News Juice – 18th June, 2022

1. Fed rate hike: Likely impact on India, and what investors should do

Relevant for GS Prelims & Mains Paper III; Economics

Experts say that the aggressive Fed rate hike of 75 basis points is likely to push the Reserve Bank of India for more rate hikes in the coming two or three quarters, and thereby will have a direct bearing on GDP growth and market movement.

How much could rates be hiked?

Economists, who had been expecting an additional rate hike of 75-100 basis points over the next three quarters in India, now say the RBI could go for additional rate hike of up to 125 basis points this fiscal, taking the overall rate hike to over 200 basis points.

That may not only impact overall demand in the economy and GDP growth, but will also lead to a correction in the market on account of outflow of funds by foreign portfolio investors and downward revision in earning projections of listed entities as a result of higher cost of funds and input cost.

The day after the Fed announced its rate hike by 75 basis points, the Sensex had fallen 2% to close at an over 12-month low of 51,495. According to provisional data released by exchanges, FPIs sold equity holdings worth Rs 3,257 crore on Thursday, and in June they have sold holdings worth Rs 31,500 crore putting pressure on domestic equities. Domestic institutional investors have invested a net of Rs 24,225 crore in the same period.

What should investors do?

A large part of the inflation concerns is on account of the Russia-Ukraine war. If an early resolution of the conflict may revive market sentiments, there is a feeling that a prolonged war could only hurt these further as it could lead to spike in oil prices and food items.

Given the continuing rise in interest rates and uncertainty on where the yields may stabilise, while debt investors can go for short-term products of 1-2 years, market participants feel equity markets in current times should only be considered with an investment horizon of at least 3 years.

Market participants tracking economic activity say India is very well positioned for higher growth over the next three to five years and companies across sectors are already in the process of fresh capital investment, which is expected to gain momentum over the coming months. Although the decline in equity markets has weakened investor sentiment for now, equity investments should be done keeping the future in mind. Systematic investment plans should be the preferred mode, as these will help investors capitalise on any further dip in the market. Also, to beat inflation, investors need to go with equities, which have traditionally performed better when inflation is high.

For a large number of investors who entered the markets over the last couple of years as day traders, it is high time they stopped taking speculative positions. Many feel the market uncertainty is way too high for such investors who are looking to make money on a daily basis, and who may only end up losing.

Source: The Indian Express

2. No registration or insurance needed, why your Thailand holiday is more convenient from July 1

Relevant for GS Prelims & Mains Paper II; International Issues

Thailand, which is one of the top tourist destinations for Indians, has eased travel norms for international arrivals further. Starting July 1, the country is doing away with its requirement of Thailand pass registration scheme, and the mandatory US$10,000 health insurance for foreign visitors.

What were the old rules that are being removed?

International visitors arriving in Thailand are currently required to register online for a Thailand pass with a certificate of Covid-19 vaccination, and a health insurance policy. The requirement for a Thailand pass is being done away with.

According to a statement by the Tourism Authority of Thailand, from July 1, foreign nationals are only required to show proof of either a certificate of vaccination or a negative RT-PCR or professional ATK test (antigen test) result within 72 hours of travel. These can be in a print or digital format.

Are there any other requirements for entering Thailand?

Upon arrival, random checks will be made at Thailand's international airports or land border checkpoints (in 22 provinces). Randomly checked unvaccinated or partially vaccinated travellers who are unable to show proof of a pre-arrival negative test will be required to undergo a professional ATK test at the point of entry.

Are there other countries that are easing travel requirements?

Yes, effective June 11, Germany lifted all Covid-19 restrictions for travel to the country. This means that travel from India to Germany is now permitted for all purposes — and no proof of vaccination, recovery, or testing is any longer required for entry into Germany.

The United States has also lifted its requirement that international travellers arriving in the country go through a mandatory Covid-19 test within a day before boarding their flight, easing one of the last remaining government mandates meant to contain the spread of the coronavirus.

