

Indian workers abandon building sites after cash crackdown

REUTERS, Gurugram, India

HUNDREDS of thousands of construction workers have returned home since Prime Minister Narendra Modi abolished high-denomination banknotes, leaving some building sites across the country facing costly delays.

A month after Modi's shock move to take away 86 percent of cash in circulation to crush the shadow economy, the growing labour shortage threatens to slow a recovery in India's construction industry, which accounts for 8 percent of gross domestic product and employs 40 million people.

Work at SARE Homes' residential projects, spanning six cities, has slowed dramatically as migrant workers, who are out of cash and have no bank accounts to draw from, have little choice but to return to their villages.

"Construction work at all projects has slowed down in a big way," managing director Vineet Relia told Reuters.

Property enquiries, meanwhile, have slumped by 80 percent around the Indian capital since the cash crackdown, according to property portal 99acres.

Getamber Anand, president of Indian builders' association CREDAI, said projects nationwide had been hit, and estimated that roughly half of the migrant workforce, numbering in the low millions, had left for home.

Road developers have also reported a slowdown as they struggle to find sufficient labour.

The exodus shows little sign of reversing, risking damage to construction activity and the wider economy into 2017, despite Modi's assurances that hardships from his radical "de-monetisation" should be over by

the end of the year.

The disruption to building raises doubts about the Reserve Bank of India's view that the impact on the economy would be transitory. The central bank held interest rates on Wednesday despite calls for action.

NO BANK ACCOUNT

Modi's gamble is that the majority of workers will be compelled to open a bank account as sub-contractors refuse to pay in cash, bringing them into the formal economy and expanding the country's low tax base.

That may happen eventually, but for now, millions of workers who depend on daily wages for food and shelter are struggling. Many have never held a bank account, and even if they wanted one, some do not have the necessary documents to do so.

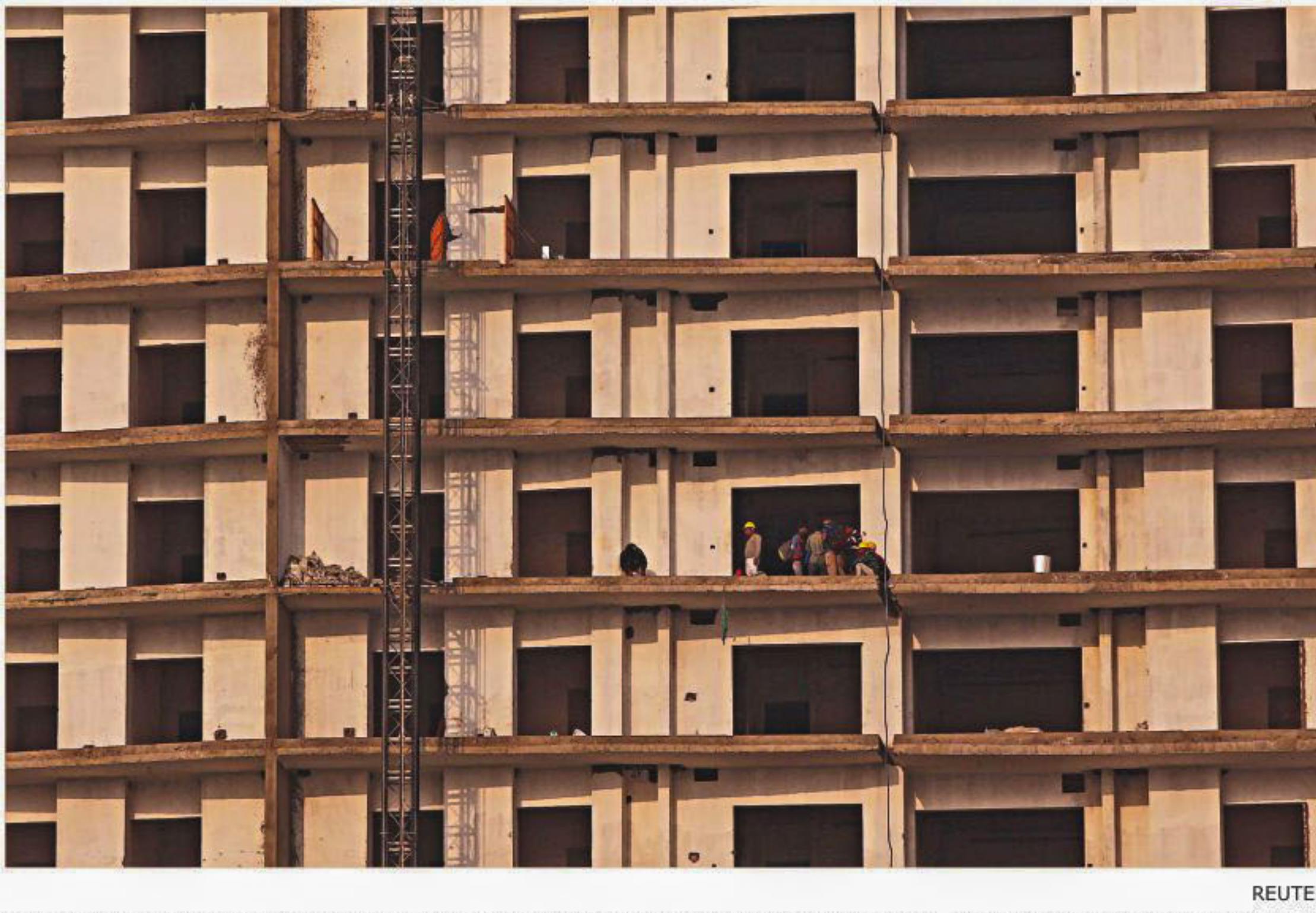
At a construction site in Gurugram, a satellite city near Delhi, worker numbers have halved to 100. The site manager received a government circular on Nov. 25

