EICASA e-newsletter November 2022

The Institute of Chartered Accountants of India

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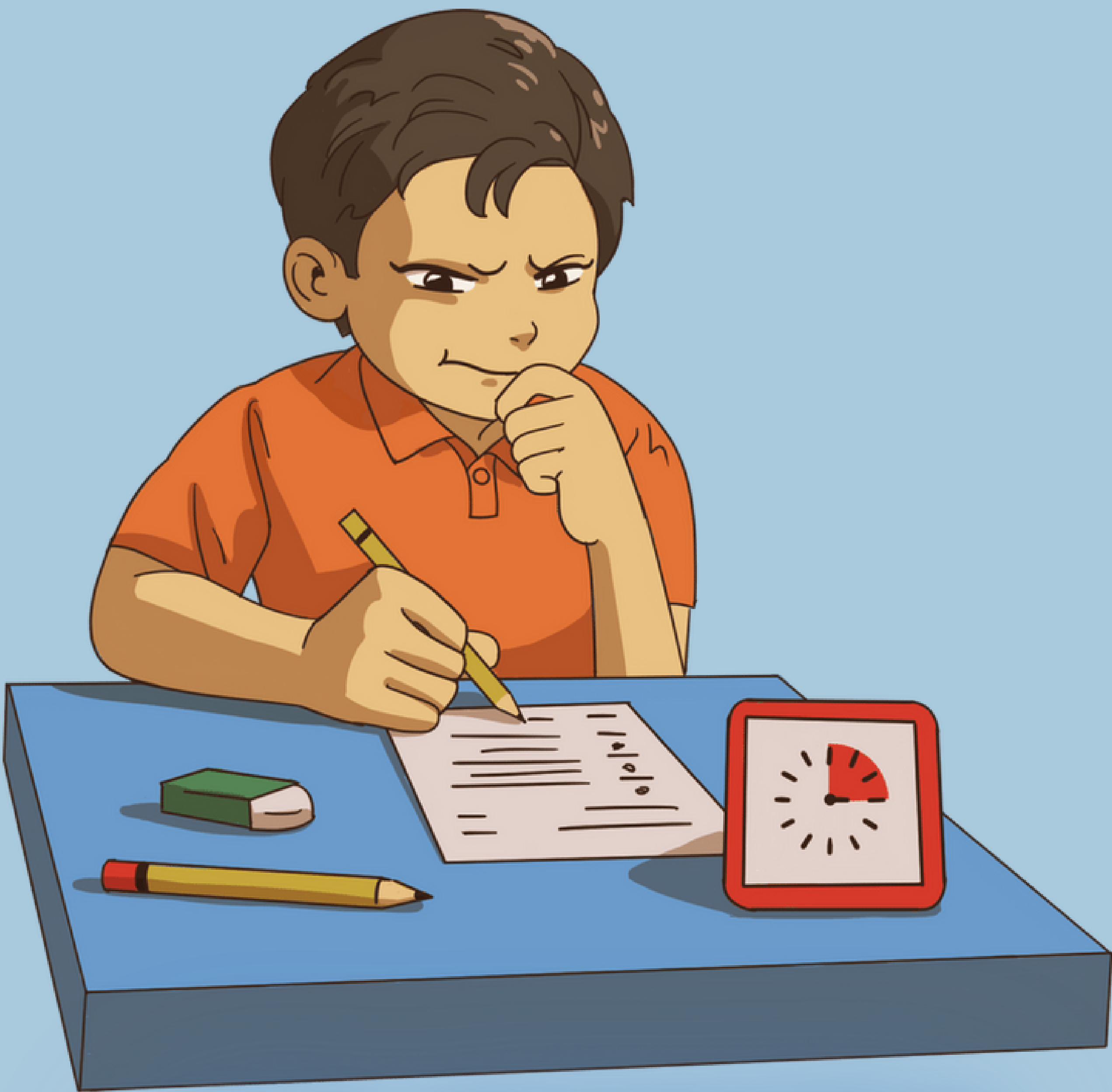
Eastern India Chartered Accountants Students' Association Of Eastern India Regional Council

EICASA



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E-NEWSLETTER - NOVEMBER EDITION

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THE 4 PILLARS OF THE GLOBAL FINANCIAL MARKETS

Ms. Vaishali Patwa
ERO0236245

You have probably heard that as stock prices go down, gold price rises. It may be true, or it may not be. However, there is a connection between the two of them indeed.

In fact, there is a connection between stock markets and four other factors – commodity, as in precious metals, crude oil, etc; currency, i.e., dollar, pound, rupees; interest rates, as in the rate of interest of lending and borrowing governed by the central bank; and inflation

The thing is, macroeconomics is a major influencer of stock markets. On its own, a stock may seem to be free from the economic repercussions of a country. However, if you zoom out the picture, you realise that the economic policies of the home country, the actions of other countries, global trade policies, all these things impact our stock markets and the other four factors

What is this phenomenon?

The four factors correlate with each other, and influence each other, in a myriad of ways.

