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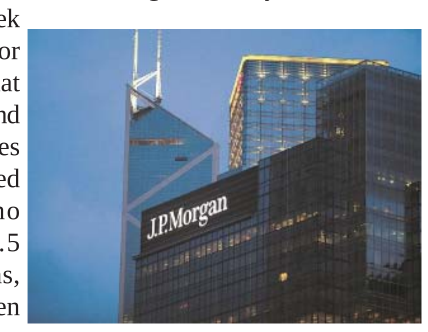
Ahmedabad 05-02-2019

JPMorgan says 2020 might not be the year to think about recession

The Federal Reserve's change in tone may mean investors should reconsider the timing of the investment cycle, according to JPMorgan Chase & Co.

That means investors shouldn't be driven by fears of recession for now, JP Morgan analysts said.



The Fed signaled last week that it's done raising rates for at least a little while, and that it'll be flexible in reducing bond holdings. The Fed's changes have already been welcomed by equity investors who boosted the S&P 500 2.5 percent over three sessions, while rates traders have been working to figure out the implications of the newfound caution about shrinking the balance sheet. Demand for gold has increased as well.

Apart from the immediate implications, the Fed's adjustments may warrant changes to JPMorgan's previous outline that investors should consider moving fully to neutral and tilting defensive in the second half of 2019 to reposition for "durable challenges in 2020," the firm said.

"If the Fed is less spooked by full employment, more tolerant of an inflation overshoot and less anxious to reach restrictive policy, then 2020 might not be a year to think about recession and so late 2019/early 2020 would be premature to position defensively cross-asset," strategists led by John Normand wrote in a note dated Feb. 1.

Many global measures of assets are pricing in slower economic growth than the current pace, the report said, including on risk premiums:

Cyclically oriented gauges like the S&P 500, European Autos, Chinese Equities, Topix, Emerging-Market Equities and MSCI Mining "still seem to trade as if global growth were running about a percentage point weaker than its roughly 2.6% current pace," the report said.

JPMorgan arrived at the figure by regressing annual returns on a PMI index, comparing actual to predicted returns, and backing out from this risk premium an implied global growth rate.

"This framework is quite crude in that a single variable like the global PMI explains only about half of the variation in most of these assets' returns," the strategists wrote. "But as the signal is consistent with those of other fundamental frameworks, we are comfortable asserting that even modest improvements in global growth can push markets higher, because there is no evidence of overvaluation."

More than half of India's working-age population out of labour force: NSSO

Half of India's working-age population (15 years and above), for the first time, is not contributing to any economic activity, according to the National Sample Survey Office's (NSSO's) latest jobs survey.

The labour force participation rate (LFPR) — the share of the population who are either working or available for work — stood at 49.8 per cent in 2017-18, falling sharply from 55.9 per cent in 2011-12.

More than a decade ago, in 2004-05, 63.7 per cent of the population was part of the labour force. This was part of the findings of the NSSO's periodic Labour Force Survey Report for 2017-18, which has been withheld by the government and reviewed by Business Standard.

"It's a serious cause of worry as you are unable to utilise the demographic dividend factor — especially keeping in mind the fact that 65 per cent of the population is in the working age group," said Radhicka Kapoor, senior fellow, Indian Council for Research on International Economic Relations.

In 2011-12, however, the decline in the LFPR was higher (by 11.5 percentage points) than what was observed in 2017-18.The proportion of the active labour force declined twice for females between 2011-12 and 2017-18 in the age group 15 years and above. Compared to 2011-12, the LFPR for females fell by around 8 percentage points to 23.3 per cent in 2017-18, whereas the LFPR for males dipped by 4 percentage points to 75.8 per cent in 2017-18. So, only about a quarter of the females in the country were either working or seeking jobs.

The fall in the LFPR was far more in rural areas (from 67.7 per cent to 58.7 per cent) than in urban areas (from 49.3 per cent to 47.6 per cent), according to the 2017-18 report of the NSSO. Significantly, the gap in the LFPR has narrowed between urban and rural areas due to a big dip in the active labour force in villages.

"Education plays a big role in the declining size of the labour force. But case studies and field reports also suggest that lack of suitable work, especially for women, is not readily available.

Flexibility in work timings and proximity to their households are an important factor for females," said Amit Basole, head of the Centre for Sustainable Employment at Azim Premji University, Bengaluru. Though the female LFPR in urban areas remained almost at the same level (20.4 per cent in 2017-18), it declined sharply by more than 11 percentage points in rural areas.

Economists point out a falling LFPR, coupled with a high rate of unemployment in the country, is cause for worry. The unemployment rate, according to the NSSO report, stood at a 45-year high of 6.1 per cent in 2017-18. This was three times the unemployment rate witnessed in 2011-12 — the last time when the NSSO conducted a household survey on jobs.

The LFPR for the youth (in the age group of 15-29 years) stood at 38.2 per cent in 2017-18, compared to 44.6 per cent in 2011-12.

