Blackouts cast shadow over Modi's economic recovery

REUTERS, *New Delhi*

Narendra Modi took decisive action as chief minister of Gujarat to secure round-the-clock supplies of electricity. Now, as prime minister of India, he is under attack for failing to avert a national power crisis.

More than half of India's thermal power stations have less than a week's supply of fuel - the lowest levels since mid-2012 when hundreds of millions of people were cut off in one of the world's worst blackouts.

Coal stocks at thermal stations have hit critical levels as payment disputes escalate, unleashing power cuts that could choke off an economic recovery before it takes hold and hurt Modi's prospects at forthcoming state elections.

Financial metropolis Mumbai was plunged into darkness for most of Tuesday, amid a row between private generators and regional distributors that is symptomatic of an industry mired in debt and arrears of at least $100 billion.

It's a headache for Modi that experts say will only get worse. His government is resisting political pressure for a bailout, just two years after a rescue by the last government that it denounces as a "farce".

"The moment I start with financial assistance for one state, all the states will be asking me," Power and Coal Minister Piyush Goyal told reporters on Wednesday as he marked a rocky first 100 days in the job.

"States have to improve their own systems. I can't fund their coal purchases," said Goyal, who is mediating in payment disputes in an attempt to mitigate the power crisis.

Prithviraj Chavan, chief minister of Maharashtra, has from Mumbai pointed the finger of blame at Modi, who won election by a landslide in May with promises of economic reforms, new jobs and dynamic growth.

"The centre is responsible," said Chavan, a leader of the opposition Congress party. He added that he urged Modi two weeks ago to call crisis talks on the power industry, but says New Delhi "has not taken serious note".

Maharashtra is one of several states that are at odds with New Delhi on power and coal supplies, and will soon hold elections. Modi's nationalist party hopes to boost its strength in the upper house of parliament, where it lacks a majority.

REUTERS/FILE

India's Prime Minister Narendra Modi speaks during the launch of the Jan Dhan Yojana, or the Scheme for People's Wealth, in New Delhi on August 28.

Since Modi took power, coal stocks at thermal power stations that generate three-fifths of India's power have nearly halved to just six days' cover. Of 100 plants, 56 are now 'critical' with less than a week's supply.

The shortages have arisen not because India lacks coal - it has reserves of 61 billion tonnes. Nor does India consume much power: per capita use is one-seventeenth of the US level, and 400 million Indians have no electricity at all.

What India does have is a mismatch between the regulated price at which power is sold and the cost of producing it, which is typically 20-30 percent higher.

As a result, the power sector is caught in a debt trap, leaving generators unable to scrape together the cash to buy fuel from Coal India, a state behemoth that successive governments have shied away from restructuring.

"We have a bizarre situation where there is demand for power from distributors without the ability to purchase. Generating capacity is stuck without a contract or the fuel," said Debasish Mishra, a senior director and energy expert at Deloitte.

The situation "might precipitate quite fast into a crisis," said Mishra, urging the opening up of coal production to competition and amending power tariffs to properly take into account the cost of fuel.

Modi tackled a similar power crisis in 2005 as premier of Gujarat - with a population the size of Britain - with measures that experts say would work in India today.

His state government assumed existing power company debts, freed the firms of populist pressures that kept power tariffs artificially low and clamped down on rampant electricity theft.

As a result, Gujarat is now a surplus power producer.

Doing the same at a national level would, however, be tough as responsibility for power is shared between the 'centre' and India's 29 federal states. The problem is a lot bigger too.

The industry has racked up bank debts of 5 trillion rupees ($84 billion), according to central bank figures. Debts owed by distributors totalled $18 billion in 2012, the year of the last rescue. Coal India's receivables are $1.4 billion.

Worse, the World Bank estimates that annual losses in the Indian power sector could rise to $27 billion by 2017 without action to tackle wasteful subsidies, power theft and political meddling.

Sahara may mortgage iconic hotels to raise $1.7b bail for jailed chairman

REUTERS, *New Delhi*

Sahara conglomerate would rather mortgage its trophy overseas hotel properties than sell them to raise the $1.7 billion in bail money for its jailed chairman, a senior company executive told Reuters.

Sahara Chairman Subrata Roy has been trying to find a buyer for the three hotels, which include New York's Plaza hotel and London's Grosvenor House, for the past month, using a makeshift office in his New Delhi jail to negotiate a deal.

On Friday, Roy sought permission from the Supreme Court to keep the office beyond a deadline that expires on Tuesday, his lawyers said, as talks with potential buyers continue. The court is expected to rule on the request early next week.

The executive said Sahara had received offers from several buyers, including sovereign wealth funds, but had yet to take a decision. He declined to name any of potential buyers.

