

## NEWS WRAP

AGD

AS A RESULT OF SCANDALS involving a possible \$39 billion public loss from an auction of 2G mobile telecom licenses and the corrupt management of Commonwealth Games contracts, there has been a steep fall in investor sentiment, in nearly 75 politically influential companies on the Bombay Stock Exchange. After the corruption scandals, investors in India's Stock Markets have started avoiding companies, with strong political connections. There has been a 14% under performance in the broader Indian market for Indian stocks, with strong political links having direct political involvement or ones that are dependent on government licenses. While the broader stock market has fallen only 6% between April 2010 and June 2011, twenty five stocks with strong political links have suffered share price falls of 20%. Political connections are important in securing government contracts in India's heavily regulated economy. The vicious nexus between business leaders and politicians has led to 75 politically connected stocks dominating infrastructure, energy, real-estate and technology companies. Politicians or their relatives have been sitting on corporate bodies. Reliance Communications has suffered its share price falling by more than half, over the past year. The decision by investors, both domestic and international, to avoid politically powerful stocks is a course correction in corruption, and a 'watershed' in the history of the Indian Stock Markets.

### **RISING LABOUR AND FOOD COSTS**

India's Wholesale Price Index is registering inflation at above 10%. With inflation becoming more generalized, higher prices are affecting non-food manufacturing products. Despite having a traditional low cost base, inflation has pushed prices higher to a 'non normal'. Producers are passing along rising wages and costs of service inputs to the entire supply chain. India's highest inflation in any of the main energy markets, results from high food prices and the rising cost of crude oil. Inflation in India has become structural and not just cyclical. Soaring food prices are in double digit. Labour costs are rising, though of a less cyclical nature. India's economy characterized by supply constraints, labour shortages and high expectations, among its 1.2 billion people makes India's inflation structural. Salaries of skilled workers are expected to rise by 13% in 2011. With respect to the floor price of the winter crop to cover rising inputs, farmers in Uttar Pradesh, Haryana, Maharashtra and Karnataka are demanding a 70% increase. The Reserve Bank of India has been steadily tightening monetary policy, by raising the rate at which the central banks lend to commercial banks eleven times in 17 months. India's consumption dynamics and 60% of the rise in inflation being commodity-led will not reduce prices, even if energy prices fall in the coming months.

### **CHINA'S CORRUPT OFFICIALS**

About 17,000 China's Communist Party cadres, police, judicial officers and state-owned enterprise executives, fled China with ill-gotten gains, estimated Rmb 800 billion (\$123.6 billion), over a fifteen-year period, between the mid 1990s and 2008. The higher ranking officials who absconded and smuggled large amounts of money, headed for USA, Canada, Australia and the Netherlands. Corrupt officials who did not succeed in obtaining immediate visas for popular destination in the west, preferred to halt in small countries in eastern Europe, Latin America and Africa, while they waited for opportunities to move to western

countries. Countries bordering China were intended destinations for lower ranking officials. Independently administered Chinese territory of Hong Kong is a popular transit point. Rampant corruption is posing a threat to Communist Party rule in China.

### **TAPPING PETROL RESERVES**

The high price of petrol at US pumps is hurting US consumers. USA is drawing from emergency strategic petroleum reserves, to release some of the billions of barrels of crude oil, stored near the Gulf of Mexico. High unemployment and high petrol prices, along with the conflict in Libya, have forced USA to dip into the emergency Strategic Petroleum Reserves (SPR). USA is having 726.5 billion barrels of oil in reserve. Only twice earlier the reserves have been tapped for emergency reasons, viz the first Gulf War (1991) and Hurricane Katrina (2005). The Libyan conflict has taken 125 million barrels off the market. Opec, the oil producers' cartel is disinclined to raise output and assist in reducing oil prices. □□□