saying every worker's wage should be paid into a bank, a message relayed to each contractor.

Biseshwar Yadav, a 36-year-old migrant labourer from Bihar, worries about arranging documents to open an account and the cost of making regular trips to the bank.

Standing in the largely deserted worker housing colony opposite the unfinished 20-storey blocks of flats he had been building, Yadav said that with no salary, he was surviving on \$89 borrowed from a local shopkeeper to pay for food.

Some labourers back in their villages are reluctant to return. Duryodhan Majhi, 38, travelled to Odisha after his employer in Secunderabad ran out of cash to pay his \$4.4 daily wage.



Labourers work at the construction site of a residential complex in Noida, on the outskirts of New Delhi.

"We keep moving from city to city in search of work. This new order would mean opening a new bank account every time we change cities. How and when will we work then?" he said, adding he would seek farm work.

CREDAI's Anand predicts activity on construction sites will not return to normal until April, and only once labourers are able to open accounts at banks still struggling to serve long queues of people desperate for cash.

"Right now the banks say they don't have time to open accounts. It's the biggest challenge," Anand said.

SLOWING ECONOMY
Data suggest that demand in India's economy has slowed sharply since Modi's decision on Nov. 8.

Indian services activity

plunged into contraction in November for the first time since June 2015, a survey showed, while factory activity also slowed.

The real estate industry was already carrying an overhang of unsold inventory, and was hit by an earlier clampdown on "black" money, much of which is invested into property.

Indian cement and steel makers are feeling the pinch.

"Developers have cut down purchases," said Mukesh Kasana, a dealer for UltraTech Cement Ltd, part of the Aditya Birla conglomerate, estimating his sales had slumped 80 percent.

India's decade-long construction boom created one in three new jobs as tens of millions of people made the journey from

the rural hinterlands to seek employment in towns and cities.

For Modi, a healthy construction sector is vital if he is to fulfil his promise of boosting job creation for the one million Indians joining the workforce every month.

There is no reliable data on the number of migrants who have abandoned construction sites since demonetisation, because most are undocumented. But stories abound of cash-strapped workers trudging railway and bus stations to make their journey home.

Jainuddin, a labour contractor near Delhi, said he had lost about 40 of his 50 men since Nov. 8. "The ground reality is vastly different from what it appears to those designing these policies."

Qatar Airways wants to swap Airbus A320neos for A321neos



An Airbus A350-1000 lands during its maiden flight event in Colomiers near Toulouse, Southwestern France.

REUTERS, Doha

Qatar Airways is in talks with Airbus to convert its order for up to 80 A320neos to the larger A321neo, its chief executive said on Monday.

The airline has refused to accept four A320neos so far this year over performance issues with the aircraft's engines, a spokeswoman told Reuters.