In this age group too, a fall in the female participation rate (by 8 percentage points) in the labour force was higher than what was seen among males (by 4.8 percentage points).

Importantly, the unemployment rate for the youth also shot up two-three times, compared to 2011-12. In 2017-18, the youth unemployment rate was in the range 13.6-27.2 per cent.

Interim Budget reduces RBI rate cut possibility in February, say economists

Chances of a rate cut in the Reserve Bank of India's (RBI's) February monetary policy are almost ruled out because the Budget is inflationary in nature, say economists.

Though a section in the market still expects a rate cut in February, the rise in bond yields after the Budget points to a different direction.

Yields rise, or prices of bonds fall, on oversupply of bonds and on expectations of hardening interest rates.

The government once again missed the fiscal deficit target, registering a deficit of 3.4 per cent of gross domestic product (GDP) from the 3.3 per cent projection.

For the next year also, the deficit is projected at 3.4 per cent, deviating from the path to bringing down the deficit to 3 per cent of GDP.

"The government pursued expansionary fiscal policy, seemingly prioritising populism over prudence," noted UBS in a report.

"We expect the RBI to be cognizant of the risk to inflation from fiscal slippages," the brokerage said, adding a change in stance from "calibrated tightening" to "neutral" is possible, but a rate cut is not.

After the Budget, economists are certain the central bank cannot go for a rate cut because of inflation possibilities as well as due to the upturn in oil prices.

"The consumption push and growth stimulus will be positive for growth, but limits the scope for an aggressive monetary easing cycle," said DBS Bank in a report.

The Budget announced sops for the rural and agricultural sectors, and offered tax benefits for the middle class, while retaining a broader social push. "With the broader fiscal targets not deviating sharply from the consolidation path, we expect the RBI to priortise its price stability mandate," said DBS economist Radhika Rao.

She expects policy rates to remain in pause mode for the rest of 2019, because the pro-consumer Budget poses a lagged risk of stoking inflation.

The consumer price indexed inflation rate fell from 4.9 per cent in April-May 2018 to 2.2 per cent in December, mainly due to disinflation in the food segment. The price trend is likely to remain benign in the coming months, trending at 2-3 per cent.

But that is not enough to initiate a rate cut.

Crude oil prices also exhibit volatility. While the Brent crude oil is now trading at around $62 a barrel, down from $84 a barrel in September, oil prices have remained a great uncertainty for the government and the RBI.

However, the RBI risks losing its credibility if it moves to cut rates so soon after adopting a calibrated tightening stance just two policies away, said a senior economist with a bank.

"A rate cut at this point would be meaningless. Rather, the RBI may try to bring down high rates in the corporate bond market and narrow the spreads over government securities," the economist said.

However, Kumar Sharadindu, managing director and chief executive officer of SBI Pension Funds, expects a rate cut in February,

Subhash Chandra's Essel group gets time till September to repay loans

Subhash Chandra-led Essel Group on Sunday said it had secured a formal consent from lenders to service its debt, including time till September 2019 to repay its loans.

The second round of meeting with lenders comes a week after the first round when the group had sought to allay their fears on repayment. Mutual funds and non-banking financial companies were part of the meeting on Sunday, the group said, covering 96-97 per cent of the loan value.

It is unclear whether public sector banks (PSBs) were part of this meeting.

Speculation has been rife that PSBs are unhappy with the developments at Essel Group, prompting lenders such as Bank of Baroda and Credit Suisse to offload about 7.4 million Zee Entertainment shares on Friday amounting to Rs 267 crore.

Essel Group has significant debt on its books, taken by the Indian promoters for privately owned infrastructure firms. The loans have been taken against shares in listed entities Zee Entertainment and Dish TV.

On January 25, the two listed firms saw their stock price fall sharply, by 26 per cent (Zee) and 33 per cent (Dish TV), respectively, after reports of a link between the group and a firm (Nityank Infrapower) being probed by government agencies surfaced. The group has since denied any links with Nityank, a point it reiterated on Sunday as well.

The conglomerate also said the time it got to repay loans, namely, till September 30, 2019, would be sufficient for it to complete its sale of assets, which is being used to service its debt.

The company has kicked off a sale of infrastructure assets as well as a sale of a part of the promoter holding in Zee.

While the sale of one infrastructure asset is nearing completion, two others will be done in the next three to six months. The promoter stake sale in Zee is expected to be completed by April.

Essel Group Chairman Subhash Chandra said, "I am glad the formal consent with the lenders has been achieved. While their assurance given last week itself was more than enough, the formal consent seals and justifies their belief and trust in us."

Naresh Goyal to infuse around Rs 250 crore into debt-ridden Jet Airways

Jet Airways Chairman Naresh Goyal is putting in around Rs 250 crore in the airline as he negotiates a resolution plan with partner Etihad Airways.

The airline's finances have been stretched for the last few months and it has been making part payment to a section of employees and its vendors. Fresh funds would help the airline clear its outstanding dues.

