrote in a note to investors on Friday that it would be in the interest of both companies to ink a deal. He and his team spoke to hundreds of Fox and Time Warner shareholders and concluded that "most people are supportive."

BlackBerry closes chapter on restructuring process

REUTERS, *Toronto*

BlackBerry Ltd has concluded a protracted and painful restructuring process and is back on a growth footing, according to an internal memo to all its employees viewed by Reuters.

"We have completed the restructuring notification process, and the workforce reduction that began three years ago is now behind us," said the memo from BlackBerry's Chief Executive John Chen that was sent out on Friday.

"More importantly, barring any unexpected downturns in the market, we will be adding headcount in certain areas such as product development, sales and customer service, beginning in modest numbers," said Chen, who personally thanked those that have stayed with the company through the process.

BlackBerry has shrunk its workforce by roughly 60 percent over the last three years as it attempts to reinvent itself. The company that dominated the smartphone market in its infancy has seen its sales dramatically eroded over the last four years by Apple's iPhone and a slew of rival devices powered by Google Inc's Android operating system.

Chen, who took the reins at BlackBerry roughly eight months ago, has moved rapidly to stabilize the company by selling noncore assets, partnering to make the company's manufacturing and supply chain more efficient, and raising cash via the sale of the company's extensive real estate holdings in its hometown of Waterloo, Ontario.

Chen, a well-regarded turnaround artist in the tech sector, intends to remain a competitor in the smartphone arena, but is focused on reshaping the company to build on its core strengths in areas like mobile data security and mobile device management.

In the memo, Chen told employees that he believes BlackBerry is now well on its way to recovery and that he is confident the company will meet its goal of being cash flow positive by the end of the current fiscal year.

He noted also BlackBerry, which had previously said it was trimming its workforce down to 7,000 from a peak of over 17,500 in 2011, is now in a position to make strategic acquisitions to strengthen areas that are likely to drive future revenue growth.

Last week, BlackBerry announced one such deal with a move to acquire Secusmart, a privately-held German firm specializing in voice and data encryption. The deal is expected to burnish its credentials with some of its highly security-conscious clients like government agencies.

Chen, who is well known for having turned around enterprise software maker Sybase Inc in the late 1990s, told employees in the memo that he is confident BlackBerry now has the right organization and team in place to execute its business strategy.

Over the last few months, Chen has hired a number of former Sybase employees that helped engineer that turnaround before the company was sold to software giant SAP AG in 2010.

Chen stressed in the memo there was "no margin for error to complete BlackBerry's turnaround to success", and he called on employees to remain focused as the company rolls out an upgrade to its device management system and its new Passport and Classic devices this fall.

AFP

Foreign tourists walk at the Galle fort in Sri Lanka. The number of foreign tourists visiting Sri Lanka has swelled since the island ended a 37-year separatist conflict with Tamil Tiger rebels in May 2009.

Australian interest rates on hold at 2.5pc

AFP, *Sydney*

Australia's central bank Tuesday held interest rates at a record low of 2.5 percent, marking a year since it last loosened monetary policy as it sought to boost non-mining growth.

The Reserve Bank of Australia flagged "a period of stability" in the cash rate as it cautioned that economic growth would likely be "a little below trend" in the year ahead. In a statement it also said investment spending in the resources sector was starting to decline significantly and noted the strength in the local currency.

"In the board's judgement, monetary policy is appropriately configured to foster sustainable growth in demand and inflation outcomes consistent with the target," governor Glenn Stevens said.

"On present indications, the most prudent course is likely to be a period of stability in interest rates."

The Australian dollar looked through the statement, remaining stable at about 93.27 US cents.

The central bank's unchanged position was widely expected, with a majority of economists tipping the RBA to keep the cash rate at 2.5 percent for several more months.

"It was broadly expected that the bank would stick to the message it's been giving now for at least three or four months," Citi's chief economist for Australia Paul Brennan said. "In particular, the last two paragraphs of the statement were totally unchanged, so that suggests that the bank is very happy with leaving rates where they are and there is a quite a high bar to changing monetary policy."