"We are in negotiations with Airbus about how we can continue our relationship and keep our order on track minus the ones that we canceled," CEO Akbar Al-Baker told Reuters on the sidelines of a news conference in Doha.

He said the airline wanted to take delivery of the larger A321neo jets from 2018 and was considering swapping the engine

order to CFM, a joint venture between General Electric Co and Safran SA of France.

An Airbus spokesman declined to comment when contacted by Reuters.

Qatar Airways has refused to accept planes with engines made by Pratt & Whitney, a unit of United Technologies Corp, saying they required additional time to start under certain conditions.

The airline said in May it was cutting frequencies on more than a dozen routes from its Doha hub because of delivery delays of new aircraft from Airbus.

Qatar Airways announced on Oct. 7 an order for as much as \$18.6 billion worth of Boeing jets, including a letter of intent for 60 narrow-body 737 MAX 8 jets valued at \$6.9 billion.

Ruble hits 17-month high vs dollar on oil cut deal

AFP, Moscow

The ruble hit its highest level in 17 months against the dollar Monday as oil prices surged following a landmark deal by Russia and other non-OPEC producers to join the cartel in capping output.

In morning trading, the dollar traded at 61.05 rubles, a level not seen since October 2015, and the euro at 64.54 rubles, also a 17-month high.

Russia and 10 other states on Saturday said they will reduce their production by more than half a million barrels per day

(bpd), the Organisation of the Petroleum Exporting Countries announced.

The move marks the first time non-OPEC members have reached an agreement since 2001, and follows a similar deal by OPEC last month. OPEC members had agreed to collectively reduce output by 1.2 million bpd beginning in January.

The weekend deal pushed oil prices sharply higher Monday. At around 0920 GMT, US benchmark West Texas Intermediate for January was up \$2.73 at \$54.23 and Brent crude for February rose \$2.72 to \$57.05.

Fed turns to Trump agenda with rate hike nearly in the bag

REUTERS, Washington

THE Federal Reserve inaugurates the Trump era this week with a near-certain interest rate increase and new economic forecasts providing a first glimpse into whether the U.S. election has reshaped the central bank's growth and inflation outlook.

Fed fund futures show a 97 percent probability that the Fed will lift rates by a quarter of a percentage point at the end of its two-day policy meeting on Wednesday, according to the CME Group.

All 120 economists in a Reuters poll expect a rate hike in the wake of a string of solid U.S. economic reports.

More telling will be whether the stock market rally and jump in bond yields triggered by Trump's Nov. 8 victory will push the Fed to an inflection point of its own and a higher projected pace of rate increases for 2017 and beyond.

The Republican businessman is inheriting a good economy, one that grew by 3.2 percent in the third quarter, the fastest pace in two years. There are, however, concerns that his plan to reduce taxes, cut regulation and increase infrastructure spending could not just boost the economy but also fuel higher inflation.

Since first published in 2012, the Fed's quarterly "dot plot" of projected interest rates has generally moved in one direction - down - and any post-election change will show whether policymakers expect Trump's policies to shake things up.

As of September, Fed officials' median projection was for two rate increases next year and a long run "neutral" level of 2.6 percent. A rate increase this week would be the first since last December and only the second since the 2007-2009 financial crisis.

"Their path is going to move up faster and a little sooner," said Steve Rick, chief economist for CUNA Mutual Group. He said the economy was running at its potential, and that was the Fed's cue to "exit stage right" and steadily move rates to normal.

Fed officials have long hoped that other government policies would take the place of monetary engineering, which some believe may have lost its effectiveness in lifting economic growth.

They have warned in recent weeks that any new government spending should specifically be designed to boost productivity in an economy that is already near full employment and facing a high public debt burden.

The Fed's new forecasts will indicate if policymakers feel that the monetary-to-fiscal handover is on the horizon, or need more time for the Trump administration's plans to become more detailed and move through Congress.



A man walks past the Federal Reserve Bank in Washington DC.

Fed Chair Janet Yellen is scheduled to hold a press conference at 2:30 pm (1930 GMT) on Wednesday to elaborate on the economic outlook and policy statement.

She'll have a broad set of issues to cover since her last press conference in September - from the Federal Open Market Committee meeting itself, to the likelihood she will be replaced in early 2018 and the risks she foresees from the Trump agenda.

