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(Free Falling Rupee – Free Falling Stock Markets – Sequel II
Good News == there are Solutions possible)

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The face of Modern Indian MSMEs

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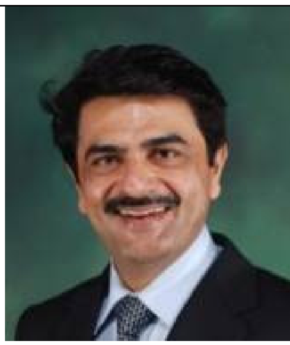
 Rajive Chawla President, FSIA	Future-ready	 Sangeet Kr Gupta Hon. Consultant, FSIA

Dear FSIA Members,

British Pound is Rs 106.41 / GBP
US Dollar is Rs 68.78 / Dollar
Euro is Rs 91.45/ dollar

Rupee is CRASHING…….. Stock markets are Crashing
But there are solutions …. If we are ready to take the challenge

Short Summary

- Things are bad
- But, when Going get Tough, the Tough have to get Going

First, see INR to Dollar -- > from 64 to 68 in less than 24 hours

Rupee falls below 68/dollar as foreign investors flew from Indian Markets

The rupee slumped to a record low below 68 per dollar and shares tumbled on Wednesday on growing worries that foreign investors will continue to sell out of a country facing stiff economic challenges and volatile global markets.

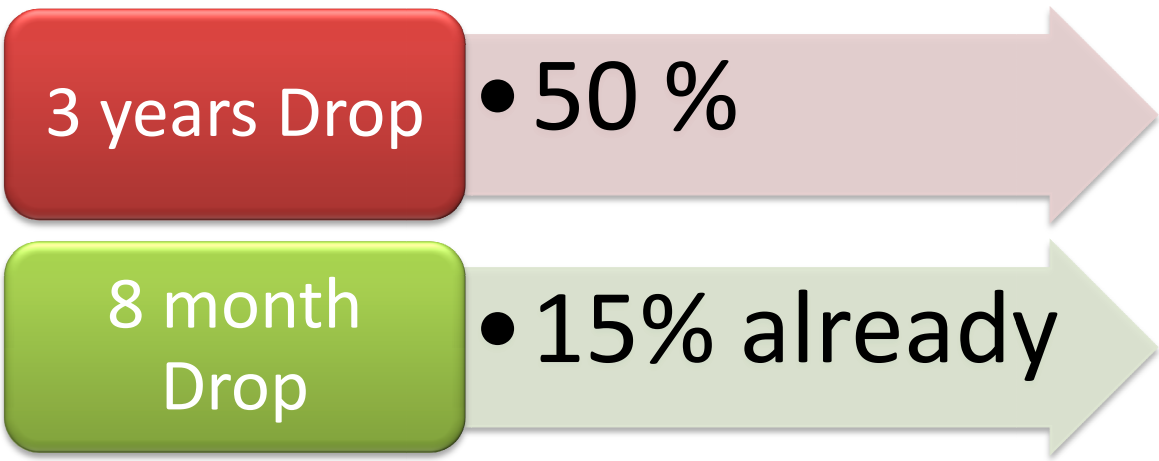
We at FSIA, can't predict where the rupee will eventually land and I don't think anyone else can either. Last week, people were saying it will stabalise around 65 for next 1-2 years…. There were some who said, it will come back to 55.

Now, fancy thoughts of 75 are coming…. Since it did 64 to 68 in just 6 hours today

Second, Recent History

Of course, we in India, are not the only country at the mercy of the dollar because almost every emerging market is suffering. But surely, that shouldn't be any consolation.

The rupee has depreciated about 50 percent in the past three years and 15 percent this year. The situation is extremely worrying for us because of the debilitating impact it will have on India's economic fundamentals that have been pushed to the brink by global factors.



The dollar seems to be flexing its muscle and violently at that. The U.S. Fed Bank's latest reports did not soothe jangled nerves and markets continue to expect that QE3 tapering will commence in September. The U.S. trade deficit seems far healthier than a year ago and the country's economy is in better shape. QE3 tapering is a foregone conclusion. But when it does hit us, I expect a lot more pain.

Note : Each time Indian Rupee and all these "vendor country currencies" fall, the buyer in USA enjoys . He gets same T-Shirt, same Goods, same services even cheaper.
Their standard of living rises.

Third , Rate of Interest in USA vs in India

Despite being the world's biggest Debtor, they are OK with it. It just does not matter.

Central Bank Rates

JPY	0.1%	CHF	0.0%
EUR	0.5%	USD	0.25%
CAD	1.0%	AUD	2.5%
NZD	2.5%	GBP	0.5%

Rate of Interest = India 10.25% per annum upwards

US Economy might be worlds debtor, but it does not matter at all
The rate of interest, that they pay is just 0.25%

USA
0.25%

Japan
0.10%

Swiss
0.00%

In India, there is a sense of hopelessness in the wake of policy announcements that haven't really been executed. There is a **sense of loss of credibility**. It is unfortunate that these strains have surfaced in the midst of a change of guard at the Reserve Bank of India (RBI). (you might know that the old RBI Governor retired and new one joined this month). What a Shock for him !!