Source: The Indian Express

3. The reasons behind the crashing crypto market

Relevant for GS Prelims & Mains Paper III; Economics

Bitcoin and many other cryptocurrencies have been crashing since they hit an all-time high late last year. Bitcoin has lost more than two-thirds of its value since it hit a peak of around $69,000 in November last year and is currently trading at around the $22,000 mark. Ethereum, another cryptocurrency popular among investors, has lost almost 80% from its peak. As a result, the overall market capitalisation of cryptocurrencies has dropped under $1 trillion for the first time since January 2021. The crash, which shows no signs of reversal yet, seems to have led to a drop in investor enthusiasm with trading volumes in Indian cryptocurrency exchanges dropping by 90% from their peak.

Why are cryptocurrencies crashing?

It may not be possible to pinpoint the exact reasons why investors are fleeing cryptocurrencies at the moment. Most analysts believe that the fall in the price of cryptocurrencies is in line with the fall in prices of stocks and other assets as central banks such as the U.S. Federal Reserve tighten monetary policy to fight price rise. As central banks withdraw liquidity from the market, there's less money chasing assets, which in turn causes the prices of assets to drop. Others believe that the crash could also mark the popping of the bubble that has driven the prices of cryptocurrencies to stratospheric levels.

Sceptics have long argued that the price of cryptocurrencies seems driven more by speculative fervour fuelled by easy monetary policy than by any fundamental factors. For instance, the extreme volatility in the price of cryptocurrencies was seen by many as a feature that ruled out the use of cryptocurrencies as money. Such extreme volatility simply seemed to reflect investor behaviour that bordered on gambling. These sceptics also pointed to the fact that even though cryptocurrency prices were rising aggressively, the use of cryptocurrencies for real-life transactions was low. So, in essence, there was very little reason to believe that the rally in cryptocurrencies was driven by their wider acceptability as an alternative to fiat currencies.

How do governments view cryptocurrencies?

Some sceptics have also argued that even though private cryptocurrencies can rise to the status of alternatives to fiat currencies over time, governments and central banks may not allow this to happen. Many countries have taken several steps to discourage the widespread use of cryptocurrencies. While countries such as China and Russia have opted to impose outright bans on cryptocurrencies, others such as India have tried to tax and regulate them heavily. In India, while the government has not imposed an outright ban on cryptocurrencies, the Reserve Bank of

India has been quite vocal about the need to ban them completely. It is no surprise that central banks are wary of private cryptocurrencies since they challenge the monopoly that central banks currently enjoy over the money supply of an economy. If cryptocurrencies became widely acceptable, it would affect the control that central banks possess over the economy's money supply. It would also affect the ability of governments to fund their spending by creating fresh money as citizens could then opt to switch to alternative currencies.

Will cryptocurrencies rise again?

Cryptocurrency enthusiasts argue that cryptocurrencies such as Bitcoin have always been subject to extreme price swings and that the current crash is a good time to buy these virtual currencies at a tremendous bargain. To be fair, many crypto-enthusiasts have been handsomely rewarded in the past when they bought cryptocurrencies during times of panic selling. They argue that cryptocurrencies, just like gold, protect investors against the risk of price inflation. It should be noted that, unlike fiat currencies issued by central banks, the supply of various cryptocurrencies is limited by design. By holding their wealth in cryptocurrencies that either maintain their value or even appreciate in value over time, investors can protect themselves against the debasement of their wealth by central banks.

Sceptics, however, believe that the current crash could very well be the end of the road for cryptocurrencies. Even if cryptocurrencies manage to recover from the current crash, they may still not manage to hold on to their gains, because cryptocurrencies possess no fundamental value as money. In fact, some have argued that the real value of cryptocurrencies is somewhere close to zero. They point out that even the most popular cryptocurrencies such as Bitcoin are still not used very much in the daily purchase and sale of goods and services in the real economy. It should be noted that investors generally believe that the price of an asset gravitates towards its intrinsic or fundamental value in the long-run even though it may diverge from its fundamental value in the short-term.