Trump repeatedly attacked Yellen during the election campaign, accusing her of holding down rates to help his Democratic rival. Since the election, he has expressed his disapproval of corporate America, criticizing Boeing (BA.N), and took credit for a deal to keep hundreds of jobs at an Indiana plant from being moved to Mexico.

The president-elect also will be under scrutiny after this week's Fed meeting for clues about how he plans to handle his relationship with the central bank.

"There is a real risk that he could be openly critical of the decision to raise rates next week," Paul Ashworth, an economist with Capital Economics, said in a note last week.

That could upset markets and raise serious issues about whether Trump intends to leave the Fed alone or try to influence its decisions. Top U.S. elected officials, in particular the president, typically avoid criticizing the Fed's short-term rate decisions, emphasizing instead the need for monetary policy to be set independently.

"If he remains silent after the announcement to raise interest rates next Wednesday, then we can begin to assume that it will be

Axis Bank, India's top gold importer, suspends bullion dealers' accounts

REUTERS, Mumbai

Axis Bank Ltd, India's top importer of gold, has suspended the bank accounts of some bullion dealers and jewellers after two of its executives at a branch were arrested over alleged money laundering.

The move is likely to curtail imports by the world's second-biggest gold consumer this month and could weigh on global prices already near their lowest level in ten months. "We have temporarily suspended transactions in a few current accounts as part of a larger enhanced due diligence exercise being conducted on transactions post-demonetisation," the bank said in an e-mailed reply to questions from Reuters.

Prime Minister Narendra Modi scrapped 500-rupee and 1,000-rupee banknotes on Nov. 8 in a bid to flush out cash earned through illegal activities, or earned legally but never disclosed to tax authorities.

There have also been reports of people rushing to buy gold by paying as much as a 50 percent premium above official prices using their unaccounted money to skirt the note ban.

Axis did not directly comment on the arrests. Last week the Enforcement Directorate, a government agency that fights financial crime, said it had arrested two Axis bank employees for allegedly helping launderers to buy gold with the help of scrapped notes.

The bank said the suspended gold dealers' accounts will be restored over the next few days after an "enhanced due diligence process".

A Chennai-based bullion dealer, who declined to be named, said the bank had frozen his account without giving a reason. Half a dozen other dealers in Kolkata, Mumbai, Ahmedabad and New Delhi also confirmed the freezing of their Axis accounts.

The move has brought bullion trading to a standstill, with jewellers fearing attention from government agencies if they make large purchases, said Harshad Ajmera, the proprietor of JJ Gold House, a wholesaler in the eastern Indian city of Kolkata. It is estimated that one-third of India's annual demand of around 800 tonnes is paid for in "black money" - the local term for untaxed funds held in cash by citizens that do not appear in any official accounts.

Jewellers and bullion dealers are deferring purchases and gold imports in December could fall to 30 tonnes, down from 107 tonnes in the same month a year ago, said a Mumbai-based dealer. In November the country's gold imports jumped to around 100 tonnes, the highest in 11 months. Axis, India's third-biggest private sector bank, said last week it had suspended 19 employees over alleged breaches at one of its branches in implementing a government-ordered exchange of high-value bank notes.

business as usual for the Fed," Ashworth wrote.

Trump's plan to cut taxes and regulation and funnel fresh billions into capital projects must pass Congress, and it may be well after that before any new programs meaningfully effect economic forecasts.

But policymakers also watch the markets closely. It may be hard for the Fed to stick with its ultra-slow pace of rate hikes if a major tax overhaul and fiscal spending plan are unleashed.

TD Securities analysts said that fiscal policy at this point in the economic recovery could prompt "an inflationary demand shock" that adds nearly a percentage point to economic growth, but spurs the Fed to raise rates much quicker than expected - by nearly an extra percentage point per year.

That scenario of a central bank caught behind the curve and forced to act faster is one that Yellen and other policymakers have said they hope to avoid out of fear it could prompt a recession.

Fed officials in recent days have acknowledged the Trump agenda may cause them to switch gears, though it is not clear how soon.

"At this juncture, it is premature to reach firm conclusions," New York Fed President William Dudley said last week.

But, since Trump won the election, Dudley added, "the stock market has firmed, bond yields have risen and the dollar has appreciated ... Market participants now anticipate that fiscal policy will turn more expansionary and that the (FOMC) will likely respond by tightening monetary policy a bit more quickly than previously anticipated."