

India's cash crunch making some in Modi's party anxious

REUTERS, New Delhi

CASH shortages weeks after Indian Prime Minister Narendra Modi's decision to abolish large currency notes are making allies and members of his ruling party anxious, with some distancing themselves from the move ahead of a series of state elections.

Modi removed 500 and 1,000 rupee notes, worth around \$7.50 and \$15 respectively, on Nov. 8, billing it as an attempt to root out corruption, end terror financing and move the country into the age of digital payments.

He promised to replace all old bills with enough new currency notes by the end of this month. But his government has struggled to do that, leading to long lines at banks and a slump in economy activity. Nearly 90 percent of transactions in India used to be in cash.

Interviews with six lawmakers from Modi's Bharatiya Janata Party (BJP) and a senior leader of the party's ideological parent, the Rashtriya Swamamsevak Sangh (RSS), show his party cadre is starting to worry that the cash crunch could hurt their prospects in several states that go to the polls next year.

Some parliamentarians said that while they thought Modi's decision was good, its execution had been botched and they were faced with constituents who were increasingly upset.

"There is no doubt that it is difficult to convince voters that everything will be fine," said Santosh Gangwar, the junior finance minister who is leading the BJP campaign in western Uttar Pradesh.

"Every candidate who will be contesting polls is nervous because they feel people may not vote for the BJP ... There is tension and we cannot deny it," he said.

Of the BJP's 71 MPs from Uttar Pradesh, 28 have been to BJP President Amit Shah and the finance minister's office to seek solutions for the cash crunch, said a senior finance ministry official.

BJP spokesman GVL Narasimha Rao said that despite temporary difficulties, the prime minister continued to enjoy over-



Indian customers queue inside a bank to deposit and exchange 500 and 1000 rupee notes in Guwahati, the capital city of the north-eastern state of Assam, on Friday.

whelming support.

"Party cadres are highly enthused about a big victory in upcoming elections, and if a few are apprehensive, they will realise the reality soon," Rao said.

Disquiet within the BJP underscores how Modi's unprecedented bet is turning into a test of popularity, and could go some way to determining his political future.

It has become a central issue in Uttar Pradesh, India's most populous state, where the outcome of elections early next year will be key for Modi's expected bid for a second term in 2019.

The opposition, led by the Congress party, has joined forces, mocking the government for being ill-prepared for so-called "demonetisation" and blaming it for hardships faced by the poor as a result.

It has called for Modi's resignation.

The senior RSS official said they had counselled Modi days before the move to take time to prepare the ground for such a massive exercise, including setting up two new mints and expanding the banking network, and to roll it out in phases.

But the prime minister decided to press ahead, and he alone would bear responsibility for its failure or success, the official added.

Earlier this month, N Chandrababu Naidu, chief minister of the southern state Andhra Pradesh and a political ally of Modi, abruptly distanced himself from the move.

Modi and senior members of his cabinet defend demonetisation. In an interview with India Today magazine on

Thursday, Modi said it would give the economy a boost and provide long-term benefits, including forcing the country's vast shadow economy into the open.

Modi's announcement enjoyed popular support at first, with many people prepared to endure hardship as long as others were forced to give up ill-gotten wealth or pay tax.

But shortages of new 500 and 2,000 rupee notes have caused tempers to rise as millions queue at banks and ATMs to draw money.

Last week, more than three dozen BJP lawmakers, many of whom came from states that go to polls next year, met with Shah to demand that the government sends more cash to their constituencies, and quickly.

Mexicans furious over fuel price hike

AFP, Mexico City

Mexicans are bracing to kickstart the New Year on a sour note, with protests planned against the government's huge hike in gasoline prices.

President Enrique Pena Nieto has promised that fuel prices will fall thanks to his landmark 2014 energy reform, which ended a seven-decade-old monopoly held by the state-run firm Pemex.

The government plans to end subsidies and let the market dictate prices in March, but Mexicans will feel the pinch at the pump before they start falling.

The finance ministry announced Tuesday that the price of gasoline would increase by as much as 20.1 percent to 0.88 dollars per liter on January 1, while diesel would rise by 16.5 percent to 0.83 dollars.

The price ceiling will be adjusted daily from February 18, before letting supply and demand determine them in March.

Around 100 protestors blocked a service station in the Pacific resort of Acapulco on Friday, while Jalisco authorities investigated reports that a drug gang threatened to set fire to service stations.

