

## **“RBI seen Increasing Key Rate to Tame Fastest Asia Inflation”**

### **Executive Summary:**

#### *News*

- The S&P 500 closed at another record high on Monday as expectations were high that the Federal Reserve will keep its stimulus in place when it meets this week. However, the Dow Jones industrial average dipped 0.01 percent. The Standard & Poor's 500 Index gained 0.13 percent, to finish at a record 1,762.11.
- Emerging-market stocks rose for the first time in four days on the bank of a surge in technology shares. Malaysia's ringgit climbed to the highest level in four months amid deficit reduction measures. The MSCI Emerging Markets Index added 0.7 percent to 1,034.38.
- Yields on 10-year Treasury notes were little changed at 2.52 percent after rising one basis point, or 0.01 percentage point, in New York.
- Brent oil futures jumped 2.5 percent on Monday, the biggest gain in more than two weeks, as a drop in Libyan oil exports revived supply concerns. Brent for December delivery ended up \$2.68 a barrel higher at \$109.61.

#### *Views*

- India expected to raise its policy rates tomorrow due to persistent inflation pressure.
- Analysts believe the US Federal Reserve is unlikely to make any changes to its monetary stimulus program this week as latest economic data proved to be weaker than expected.
- Gold bulls see prices touching \$1400 levels per ounce this year backed by a weak dollar and a possible continuation of quantitative easing in the US

### **News Summary:**

#### **Asian Market Update**

Asian stocks fell, paring the benchmark index's first back-to-back monthly advance since April, with the Federal Reserve to convene its October meeting today. Australia's dollar slipped after the central bank chief said it is likely to fall and oil snapped a three-day climb.

The MSCI Asia Pacific Index dropped 0.4 percent by 9:59 a.m. in Tokyo, trimming its October increase to 2.6 percent after September's 6.4 percent jump.

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#### **North American Market Update**

The S&P 500 closed at another record high on Monday as expectations were high that the Federal Reserve will keep its stimulus in place when it meets this week. But the overall market was little changed, with the Dow and Nasdaq ending down slightly, after the recent sharp run-up in the stock market lost some momentum.

Relief over the end of the political impasse and investor expectations that the Fed will keep stimulus measures in place for at least several months because of the 16-day shutdown have propped up prices. Fed policymakers will meet on Tuesday and Wednesday.

The Dow Jones industrial average dipped 1.35 points, or 0.01 percent, to end at 15,568.93. The Standard & Poor's 500 Index gained 2.34 points, or 0.13 percent, to finish at a record 1,762.11. The S&P 500 also posted another lifetime intraday high at 1,764.99.

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## Emerging Market Update

Emerging-market stocks rose for the first time in four days as Samsung Electronics Co. led a surge in technology shares. Malaysia's ringgit climbed to the highest level in four months amid deficit reduction measures. The MSCI Emerging Markets Index added 0.7 percent to 1,034.38.

The ringgit gained after Prime Minister Najib Razak announced a goods and services tax to help cut the fiscal deficit. The gauge for developing nations has climbed 4.8 percent in October, poised for a second monthly advance. It trades at 10.7 times projected earnings, compared with the valuation of 14.4 for the MSCI World Index.

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## Oil Update

Brent oil futures jumped 2.5 percent on Monday, the biggest gain in more than two weeks, as a drop in Libyan oil exports revived supply concerns. Oil production of OPEC-member Libya fell after new protests over the weekend at its oil fields and ports, boosting the European benchmark's premium over U.S. oil prices by nearly \$2 a barrel.

Brent for December delivery ended up \$2.68 a barrel higher at \$109.61, snapping three days of losses. The contract settled at the 15-day moving average after breaching the 100- and 200-day moving averages of \$108.72 and \$108.39. U.S. crude settled 83 cents higher at \$98.68 per barrel, at the 200-day moving average.

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## Economic and Market Views:

### Rajan Seen Raising Key Rate to Tame Fastest Asia Inflation

India's central bank will probably raise its benchmark interest rate tomorrow for the second straight month, stepping up the fight against the fastest consumer-price inflation in Asia.

India's gauge of consumer inflation rose almost 10 percent last month from a year earlier as bottlenecks in the supply of everything from food to energy push up prices. That leaves Rajan, a former International Monetary Fund chief economist, with little choice except to curb domestic demand even as economic growth slows, according to Nomura Holdings Inc.

"The governor is moving towards simplifying monetary policy," said Tirthankar Patnaik, a strategist at Religare Capital Markets Ltd. in Mumbai. "He's aiming to restore the repo as the operative policy rate and prioritizing the need to anchor inflation expectations, which should be good for the rupee and economy longer term."

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### Fed to hold its fire this week, wants clearer economic view

Federal Reserve officials are unlikely to make any shift to monetary policy this week as they wait for more evidence of how badly Washington's budget battle has hurt the U.S. economy.

"I would say January or March at this point," said Scott Brown, chief economist at Raymond James in St. Petersburg, Florida, on when the Fed would begin to scale back its bond-buying stimulus. "Odds for December are less than 50/50."

Economic data released since a partial government shutdown ended has been surprisingly weak. Job growth slowed in September, a period that preceded the government's 16-day partial shutdown, and business investment plans flagged.

On top of the economic uncertainty, officials may be hesitant to make any dramatic policy shift given the upcoming leadership change at the central bank.

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## **Gold may stumble towards \$1,400**

Gold will likely build on last week's four-week high, reflecting expectations that the Federal Reserve will not cut bond purchases until well into 2014, though some warn there isn't enough momentum to lift prices above the late-August highs of \$1,400, according to CNBC's latest market survey.

"With a lower dollar, Fed QE (Quantitative Easing) and markets at all-time highs, technicals are being backed up and strengthened by macro (factors)," said Matt Fanning, CIO and Fund Manager at Fanvestments in Providence, Rhode Island. "Technically, \$1,333 was major resistance for a while and that was taken out."

Gold bulls argue recent gains can be sustained by a weaker dollar and physical demand as the festive season in India - the world's largest consumer - approaches its peak next month although selling in exchange-traded gold back funds continues to underscore investors' faith in gold is fading.

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## **Other Views:**

### **THE KLEENEX CONNECTION: 5 MENTAL TRICKS TO JUMPSTART CREATIVITY WHILE WAITING IN LINE**

You're at the market. The airport. Or, heaven forbid, the DMV.

You mumble, you grumble. You check email and Facebook. You sigh, you shuffle. Then back to the mumbling and grumbling. A few mental adjustments and those inevitable waits become generators of creative thinking.

#### 1. TAKE IT EASY.

Rather than stand and stew, surrender to the queue. Breathe. Exhale. Unplug. Give your brain a break.

#### 2. STUDY PEOPLE.

Because our fellow creatures are endlessly entertaining, most of us are people watchers. As you gaze at those around you, search for insights to glide you toward fresh ideas.

#### 3. EAVESDROP.

Listen to what people around you are saying--their conversations may ignite your next idea.

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