The airline had promised to pay 75 per cent of November salary to pilots and engineers by January-end, but has paid only 50 per cent to date. National Aviator's Guild and the pilots union will be meeting on Monday to discuss the further course of action. Lessors, too, have been threatening action over unpaid dues.

Goyal owns 51 per cent in the airline and is currently in Abu Dhabi to finalise a resolution plan. The interim funding of Rs 250 crore would be critical before the airline restructures its debt and gets fresh capital infusion from Etihad and lenders.

Etihad, too, has committed to support the release of $35-million from Jet's loyalty programme to the airline, but that is subject to conditions.Jet Airways did not respond to an email query on the topic.

Last Thursday, the airline's Chief Executive Officer Vinay Dube informed employees the airline was very close to finalising a resolution plan and urged them to remain patient.

Sources earlier said Goyal had accepted most of Etihad's conditions and the two sides are expected to sign a memorandum of understanding within days. Under the plan, Goyal's stake would reduce from 51 per cent to around 22 per cent, while partner Etihad's stake would rise from the existing 24 per cent to 40 per cent.

Banks are likely to hold 30 per cent stake after conversion of loans into equity and fresh infusion, with State Bank of India taking up 15 per cent. Goyal will step down from the board and his son Nivaan is expected to join the board.

The board of directors will meet on February 14 and an extraordinary general meeting will be held on February 21 to secure shareholders' nod for increase in authorised capital, conversion of debt into equity, and appointment of lenders' nominee directors to the board.

ICICI Bank-Videocon loan case: Chanda Kochhar may explore legal route

She may have been indicted by the probe panel but if ICICI Bank's deposed former managing director (MD) and chief executive officer (CEO), Chanda Kochhar, takes the legal route, she will have several grounds to challenge the findings of an enquiry headed by former Supreme Court judge B N Srikrishna.

"Chanda Kochhar was in violation of the ICICI Bank Code of Conduct, its framework for dealing with conflict of interest and fiduciary duties, and in terms of applicable Indian laws, rules and regulations," a statement from the bank, citing the report, said.

The bank terminated her service and decided on a "claw-back" or to take back all bonuses given to her between April 2009 and March 2018, and also revoke other benefits and unexercised stock options.

The committee investigated her role from April 2009, when she was named MD and CEO, to March 2018.

The bank's board has said Kochhar "ineffectively" dealt with "conflict of interest and due disclosure or recusal requirements" while deciding on loans given to the Videocon Group, in which her husband had a vested interest.

Kochhar did not return calls and text messages till the time of going to press.

Delhi-based counsel Percival Billimoria, who specialises in commercial matters, says that first and foremost "she can challenge the decision in court because the panel is not a judicial body and the former banker has every right to defend herself and will be perfectly justified in doing so".

Small and regional brands power Instagram's marketplace run in India

The power of smartly composed photographs has never been more potent. Check out the Instagram stories for Swiggy, the online food ordering and delivery platform, or Chumbak, an accessory design agency or fashion designer Sabyasachi, whose eponymous premium label is every celebrity's calling card.

Among the most active brands on the platform, they have seen their app downloads increase and recorded big marketing wins at a fraction of the cost of traditional media initiatives.

Now as Instagram gets set to roll out its 'shop' button in the country, both the platform and its band of small brands are hoping to cash in on their engagement.

Sabyasachi (fashion) with 3.3 million followers across seven accounts, Netflix with 710,000, Chumbak with 256,000 and Zomato with 118,000 are among the big users of Instagram stories, a format that allows easy display and access to products and services.

And over the past year, they have cashed in as Instagram has introduced a host of features that help browsers shop online as a prelude to opening itself up as a marketplace.

"Shopping on Instagram is currently available in 46 countries, and we are gradually expanding to additional partners in countries around the globe, including India," said an Instagram spokesperson.

Delhi Metro decides to take over the operations of Gurgaon Rapid Metro

In an apparent rescue act, Delhi Metro has decided to take over the operations of Gurgaon Rapid Metro, second such move after doing so with Airport Express Metro in 2013. Gurgaon Rapid Metro is owned by IL&FS Transportation Network Ltd (ITNL) — a subsidiary of the bankrupt IL&FS group.

According to the minutes of the meeting held between the state government of Haryana and managing director of Delhi Metro, Mangu Singh, the project will be taken over by DMRC for a period of five years.

"From the start of the service on February 5, operations of Rapid Metro will be taken over by DMRC. The services will be run according to the existing timetable and fare," according to the minutes of the meeting.

A senior DMRC official said the staff of Rapid Metro will be absorbed by Delhi Metro and will get existing pay scale and position for the next three months.

"Existing staff of Rapid Metro will be taken over on an "as is where is" basis and some of the staff will be permanently taken over by DMRC as temporary contract employees.

A screening process of every department will be done to assess the requirement of staff," a senior DMRC official said. Sources said the Ministry of Urban Development had asked DMRC to take over the project after ITNL's parent company IL&FS went bankrupt defaulting on debts. In October 2018, the central government took control of the management of IL&FS.

This is the second time DMRC has taken over operations of a project.