The central bank has slashed the cash rate eight times, down from 4.5 percent, since November 2011, ahead of an expected sharp fall in mining investment following an unprecedented boom in the sector.

US and African leaders turn to business at summit

AFP, *Washington*

AFP

Former New York mayor Michael R Bloomberg speaks during US-Africa Business Forum on the sidelines of the US-Africa Leaders Summit in Washington yesterday.

US and African political leaders and corporate chiefs will get down to business Tuesday as Washington hopes an historic summit will trigger a surge in trade and investment between the two sides.

The first day of the historic US-Africa Leaders Summit, the largest such meeting ever held in Washington, saw American officials chidng their guests over democratic reform and civil rights.

But now President Barack Obama and titans of US commerce and industry will try to convince their counterparts that American is as determined to take part in Africa's growth story as China or Europe.

Monday saw talk of promoting civil rights, dealing with the surging threat of Ebola in West Africa and specific challenges like fighting global warming and trade in protected wildlife.

But Tuesday's program confronts the reality that China has brushed all such issues aside to establish itself as Africa's fastest growing partner and that the European Union is quickly fashioning free-trade agreements with regional African blocs.

Secretary of State John Kerry was straightforward on Washington's aims Monday.

"I say unabashedly: We want and we will work hard to get more American companies to invest in Africa. We also want more African companies to invest here in the United States, and there's no reason that they shouldn't," he said.

China, Europe, Japan and even India have beaten the United States to the punch, holding leaders' summits marked by billions of dollars of deals and, in China's 2012 example, $20 billion in loans for African governments.

Africans say Americans are bound to old stereotypes of the continent and more risk-averse than their competitors. Sudan-born telecoms tycoon Mo Ibrahim, one of Africa's first billionaires, underscored the challenge.

"I'm actually a little bit amazed that all those Africans I met on the plane ... are coming all the way here to America to tell the very smart, well-informed American business people that 'guys, you know what, there is a good opportunity in Africa'. They should do some homework," he said.

"Everywhere in Africa there are Chinese business people, there are Brazilian business people. None of us went to Brazil, or to Asia or to China to tell them, look, come and invest in Africa. They found out themselves and they come and invest."

The program on Tuesday will see the Africans wooed by Obama, Kerry and former president Bill Clinton, as well as scores of chief executives of companies like General Electric, Coca-Cola or Walmart.

"The growth is real and now," said GE chief Jeffrey Immelt on Monday. "There is no reason why US business can't catch up."

But even US officials acknowledged that the main infrastructure for US-Africa trade, the 2000 African Growth and Opportunity Act, has done little but smooth the way for oil exports from Africa to the United States, and only represents a fraction of China's trade with the continent.

"It's clear that the Africa of 2014 is not the Africa of 2000," US Trade Representative Michael Froman told a gathering of top African economic officials and business people Monday.

"Many of you are moving away from unilateral preferences and entering into agreements with trading partners such as the European Union which provide for reciprocal access. Going forward, we cannot think about AGOA in isolation."

Obama acted Monday to demonstrate the US commitment with the announcement of a new top-level inter-agency steering group, to be led by a senior official of the White House's National Security Council, to coordinate efforts to build trade and investment.

But honing program targets and eliminating bureaucratic barriers will only go so far.

The real challenge, analysts and African businessmen say, is getting US business to shed their historical wariness of doing business in the continent and to recognize the growing opportunities, including a huge African middle class.

"They've see the track record we have, of not really being on top of these things," said Charlotte Florance, an Africa expert at the Heritage Foundation.

Stephen Hayes of the Corporate Council on Africa, a US business group, said the private sector meetings on Tuesday could go far to get US business people more interested.

"From the standpoint of the US, we need CEOs to be more engaged," he said.

"For America to be able to compete for the long term, with China and others, they are going to require partnerships."