



Capital Markets

MindTree Consulting Ltd.

Volume 1, Issue 1 22 Dec 07

“ A strong Euro, Yen, Franc, and even Indian Rupee should give the much needed impetus to the capital goods industry of America

Many recent articles in financial journals have focused their attention on one of the most difficult considerations in today's business world – the inevitability of a slow down or a recession in the USA. Markets seem to be divided in its view on where the US economy is headed. It appears that there is no single conclusive view. As usual, it appears that every two economists have three opinions amongst them – the first possibility is a recession, the second is a slow down (recession being defined as 6 plus quarters of slow down in demand and production factors), and the third is the possibility of high inflation and low growth for the short and medium term. It reminds one of Keynes famous statement that defined modern economics, ‘In the long run, we're all dead’.

I came across interesting facts reported in Sudeep Reddy's article ‘Why Economists are Betting a Recession Won't Happen’. Sudeep Reddy's article provides us a good summary of a recent survey conducted by WSJ.com (Wall Street Journal). According to economists surveyed, a moderate challenge of demand slow down is indicated rather than the much touted recession. Though UBS, Citi, and other big players are in the news currently for the wrong reasons, there is some consensus that this may not push the robust economy into the whirl wind of a recession. The general view appears to be that the US financial system will come out of this even if it takes a little time. This time period is set between a year and three years depending on the school of thought and one's own perception of risk. Undoubtedly, the image of corporate America has been further dented due to recent developments. There is growing concern among policy makers to scrutinize each and every deal a banker does ‘off the balance sheet’

Another school of thought is laying its bets on the demand side of the economy. This move is supported by the fact that the dollar is weak compared to other major currencies. This, I believe, will eventually help the USA contain its import appetite while fuelling exports. A strong Euro, Yen, Franc, and even Indian Rupee should give the much needed impetus to the capital goods industry of America. Whether manufacturing itself gets resurrected or not, contraction in demand will certainly help reduce the current account deficit.

In addition to the above, job market statistics released by the Labour Department indicate a mixed trend. Apparently the trend is not anything to get alarmed about. Even big players in the Investment Banking space are yet to announce any serious job cuts; it appears that much of the damage has already been done by the process of cutting down the business from mortgage companies.



Capital Markets

MindTree Consulting Ltd.

Volume 1, Issue 1 22 Dec 07

“ **Emergence of SEPA will pose new challenges to banks in Europe** ”

Though I don't subscribe to the view that every thing will be fine, I believe that the asset class itself may get re-rated in line with the healthy growth of other industries. The possibility of increased exports from America should propel the employment market. This would help restore consumer confidence causing increased spending. However, I agree with economists when they say that discretionary spend may get impacted.

In the European context, we are going to see an emergence of the new SEPA regulation. It is expected to kick start the process of streamlining payments in the Euro starting 28th January, 2008. It is widely believed that SEPA will pose new challenges to banks and has the potential to reduce revenue, create a level playing field which can further intensify the competition, and demand significant investments to comply with new standards and required supporting infrastructure. The implications of this new initiative are many and significant. Current payment infrastructure in banks varies on the formats, practices or standards, in addition to different business rules which vary significantly from country to country as well as within the country. As perceived by the council, one of the success factors would be standardization of the payment instruments to be used in the SEPA environment thereby helping the consumer to avail better services.

With this, we wish you all a Merry Christmas and a great new year!

Dr. Ashok Hegde
Vice President and Head – Capital Markets, MindTree Consulting Ltd.

ABOUT MINDTREE

MindTree Consulting is a global IT and R&D Services Company co-headquartered in the U.S. and India. With a passion for customer satisfaction, MindTree partners with its clients to create a transparent, value-based relationship. Our domain experts deliver business-enabling solutions by leveraging a consulting led, framework based and IP-driven approach. MindTree's IT Services business provides a range of services to CIOs across a variety of industry segments. Our R&D Services business works with Technology companies to help build innovative products by providing Product Realization services.

USA | India | United Kingdom | Singapore | United Arab Emirates | Sweden | Germany | Japan | Australia