RBI holds rates, says will ensure ample liquidity

Reuters, *Mumbai*

The Reserve Bank of India (RBI) kept its key interest rates steady as widely expected on Friday amid persistently high inflation but said it will ensure ample liquidity is provided to stressed sectors to keep a nascent economic recovery on track.

Its monetary policy committee decided to retain an accommodative policy stance at least for the current financial year and into the next to revive growth on a durable basis, while ensuring that inflation remains within target, Governor Shaktikanta Das said in an online briefing.

Das said the economy was rebounding faster than expected from a coronavirus-induced slump earlier in the year but warned signs of recovery were far from being broad based. COVID-19 infections are also continuing to climb, with the tally now 9.57 million people.

Das said MPC members voted unanimously to hold rates and retain the stance. The key lending rate of the RBI or the repo rate was left unchanged at 4 per cent while the reverse repo rate or the key borrowing rate stayed at 3.35 per cent.

"The MPC is of the view that inflation is likely to remain elevated, barring transient relief in the winter months from prices of perishables," Das said.

"This constrains monetary policy at the current juncture from using the space available to act in support of growth."

REUTERS/FILE

The logo of Reserve Bank of India is seen inside its headquarters in Mumbai, India.

Indian stocks extended earlier gains to hit record highs after the decision, while the Indian rupee strengthened slightly to 73.76 against the dollar. The benchmark 10-year bond yield fell 3 basis points to 5.90 per cent.

Das announced measures to help improve access to funding for stressed sectors and said the RBI will take further steps when necessary to ensure ample rupee liquidity to sustain visible growth impulses, without impacting inflation.

"Inflation targeting is uppermost in our agenda," Das said in a post policy news conference.

The MPC sees inflation in the current quarter at 6.8 per cent before cooling slightly to 5.8 per cent in the Jan-March quarter. The October projections for H2 FY21 were for inflation between 5.4 per cent-4.5 per cent.

"We believe that improving signs of growth normalisation and elevated inflation in the near term suggest no additional scope for rate cuts," said Garima Kapoor, economist with Elara Capital.

The central bank has slashed the repo rate by 115 basis points (bps) since late March to cushion the shock from the coronavirus crisis and sweeping lockdowns to check its spread.

However, inflation has remained consistently above the upper end of the RBI's mandated 2 per cent-6 per cent target range every month barring March this year, with core inflation also remaining sticky.

"If supply side management is timely and effective, you will see the trajectory of inflation completely changing," deputy governor Michael Patra said, adding that the inflation projections provided are based on how things stand today.

Gross domestic product in the July-September quarter contracted 7.5 per cent on-year, after a decline of 23.9 per cent in the previous three months.

Das said India's prospects have brightened with progress on COVID-19 vaccines, and MPC now projects real GDP for the current financial year to shrink just 7.5 per cent from an earlier expectation of a 9.5 per cent contraction.

Analysts polled by Reuters last month forecast India would emerge from recession early in 2021 but it is not expected to return to pre-pandemic levels any time soon.

"An accommodative liquidity stance will ensure access to liquidity will not be a challenge and the ongoing recovery continues to gather steam," said Ashish Shanker, head Of investment at Motilal Oswal Private Wealth Management.

ESQUIRE ELECTRONICS

Arifur Rahman, managing director of Esquire Electronics, sole distributor of Japanese electronics brands SHARP, GENERAL and Mitsubishi Heavy Industries, cuts a ribbon to open a new showroom on Road 6 at Dhanmondi in Dhaka.

JD.com becomes first online platform to accept China's digital currency

Reuters, *Shanghai*

Chinese e-commerce company JD.com Inc said on Saturday it has become the country's first virtual platform to accept Beijing's homegrown digital currency.

JD Digits, the company's fintech arm, will accept digital yuan as payment for some products on its online mall, as part of an experimental giveaway of digital yuan to citizens of Suzhou, near Shanghai, according to a post on the company's official WeChat account.