"Right now we are focusing more on raising funds through taking a loan on these properties," said the executive, who declined to be named as he was not authorised to speak to the media.

"The sale is the last priority. In case we would have to sell, we will sell over a period of time, but right now our focus is to raise money by mortgaging these assets rather than sell them," he added.

A spokesman for Sahara was not immediately available for a comment.

Roy has been held in a New Delhi jail, pending bail, for six months after he did not appear at a contempt hearing related to Sahara's failure to repay billions of dollars raised in outlawed bonds.

Last month, the court allowed Roy to get the office, which has facilities such as computers and assistants.

Sahara has not officially named any potential suitor for the hotels. Last month, a spokesman for the Sultan of Brunei dismissed a report by the Wall Street Journal online that an investment firm affiliated with him had made a $2 billion bid for the properties.

Roy, a flamboyant 66-year-old who has long been an enigmatic figure in Indian business circles, calls himself "managing worker and chairman" of Sahara and chief guardian of the "world's biggest family", overseeing businesses with almost a million staff and agents.

REUTERS/FILE

Employees stand at the main entrance to the Plaza Hotel in the Manhattan borough of New York on August 18.

REUTERS

The leaf on the Apple symbol is tinted green at the Apple flagship store in New York.

Apple courts fashionistas as smartwatch expectations mount

REUTERS, *San Francisco*

Apple Inc has invited top fashion editors and bloggers in unprecedented numbers to its Tuesday launch gala, further evidence that the iPhone maker is preparing to take the wraps off a smartwatch.

Apple is forging closer ties to the fashion world as it plots its foray into the fertile field of wearable technology, trying to win over a critical crowd that may prove crucial to the success of consumer gadgets worn around the body.

A smartwatch would represent Chief Executive Officer Tim Cook's first real new product since taking the baton from Steve Jobs. Several fashion media editors told Reuters they received invitations for the first time to an annual September product-launch, which they took as confirmation of a wristwatch in the wings.

"I assume it's because they are unveiling a wearable," said Lea Goldman, features and special projects director for Marie Claire magazine, a first-time invitee. "This suggests Apple is serious about tapping into the fashion world, which often sits on the sidelines."

Apple declined to comment.

The iPhone maker, known for its sleek aesthetic, has made overtures to the fashion press in the past. It typically opts to host a separate event in New York where editors meet the team and review products, two fashion editors say.

That courtship has grown more aggressive. Last month, the company hosted what it called a "first-of-its-kind event" at an Apple store in New York to showcase fashion and retail apps to a group of style editors, according to an invitation seen by Reuters.

Fashion site Refinery29's health and science director Kelly Bourdet said the decision to include fashion editors on the invite-list is a "nod to the fashion crowd."

Apple seems poised to network with the who's who of the industry. In the past year or two, it has hired Patrick Pruniaux, former vice president of Tag Heuer's global sales and retail; Angela Ahrendts, former chief executive of Burberry Inc; and former Yves Saint Laurent CEO Paul Deneve joined as vice president of special projects.

It is not just Apple. From Google Inc to LG Electronics Inc and Intel Corp, technology companies are beginning to forge fashion ties. On Friday, Intel announced a tie-up with Fossil Group on wearable technology.

Sonny Vu, chief executive of Misfit Wearables, expects more tie-ups as tech companies ramp up the fashion quotient in smartwatches, given that the current crop of watches has received mixed reviews.

The challenge for technology companies is to make something "fashionable off the bat" that is not clunky, said Eric Wilson, fashion news director for InStyle Magazine.

He and other editors said they harbored high hopes for Apple and planned to monitor Tuesday's event.

"It confirms that they have a play in wearables and that they want to appeal to the fashion world, and not just technology consumers," said Lauren Indvik, editor in chief for Fashionista and another first-time invitee.

Telenor wins full ownership of India phone unit

REUTERS, *New Delhi*

India has approved Norwegian telecoms group Telenor ASA's proposal to fully own its local unit, the government said in statement on Friday.

Telenor, which is investing 7.8 billion rupees ($129.16 million) to raise its stake in the unit from 74 percent currently, will be the second mobile phone carrier after Vodafone Group Plc to fully own its Indian unit after the government relaxed rules last year.

India's Foreign Investment Promotion Board has approved 22 foreign direct investment proposals worth a total 39.52 billion rupees, the statement said.

UK set to challenge EU cap on bankers' bonuses

BBC *News*

The UK's objection to the European Union's plans to cap bankers' bonuses is set to be heard in the bloc's highest court on Monday.

The UK Treasury wants to overturn the cap which it says was "rushed through without a proper impact assessment".