The interest rates are governed by the central bank, i.e., the RBI in India. The central bank has the responsibility to maintain a healthy level of inflation in the country,so that the cost of living remains feasible for the general population. Inflation should not be too low either. If inflation is too low, the economy might be in danger of falling into deflation, which means prices and wages will fall - a phenomenon associated with very weak economic conditions.

The RBI maintains the inflation levels by employing monetary policy tools such as repo rates, reverse repo rates, etc. Thus, by increasing or decreasing the interest rates, RBI controls the inflow/outflow of money. Decreasing the interest rates makes people save less, and spend more. Therefore, the demand for goods and services increases, making prices, and inflation rise. Interest rates and inflation tend to have an inverse relationship.

Decreasing the interest rates usually decreases the value of the country’s currency. Lower interest rates make our economy less attractive to foreign investors, resulting in higher outflow of money from our country. This lowers the demand and value of our currency.

When inflation levels rise, prices rise, and people want to hedge their portfolios against that risk. As the demand for goods and services increases, the prices of the goods and services also increase. And so does the prices of the commodities used to produce those goods and services. That is why commodities are also called the portfolio hedge. Commodity prices tend to move in the same direction as inflation.

Finally, rising inflation levels tending to rising prices, may lead to high volatility in stock markets. The individual company costs rise, revenue growth seems uncertain, and all this causes a company’s stock prices to fall. Low interest rates prevail during rising inflation levels, which entices investors to leave the bond markets and invest in equities, which again, contributes to the market volatility. However, one way to beat inflation is to actually invest in stocks, since they also act as a hedge against rising prices. Over the long term, equities have consistently beaten inflation for a long time.

Thus, interest rates, inflation, currency exchange rates, and commodity prices, all influence the stock markets, and as someone said –

“The stock market is a leading indicator of where the economy will be in the not-too-distant future.”

Understanding the relationship between these factors are of utmost importance as an investor, so that you invest in the right stocks at the right time, and create wealth for yourself.

Happy Investing!

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ALL ABOUT E-RUPEE

Last week of November, The RBI went live with e-rupee for a selected bunch of businesses and people. With this utility coming in, we have a lot of questions like What is e - Rupee and how it is any different from UPI. In this article, we are going to touch upon basic queries around the same and understand the utilities. Let's hop on to the answers!

Mr. Jay Kumar Hotani
CRO0620448

WHAT IS E-RUPEE AND HOW IT IS DIFFERENT FROM UPI ?

E-Rupee can be simply termed as completely digitalized physical cash i.e. your digital money. You can use this to simply transfer money from your wallet to the merchant or another individual wallet just like you are handing over cash notes. The settlement is done and you don't even need an internet connection.

Whereas in UPI, there is a chain of intermediaries involved in the process to enable the transaction. E-rupee is free from all this.

For example, if you transfer money through UPI, you are actually raising a request to your bank and then the bank decides to execute the transaction by deducting the balance and transferring it to the account of the beneficiary. On the backend, the banking clearance and settlement process get initiated to make sure everyone gets paid the exact amount.

UTILITY OF E-RUPEE

Let's take a situation where you want to transfer a large amount. You approach the bank and the bank might impose some restrictions on the kind of funds you can dabble in and may demand some charges.

If you opt to send money to a new account then your bank may take some days to verify and authorize this transaction. Nevertheless, if you are using an e-rupee stored in your wallet, you will be able to transfer these funds almost instantly without any hassle or intermediary process

A point to note here is that RBI may impose spending caps or could offer options to set restrictions that will suit best the users. Right now, the utility which we can see at prime is flexibility. Also, since the e-rupee is a digitalized version of cash, you won't be able to earn any type of interest on the cash sitting in your wallet

WHY GOVERNMENT AND THE RBI ARE PROMOTING IT?

The government and the RBI are of the opinion that the e-rupee can solve a few of the constant problems associated with physical cash. For example, the trouble and cost of printing, transporting, distributing, and storing physical money is huge and this can be countered by the e-rupee which will replace some of the cash with the digital rupee and hence save a lot of expense for the government.

Another benefit to RBI will be "Programmable money". Jay! Now, what is that? This means programming the money to be used for a specific purpose. For example, the government issue subsidies to farmers for buying fertilisers. This can be programmed into their e-wallet so that they can only spend it on fertilizers. This will also assist in centralized tracking and let the government know if its schemes and subsidies are truly effective.

The other side of the coin is that issuing different denominations of digital currency and tokens can result in too many processes and overheads making it more complicated for users and the government and hence more expensive to manage.

However, for the time being, the only objective of this pilot launched by the RBI is to see how the citizens adopt it and what all utilities can be explored.

Got more questions about the topic? Reach out to the author at jayhotani10@gmail.com

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Announcement

- Registration for Online Home-Based Practical Training Assessment - (16-11-2022)
- Mock Test Papers Series - II for December, 2022 CA Foundation Examination - (07-11-2022)
- Commencement of Live Coaching Classes (LCC Batch -6) from 21st November 2022 for the students of Foundation appearing in May/June 2023 exam. - (07-11-2022)

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