

AMBALAL'S REPORT



Global Eye - (US Shutdown) - (5/10/2013)



US Shutdown



- US investors worried that a budget stalemate in Congress would become entangled with much more critical legislation to raise the federal borrowing limit.
- The standoff between congressional Democrats and Republicans to pass an emergency funding bill, which has led to a five day of a partial US government shutdown, continued with little sign of progress toward a solution.
- The Treasury has said the United States will exhaust its borrowing authority no later than October 17. If no deal is reached on raising the debt ceiling, the United States could default on its debt.
- Earlier in the day, President Mr.Barack Obama challenged Republicans to "stop this farce" by allowing a straight vote on a spending bill.
- The Capitol was locked down briefly after the shots were fired. The House and Senate were in session at the time.
- Five years to the day since the financial bailout program was signed into law, and in the midst of the first government shutdown in 17 years.

OBAMACARE



- The Patient Protection and Affordable Care Act, commonly known as Obamacare, requires most Americans to obtain health insurance by 2014 or face a penalty and millions of them will be buying that coverage from newly created places called health insurance exchanges .
- Those government-run exchanges—also known as marketplaces have been set up in all 50 states, plus the District of Columbia.
- Mr.Obama expressed his exasperation with the tea party faction of the Republican party, saying that their reflexive hostility to "civil" negotiation threatens not only the functioning of government, but the wider health of the economy
- "I am exasperated with the idea that unless I say that 20 million people, 'you can't have health insurance, they will not reopen the government.' That is irresponsible," he said.
- On Obamacare, the president's most significant legislative accomplishment, Obama said that despite certain polls showing it was unpopular with specific segments of the population namely white people the law would ultimately be accepted by the population at large .
- Tenets of the bill are popular among "all races" the president said. "The majority of the people who will be helped by the ACA will be white," he said.

US shutdown

How will markets react?



- As investors prepare for the increasing likelihood of a political stalemate in Washington, many argue a shutdown should be short-lived, but how will markets take the news?
- U.S. politicians have been unable to reach an agreement on budget spending thus far. They face a deadline of midnight on Monday, after which the government will shut down, meaning that 800,000 federal employees would be put on temporary leave. Most analysts agree that a shutdown now looks imminent, but acknowledge that this has happened before and is unlikely to last long.
- Risk aversion has piqued in response to the potential shutdown. In early Asian trade on Monday, the Nikkei fell 2 percent, while Australia's S&P ASX 200 and the South Korea's Kospi lost nearly 1 percent. This followed declines on U.S. stock markets, as both the Dow and the S&P 500 declined over 1 percent last week.
- Elsewhere, the U.S. dollar index (New York Board of Trade weakened 0.3 percent against other major currencies from Friday, while yields on the benchmark 10-year U.S. Treasury edged below the 2.6 percent level. Gold rallied to \$1,339 per ounce, up 0.25 percent from Friday's close.
- gold to strengthen considerably on news of the shutdown, then sharply pull back when a resolution is found.
- The near term prospects for the currency are bleak, with limited potential for any upside unless a budget deal is reached and Safe haven currencies in particular the Japanese yen will be buoyed in this environment. The euro will not fully be able to take advantage of U.S. dollar weakness however, given the political tensions within the euro zone

Expectation:

The size of the correction will depend on the length of the shutdown. If it shuts down one week, then the impact will be marginal, while if it is 15 to 30 days, then we are looking 6 -10 percent correction across the global indices.



GLOBAL EYE— US SHUTDOWN

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