"[The cap] could undermine financial stability by leading to higher fixed costs," a Treasury spokesman said.

The cap limits bankers' bonuses to a year's basic salary, or double their salary with shareholder agreement.

It is designed to come into effect on bonuses awarded from 2014, and will apply in all 28 countries within the EU as well as EU banks operating overseas.

Monday's hearing at the European Court of Justice in Luxembourg is the final stage of the legal challenge that the UK opened last September.

This time's different as Asian markets warm up for Fed rate rises

REUTERS, *Singapore*

Faced once again with the prospect of rate rises in the United States, investors in Asia are no longer selling and running as in the past, choosing instead to stay in markets like India and South Korea, that are relatively sheltered from global forces.

The two bouts of market turmoil in May 2013 and January this year demonstrated the perils of selling out of markets prematurely and indiscriminately.

This time, investors have already begun preparations for a rise in US rates by mid-2015 at the earliest, albeit with a degree of caution about the different moving parts to the policy story.

For one, central banks in Europe and Japan could soon be injecting stimulus, which would compensate the world for the cash the Federal Reserve is withdrawing.

And secondly, it is entirely plausible that US growth disappoints, thereby keeping yields down but pushing stock markets sharply lower.

Standard responses to a spike in US rates, such as avoiding Indonesia, India and other countries which rely on external funding, may no longer be appropriate, given how rapidly Asia has changed in the past year.

The region's current account deficits are smaller, bond yields are high and currencies already quite weak. Governments perceived to be more reform-oriented have taken over in India and Indonesia, and Asia's rallying stock markets are backed by robust growth in company earnings.

"You should be in countries where idiosyncratic forces are more dominant drivers than the global forces," said Jahangir Aziz, head of Asian research at JPMorgan. "They allow you to hedge against global changes."

As of now, both Asian equity and bond markets are still riding a six-year long rally spurred by the heavy quantitative easing policies of the Fed and other developed economies.

But investors are prone to worry, says Aziz, and this abnormally long period of very low volatility and memories of the vicious selloff in 2013 have made them uneasy.

"There could be significant preemptive reaction in the market to the likelihood of better US growth, jobs or inflation numbers. That is where the concern is," he said.

The basis for investment is belief that, unlike the scares in 2013 and early 2014, the Fed will raise rates only when it is confident that the economy is on track for higher growth, more jobs, better demand and investment.

"You are at that stage of the global cycle where the traditional growth or high-beta assets are what you want to own," said Huw McKay, Westpac's chief Asian economist based in Sydney. "You don't want to be back in safe haven assets such as US bonds."

The decision to stay invested in high growth emerging markets in Asia is the simpler one.

Markets are pricing little change in the already low US yields - 10-year yields are around 2.4 percent, and the forwards markets indicate little to no growth or inflation prospects. The equity market meanwhile is consistently reaching for record highs.

The consensus however ends there.

Westpac's McKay finds India has made greater strides in fixing its current account problem, more so than Indonesia which was one of the worst hit in 2013. Plus, in a scenario where a rise in US yields is preceded by strong global growth, India's services exports would benefit hugely.

McKay also reckons the winning markets this time might be in countries, like South Korea, that offer foreigners a seamless transfer from equities to bonds.

"If you have both asset classes to offer in local currency, you can actually see a transfer rather than switching out of the currency altogether to go back to the dollar," McKay said.

JPMorgan's chief Asian economist Jahangir Aziz warns that now is not the time to look for global plays, or heavy bets on assets linked to U.S Treasury yields or broader emerging market risk.

"India and Indonesia is where you want to be right now," he said, citing the new governments and possible policy changes in both economies that will proceed regardless of global factors.

Investors should be wary of being too exposed to China, should there be a decline in global demand and therefore in the exports that are driving Chinese growth, he said.

Blackrock's head of Asian equities prefers being more exposed to North Asian markets such as China, Taiwan and Korea, both because of their valuations and healthier current accounts.

REUTERS/FILE

People look at a screen across the road displaying the election results on the facade of the Bombay Stock Exchange building in Mumbai on May 16.

The more challenging issue for investors is that of deciding which shoe drops first, bonds or equities. As yields rise, bond prices would drop.

"Secular stagnation is being priced into the bond markets, strong nominal growth is being priced into the equity markets. One of these is more wrong than the other, or even both could be wrong," said UBS strategist Bhanu Baweja.

Still, that happy co-existence of surging bond and equity prices could very well continue, and should fund managers sell before an actual turn in the market they could risk underperforming peers and global indices.

"You've got to survive to that point," says Baweja. "You can't go short the markets right now."