Fourth, Factors of Fiscal Deficit and Trade Deficit

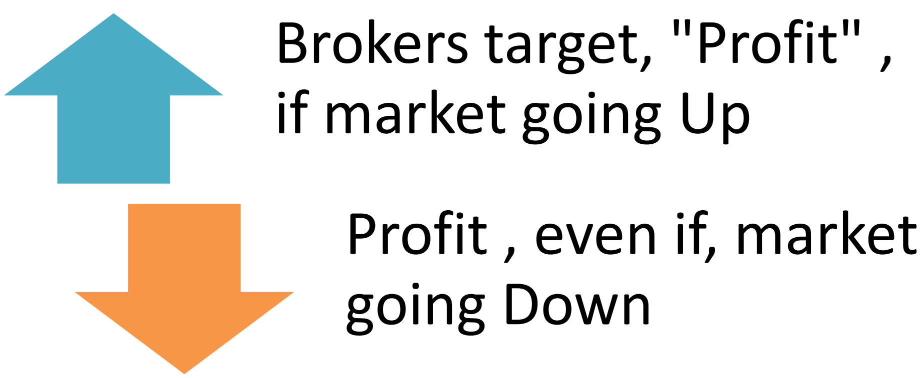
We can't say we did not see it coming. The RBI has been pointing to the twin deficits – fiscal and trade – for long while waging a losing battle on the monetary front. The International Monetary Fund (IMF) pointed out early this year that our fiscal deficit and inflation were among the highest in emerging markets, including China, Brazil, Russia and all others.

5th , Dependence on FII money

Our dependence on hot FII portfolio money was always there for all to see.
FII money is very very Volatile,
It is there only for days and sometime hours.

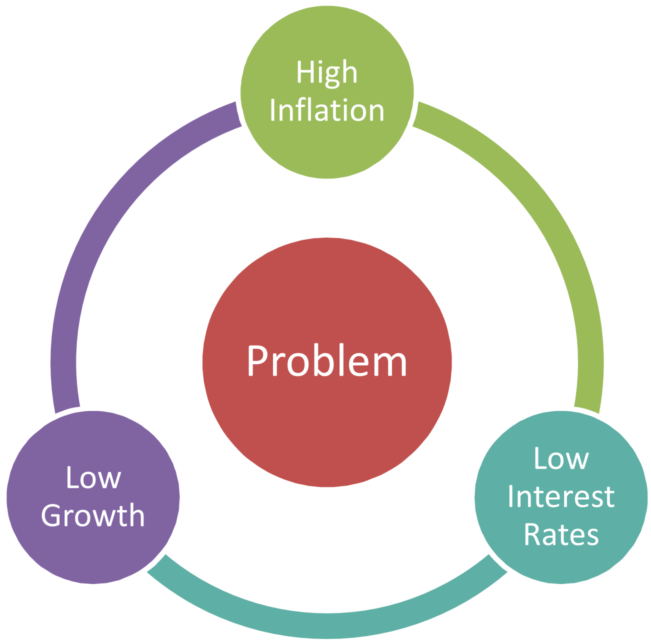
The FII front line managers are usually fresh MBA's , age 20 to 30 years. With single point agenda = Get more profit for the fund.

And do note, a broker can make money in both BEAR run (market going Down) and BULL Run (market going up). By Short Buying and Short Selling. What they don't like is "stability". What will they do , if things are "stable"



6th , Deep Malaise

The fall in the rupee is a mere manifestation of the deeper malaise – high inflation, low interest rates combined with low growth.



The root of the problem lies in the consistently negative rate of interest imposed on savers. An open economy has its own ways of correcting artificial imbalances created by its policymakers. Negative real interest rates will almost always break out into currency depreciation. When this happens, experts say, no amount of intervention can help RBI, till the currency finds its right level.

Holding on to negative real interest rates for a long time has driven household savers into non-financial assets – in India, that means gold.

If inflation is 12% p.a.

& Bank Interest on your FDR is 7% to 8% p.a.

You are winning or Losing ?

You are LOSING.... Money is "dimishing" in value

And this is the problem

Due to this wrong policies, you are forcing people to invest in Gold , instead of investing in Fixed Deposits – a productive asset for the Nation

7th , Alternatives to Gold ……. To be developed, ……………FAAAAAST…..

To begin with, there needs to be a true gold alternative. In the past few years, gold ETFs and loans added to its liquidity. Banks and PSUs pushed gold coins to cash in on the craze. Buying gold in India is as easy as buying a bottle of Cold Drink.

“Ek Bottle Thanda Dena”

“Ek Tola Sona Dena”

It is easy

Somehow, Government has to bring the paper currency / paper FD , indexed to inflation. And give people return higher than the Gold
Safer than Gold

If you do that, people will invest in that
And not in Gold

8th , Request the NRI’s

It’s time to also go back to the NRIs hoping that they will return for the premiums over international dollar interest rates.

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See the chart again, Rates in India are much much higher than in USA

9th , Some Suggestions from our Editorial team

1. Make “Manufacturing in India” Easy and Business-friendly
    a. Both for Indians
    b. And foreigners
    c. There could be 10K Foreigners you are requesting to invest,
    d. But there are 1 Crore Indian Businessmen ready to invest, give them “EASE”

2. TAX “IMPORTS”
    a. Make all kinds of imports “restricted”
    b. Prefer “Made in India”
    c. Heavily Taxing all kinds of imports of luxury consumables and durables

3. Open all areas to FDI
    a. Why shouldn’t we open up incoming FDI for all sectors, except those considered sensitive to national interests? Especially for infrastructure, capital-intensive and environmentally safe projects.
    b. FDI is always very stable, once it comes, it remains for years, till they pack up

4. Domestic Defence Production
    a. Today we buy Defence Armaments of estimated USD 25 Billion Dollars
    b. That converts to Rs 17,00,000 crores at current rates
    c. Why can’t we make them ourselves.
    d. We can, just a political decision is required.

5. Subsidies
    a. Reduce them instead of increasing them
    b. Remove the leakages

6. Politics
    a. Most importantly, we need a majority government with a clear mandate for development. For now, we in India may have hold on till the next elections.

For queries, suggestions and feedback , you can e-mail us
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