Crypto-enthusiasts, however, argue that while cryptocurrencies may not be widely accepted as a currency, they still represent an independent asset class like gold that can help investors protect their wealth from central banks. This argument is still prone to the criticism that cryptocurrencies do not possess any independent value of their own to be compared to gold and silver, and thus cannot offer any wealth protection over the long-run.

Precious metals such as gold and silver are far more acceptable than cryptocurrencies, which is what gives them their intrinsic value. In fact, precious metals served as currencies for centuries and have been widely used for industrial and other purposes.

No cryptocurrency has such a record. The fact that precious metals are limited in supply definitely helped boost their value. But limited supply alone cannot make cryptocurrencies like Bitcoin a valuable asset like gold and silver.

Source: The Hindu

4. The move to link credit cards with UPI : What are the primary motivations behind this move? Will the proposed linking increase the scope of the Unified Payments Interface?

Relevant for GS Prelims & Mains Paper III; Economics

The Reserve Bank of India (RBI) has proposed to allow linking of credit cards with the Unified Payments Interface (UPI) platform. The move is part of the central bank's efforts to enhance the scope of UPI. While announcing the move, RBI Governor Shaktikanta Das stated that RuPay credit cards issued by the RBI-promoted National Payments Corporation of India (NPCI) will be enabled first, and will become available after system developments. The UPI, also managed by the NPCI, was first introduced in 2016.

What explains the effort to link credit cards with UPI?

The UPI has, over time, become a popular mode of payment in India with more than 26 crore unique users and five crore merchants on the platform. In May 2022, about 594 crore transactions amounting to ₹10.4 lakh crore were processed through the interface.

At present, the UPI facilitates transactions by linking savings/current accounts through users' debit cards. It is now proposed to allow linking of credit cards on the UPI platform. This is intended to provide additional convenience to users and enhance the scope of digital payments.

When will the facility be made available?

This facility would be available after the required system development is complete. The RBI will issue necessary instructions to NPCI separately to facilitate the change. To begin with, the indigenous RuPay credit cards would be linked to the UPI platform. It is likely to be followed by other card networks such as Visa and MasterCard that would bring in more users.

What is the benefit of this provision?

The arrangement is expected to provide an additional avenue for payment to customers and hence enhance convenience. The linking of credit cards to UPI has been proposed to further deepen the reach and usage of credit cards.

Why do authorities expect this move to spur the use of credit cards?

It is expected to bolster transactions and acceptance at more merchant sites. People who generally prefer to pay by credit card so as to avail of a longer pay-back period or loans on credit-card outstanding, or who do not wish to touch their savings at the moment of purchase, can pay using credit cards via UPI.

Currently, many merchants do not have credit card point-of-sale (PoS) terminals especially in semi-urban and rural areas but a significant number do have the QR code-based UPI acceptance facility. Now, they too will be able to accept credit payments via UPI without needing a PoS device.

Linking of credit cards with UPI is likely to increase the use of such cards in small-ticket-size payments, as it would provide users with more options to pay from. The move will provide a significant boost to overall spending via credit cards — currently, spending through the use of credit cards is more than double the average spend via debit cards. More spending is generally a force multiplier for the economy.

Besides accelerating digital transactions this measure is also expected to affect the average ticket size of financial transactions. Currently the average ticket size per transaction is ₹1,600 while it is ₹4,000 in credit cards. So, with the new development the UPI transaction ticket size is likely to go up to somewhere around ₹3,000 to ₹4,000, analysts claim. Many people use credit cards for rewards and benefits and UPI for its convenience & security. The new provision of linking credit cards to UPI brings both these advantages together.

Kirana stores where credit cards are not accepted would likely find it convenient to accept credit card payments through UPI.

Will a merchant discount rate be applicable for these payments?

There is no word yet on the merchant discount rate (MDR) applicable on transactions using credit card numbers via UPI, other than for RuPay, which attracts no such charge. Today, since foreign card issuers such as Visa and MasterCard have a lion's share of the credit card network business, part of the fees goes to them. However, the Indian government has shown its intent to promote the indigenous RuPay card system. It remains to be seen if it indeed does turn out more economical for merchants to accept payments from users with credit cards from foreign issuers.

Source: The Hindu