China's digital yuan is one of the world's most advanced "central bank digital currency" initiatives, as authorities globally respond to threats from private currencies such as bitcoin and Facebook's Libra.

Under the Suzhou programme, the municipal government and the People's Bank of China (PBOC) will issue 200 digital yuan "red envelopes" to 100,000 consumers selected through a lottery.

Suzhou's scheme is the second such digital lottery, after the PBOC issued 10 million yuan worth of digital currency to 50,000 randomly selected consumers in the southern city of Shenzhen.

PBOC Governor Yi Gang said last month that more than 2 billion yuan had been spent using China's digital currency so far in 4 million separate transactions.

ACI MOTORS

Md Benojir Alam, director at Crop Yield Enhancement through Farm Mechanization Project at the Department of Agricultural Extension, and Subrata Ranjan Das, executive director of ACI Motors, pose during a field demonstration of Japanese paddy cutting, threshing, cleaning and packaging Yanmar Combine Harvester at Bangladesh Jute Research Institute in Manikganj recently.

MONTRESOR

Actor Safa Kabir opens an outlet of cosmetics brand Montresor at Sima Blossom of Dhanmondi in Dhaka on Friday.

US not extending TikTok divestiture deadline, but talks will continue

Reuters, *Washington/New York*

The Trump administration on Friday opted not to grant ByteDance a new extension of an order requiring the Chinese company to divest TikTok's US assets, but talks will continue over the short video-sharing app's fate, two sources briefed on the matter said.

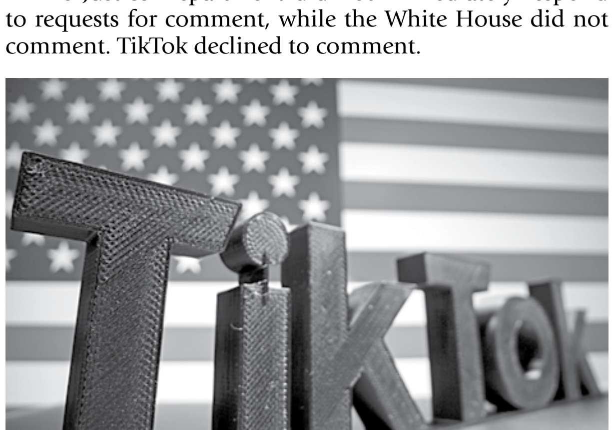
A Treasury Department representative said late on Friday the Committee on Foreign Investment in the United States (CFIUS) "is engaging with ByteDance to complete the divestment and other steps necessary to resolve the national security risks."

Last week, CFIUS granted TikTok parent ByteDance a one-week extension until Friday over the order to shed TikTok's US assets.

President Donald Trump's August order gave the Justice Department the power to enforce the divestiture order once the deadline expired, but it is unclear when or how the government may seek to compel divestiture.

Trump was said to have personally made the decision not to approve any additional extensions at a meeting of senior US officials, according to a person briefed on the meeting. The government had previously issued a 15-day and seven-day extension of the initial 90-day deadline, which was Nov. 12, in Trump's order.

The Justice Department did not immediately respond to requests for comment, while the White House did not comment. TikTok declined to comment.



REUTERS/FILE

A 3D printed Tik Tok logo is seen in front of US flag in this illustration.

Is a post-Covid currency war coming?

Reuters, *London*

Financial markets' euphoric reaction to the recent COVID-19 vaccine breakthroughs and US election results is pushing some currencies up so fast that rumblings have begun about a potential new FX war.

Almost a decade after Brazil's finance minister likened Western central bank money-printing to economic warfare, some of the conditions that led countries to weaken their currencies then look to be forming again.

Investors' growing eagerness to buy into risky assets gave emerging market currencies their best month in nearly two years in November, stretching a run of gains that started in June.

A further extension -- seen as likely after the dollar hit a two-year low on Thursday -- would mark be their longest uninterrupted climb since 2012.

South Korea, Taiwan and Thailand are already worried enough that they have either intervened in their foreign exchange markets or taken other steps to try to prevent fragile economic recoveries being snuffed out.

