

Budget may see import duty on gold cut : Jamal Mecklai to CNBC-TV 18

Jamal Mecklai believes RBI's move signals everything is well and that this Budget could likely signal a reversal or reduction in import duty on gold.

The Reserve Bank today relaxed norms for overseas direct investment by Indian companies . It has been restored to 400 percent of net worth. However, overseas direct investment over USD 1 billion per year will need prior RBI approval.

Jamal Mecklai, CEO, Mecklai Financial Services believes this signals everything is well and that this Budget could likely signal a reversal or reduction in import duty on gold. He says if import duty is cut, then volatility will increase, but it is important that volatility increases. "One of the problem is volatility has become so low that again we are getting into a trip where people and sentiment is for a one way rupee, so if it remains this way for a while you could again get huge short positions building up," he explains.

He says everyone in the market believes that the rupee can only strengthen from this point on.

Below is the verbatim transcript of Jamal Mecklai's interview with CNBC-TV18's Shereen Bhan.

Q: This clearly tells you that the Reserve Bank feels that we are in a comfortable situation as far as the currency is concerned and hence the reversal?

A: It seems clear that everything seems to be working well, in point of fact all that stuff about Reserve Bank of India (RBI) buying dollars to prevent the rupee from strengthening means they feel things are pretty comfortable. The fact that they are opening things up probably also means that in the Budget we will see the import duty on gold cut, all of it means that we are going full speed ahead but clearly volatility will increase and it is important that volatility increases.

One of the problem is volatility has become so low that again we are getting into a trip where people and sentiment is for a one way rupee, so if it remains this way for a while you could again get huge short positions building up.

So these moves have probably got two goals; one is to continue to liberalise, but the other also is to perhaps infuse a little volatility into the market.

Q: But speaking of infusing volatility we have got a fairly volatile global scenario with the situation in Iraq and we don't know how that is likely to pan out, crude prices have come off their highs, they are trending low at this point in time and my conversations with folks in the finance ministry seem to suggest that we can't afford to let out guard down on the current account deficit just yet and hence perhaps it is not prudent to reverse the gold curbs but you are saying on the back of the developments today you feel fairly certain that you likely to see a reversal of the gold curbs?

A: From where I sit in the market it seems to be that everybody believes the rupee can only strengthen. RBI has got some USD 7 billion in June, USD 12 billion in May. So the sentiment in the market and one of the other thing that is happening which is a little dangerous is a lot of exporters are now thinking let's start selling two years forward. In the bad old days they went out for five years forward. Then when things started changing they shorted.

What I am saying is ultimately expectations are important and if everybody thinks the rupee is going to strengthen, there is a lot of uncertainty in global markets and I am not so worried about Iraq, I am really much more worried about the fundamental imbalance in monetary policies in developed economies. So it will be very good in fact if there is more demand for dollars in the market which is why they will lift gold curbs. It also makes things more real.

Q: Where do you see the rupee now trading because we have got this development that has taken place. We have got the US market at record highs, very good economic data coming in from the US, very good jobs data in the US with the unemployment number falling quite substantially. Given all of that domestic factors and global factors, where do you see the currency?

A: The global economy is picking up, US is picking up means US rates must go up sooner rather than later but we have been saying that for two years. So, if the US rates go up money may stop coming in here which should weaken the rupee.

You talk to anyone on the ground people only want to sell dollars and not buy dollars. That is not a healthy situation. Where the rupee is going to go I don't have a clue.

Two weeks ago, I told one company to sell because I thought the rupee was not going to weaken anymore and I told another company to buy because their stop loss had been triggered. So, you really have to grow up and learn how to manage this and not think or question where the rupee is going to go. It will go where it wants to go.

http://www.moneycontrol.com/news/economy/budget-may-see-import-dutygold-cut-mecklai_1118945.html