A protest is planned in the capital on Sunday while Mexicans were urged on social media to block service stations on Monday. People were also encouraged to boycott fuel for three days.

Before the price announcement, fuel shortages had already angered Mexicans in several states.

"The fuel price increase causes outrage. People are right: it's not fair. I support each family, I share their outrage and anger," Aristoteles Sandoval, the governor of western Jalisco state, wrote on Twitter.

Sandoval's criticism drew particular attention because he is a member of Pena Nieto's centrist Institutional Revolutionary Party (PRI). Furious opposition governors plan to meet with federal government officials next week to discuss the price hike.

"We just had a security meeting (between governors and Pena Nieto) days ago and there was not one comment about this situation," said Mexico City's leftist Mayor Miguel Angel Mancera.

The protests are the latest headache for Pena Nieto, whose popularity has plummeted below 25 percent this year due to his government's failure to curb drug-related violence, disappointing economic growth and his unpopular decision to host Donald Trump before the anti-immigration Republican won the US presidential election.

Finance Minister Jose Antonio Meade defended the fuel price increase, saying it would not trigger more inflation and that eventually the "final price for consumers will be among the most competitive in the world."

Mexican energy industry expert David Shields voiced doubts that the demonstrations will force the government to change its mind.

Silicon Valley's obscure unicorns could boost 2017 IPO market

REUTERS, San Francisco

Social media firm Snap Inc may be the highest profile tech IPO planned for 2017, with the potential to raise billions. But more than a dozen expected stock offerings of relatively obscure software firms targeting business customers - little-known names such as Apttus, Tintri and Okta - could be just as important in thawing a long-frozen IPO market, according to investment bankers and advisers who work on IPOs.

Such firms are a "leading indicator" of broader investor demand for market debuts, said Justin Smolkin, head of Americas technology equity capital markets at UBS Group AG.

"They tend to be viewed as cream of the crop, and where investors make the most money," he said.

Such enterprise software companies generally sell their services through subscriptions that produce reliable revenue streams. They aim to sign contracts lasting several years, giving investors more predictable returns than many Internet or consumer-oriented companies that depend on advertising or high volumes of individual transactions.

The firms provide a range of back-of-the-house services, such as automating business processes, security, accounting, training software and expense management.

Although such companies have moderate valuations, between about \$500 million and \$4 billion, the sector accounts for most of the tech IPO market, said Will Connolly, Goldman Sachs Group Inc's head of US technology equity capital markets.

"Most of the technology IPO activity is actually not big, large-cap companies going public," Connolly said. "It's small and midcap growth companies going public that are innovators in their own markets and are helping drive the next generation of technology."

Reuters has identified more than a dozen US enterprise software companies that are making preparations for a 2017 IPO including Avalara, MuleSoft, ForeScout Technologies Inc, AppDynamics and Yext. In 2016, only six software companies went public, Thomson Reuters data showed.

Greg Becker, chief executive of Silicon Valley Bank, a lender to venture capital-backed companies, predicted that between 30 to 45 venture capital-backed technology companies could go public in 2017, compared to 15 in 2016.

These companies could also be aiming to get ahead of tech giants Airbnb Inc and Uber Technologies Inc, whose long-anticipated IPOs would require ample investor dollars and attention.

If the enterprise software firms' IPOs succeed, it could offer a boost to early-stage investors who provided key funding in the hopes of profiting by selling shares down the line. Only 20 technology companies went public in 2016, less than any year since 2008, according to Thomson Reuters data.

"It will be important for everyone that these deals work well in the market to create positive momentum for the year," said Anthony Kontoleon, global head of syndicate in the equity capital markets group of Credit Suisse Group AG.

World markets end volatile year mostly in the black

AFP, New York

MOST world stocks markets finished 2016 in positive territory despite shock votes in Britain and the United States, but the outlook for 2017 is clouded by looming European elections and Brexit.

The year witnessed a wave of anti-establishment populism, which saw Britain vote to leave the EU and maverick billionaire businessman Donald Trump elected as US president.

Both unexpected outcomes sparked a brief tumble on global equity markets, but many have since staged a stunning recovery to finish 2016 in the black.

London's FTSE 100 gained 14.3 percent over the year, while Frankfurt's DAX 30 added about 6.9 percent and the Paris CAC 40 won 4.9 percent.

In the US, all three major indices enjoyed robust gains, with the Dow Jones Industrial Average jumping 13.4 percent, the S&P 500 9.5 percent and the Nasdaq 7.5 percent.