In Sweden, whose crown is this year's best-performing currency, the central bank unexpectedly increased its money-printing programme last week.

"I think currency war would be a bit of a dramatic term to use right now, but you could say there have been some early warning shots," said UBS's head of emerging market strategy Manik Narain. "And if this currency strength continues, these countries could start to push back harder."

Competitive currency devaluations are blamed by economists for exacerbating the 1930s Great Depression and dragging for decades on world trade by fostering protectionism.

REUTERS/FILE

US dollar, euro and Swiss franc bank notes are seen in a bank in Budapest.

The cycle usually starts with tit-for-tat interest rate cuts and interventions, but can quickly escalate into capital controls or investment taxes to ward off hot foreign money like that now flooding into emerging markets.

Institute of International Finance data on Tuesday showed investors splurged a record $40 billion on stocks and $37 billion on bonds in emerging markets last month, a spree that was more than the previous three months combined.

The Mexican peso, Brazilian real, Turkish Lira, South African rand, Russian rouble and Polish zloty all jumped between 5 per cent and 10 per cent, adding to 5 per cent-12 per cent leaps in China, Taiwan and Korea's currencies since June.

It is not only the expectation that COVID-19 vaccines will normalise trade, travel and commodity prices driving the trend.

Low global interest rates mean developing countries are among the few places left where investors make positive returns on bonds, while the boom in electric cars and automation has seen money pour into Asia's big microchip makers.

Global trade is expected to see the first expansion next year in three years, with the hope too that US President-elect Joe Biden's government will be more predictable on that front.

"If you look at the areas in which potential currency wars could break out it would be the areas which have attracted the most capital flows or the most equity flows," PIMCO's head of emerging markets portfolio management Pramol Dhawan said.

He cited Taiwan, South Korea and China as the main hotspots, and potentially India going forward. It has already stacked up $85 billion worth of dollar reserves this year, Narain at UBS added, helping keep the rupee on the leash.

After blazing energy rally, investors check the fuel gauge

Reuters, *New York*

Investors are gauging how far a rally in beaten-down energy shares could run, as an expected recovery for the coronavirus-hit economy clashes with skepticism about the long-term prospects of fossil fuels.

Energy shares overall soared nearly 27 per cent in November, leading the charge among sectors expected to benefit from the broad economic revival promised by encouraging developments for several vaccines against COVID-19.

The longer term outlook for the sector, however, remains uncertain, as companies throughout the oil and gas supply chain face challenges from the increasing use of "green" energy sources such as wind and solar. Another concern is resistance among fund managers to investing in fossil fuel companies over environmental concerns.

"It's always hard to be extremely bullish on a sector that is likely in secular decline, and the traditional fossil fuel sector is very likely in secular decline," said Doug Cohen, a portfolio manager at Fiduciary Trust International.

Coronavirus-related developments will continue to draw investor attention next week, as a US health advisory panel meets Thursday to discuss whether to recommend emergency use authorization of a vaccine developed by Pfizer Inc with German partner BioNTech SE.

The energy sector remains down 37 per cent this year, even as a 13.5 per cent rise has sent the S&P 500 to fresh records. Declining oil prices have seen energy stocks underperform the broad market since the Great Recession, and the market value of energy companies has shrunk to 2.4 per cent of the S&P 500, down from over 15 per cent in 2008, according to Refinitiv Datastream.

November rattled that trend, as the release of positive data from three separate coronavirus vaccines from Pfizer, Moderna Inc and AstraZeneca Plc sparked massive rallies in the shares of companies across the sector.

Shares of oil majors Exxon Mobil Corp and Chevron Corp rose 17 per cent and 25 per cent, respectively, while Occidental Petroleum Corp soared over 72 per cent and Devon Energy Corp surged nearly 57 per cent.

"The notion of a vaccine being sometime around the corner gives some hope that oil demand may recover," said Stewart Glickman, energy equity analyst at CFRA Research, adding that energy shares will stay sensitive to news about vaccines or coronavirus cases in the near-term.