Japan's Nikkei rose 0.4 percent in 2016, marking the fifth consecutive annual increase and registering its highest year-end close in two decades on optimism over the incoming US government.

Shanghai slumped more than 12 percent on the back of massive capital flight and a languishing yuan currency.

Equities continued to receive support from robust central bank stimulus programs in Europe, Japan and elsewhere, although the US Federal Reserve raised interest rates in December and signaled it plans more tightening in 2017.

A 50 percent jump in oil prices -- fueled in part by the decision of the Organization of the Petroleum Exporting Countries to cut production -- also supported stocks.

That helped boost the Bovespa in Sao Paulo, which jumped nearly 40 percent on strength in commodity prices and the resolution of an impeachment drama



Pedestrians walk past a sign showing the Hang Seng Index on the last day of trading for 2016 in the central district of Hong Kong on Friday.

involving former president Dilma Rousseff, which ended with the installation of center-right President Michel Temer in August.

Since Brexit, London's FTSE 100 blue-chip index has soared to end the year in record-breaking form, as the British economy shrugged off the impact of the impending divorce from the EU.

"Fears of an imminent UK recession following Brexit proved wide of the mark thanks largely to the resilience of consumer spending," NFS Macro analyst Nick Stamenkovic told AFP.

"Indeed, Brexit was viewed as a local rather than global issue, prompting a sharp turnaround in the fortunes of world stock markets."

Markets also briefly tanked on November 9 after Republican Trump defeated Democrat and market favorite Hillary Clinton to capture the White House.

Yet Wall Street has since enjoyed a blockbuster run with the Dow Jones Industrial Average

making a push towards 20,000 points. In the end, the blue-chip index finished at 19,762.60, logging its best year since 2013.

New York has been boosted by expectations that Trump -- who will be inaugurated on January 20 -- will honour election pledges to ramp up infrastructure spending, cut taxes and streamline regulations.

Markets are pricing in "all the good stuff while ignoring for now potential consequences for the dollar, deficits, interest rates, trade, inflation and the uncertainty principle," JPMorgan Asset Management strategist Michael Cembalest said in a research note.

"Whether this benign view is accurate or not will be a major driver of markets next year."

Looking ahead to 2017, the spotlight is now on upcoming European elections.

The Netherlands heads to the polls in March, followed by France in May, and Germany in the autumn.

Further gains by populist

candidates would reverberate through Europe as Brussels moves into the thick of negotiations with Britain over Brexit.

VTB Capital analyst Neil MacKinnon also highlighted the region's banking problem after the European Central Bank called for Italian lender Monte dei Paschi di Siena (BIMPS) to receive a bailout of 8.8 billion euros.

Italy's stock market shed 10 percent over the year.

In the US, investors largely have disregarded worries about the unpredictable Trump, including fears his tough posture towards China could lead to a trade war and that his embrace of Russian President Vladimir Putin could roil international alliances.

But reality could trump expectations.

And expectations are high for Trump's first 100 days, which are anticipated to include progress on these key policies, said Sandy Sanders, a senior portfolio manager at Manulife Asset Management.

Asian flash surge takes euro to \$1.07

REUTERS, London

A short-lived surge in the euro dominated this year's last day of trade in major foreign exchange markets on Friday, with dealers citing a handful of orders as driving the dollar to its lowest since Dec. 8.

The euro climbed to as much as \$1.07, two full cents higher, and despite an immediate retreat it was still up half a percent on the day at \$1.0548 in mid-day trade in Europe. It was also 1 percent higher at 123.45 yen.

The yo-yo moves overnight prompted analysts to draw parallels with the "flash crash" in October which briefly knocked almost 10 percent off the value of Britain's pound.

As then, the shift came in the period at the start of the Asian day when markets are at their thinnest and the bulk of liquidity available tends to come from the automated computer programmes run by banks and other major houses.

"It looks like it was a combination of thin markets, some year-end rebalancing against the dollar and covering of shorts above \$1.05," Alvin Tan, a strategist with Societe Generale in London, said.

"The fact that banks have reduced the provision of liquidity given regulatory restrictions contributes to this kind of move and makes it slightly more structural. These kinds of crashes are going to be with us for some time."

Further gains for the dollar are one of the big consensus plays for investors going into 2017, although signs of doubt have appeared in recent weeks, with analysts beginning to wonder how much appreciation a Donald Trump White House will tolerate.