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BRIC-laying

As we go to press, India is going out of business, or so it might appear. The rupee is quoted at 58.40 to the dollar, cheapest on record. India's current account deficit is swelling (in the fourth quarter, to 6.7% of output), inflation is raging (to 9.4% in April even before the rupee's latest plunge) and car sales are dwindling (down by 12.3% in May, measured year-over-year). What to do? The Reserve Bank of India, eschewing higher interest rates, has instead announced an administrative offensive against gold, including a 33% jump in gold import duties. "Kill the messenger" is an English phrase but a worldwide impulse.

Slowing economic growth is punishing the one-time Third World. With the Brazilian real hitting four-year lows against the dollar and with the Brazilian inflation rate reaching 6.5% in May, the Central Bank of Brazil raised its target rate by half a percent to 8% on May 29; in view of sputtering growth, the market had expected half of that boost.

While some foreign investors are decamping, others are buying credit default swaps. "The cost to protect Brazil's dollar-denominated government bond against losses for five years has soared 53 basis points in the past month, the most since March 2009, to an 11-month high of 159.5 basis points," ran a Bloomberg dispatch on Monday. Now Standard & Poor's—even Standard & Poor's—has downgraded Brazil's outlook to negative; the BBB-rated, great green nation stands two levels above junk.

It is, of course, an ill financial wind that blows value-seeking investors no good. Asset prices in dollar terms are cheaper, and formerly inhospitable countries are beginning to roll out the red carpet to overseas investors. Guido Mantega, the Brazilian finance minister who coined the phrase "currency wars" almost three years ago, last week cut the tax foreign investors pay on Brazilian bonds to zero from 6%.

Mr. Market, too, is welcoming, with Infosys (INFO in India), to mention just one name, back on sale again. "Infosys uses its scale and cheap labor in India to deliver outsourcing and business services across the globe (India is only 2.4% of sales), i.e., the company stands to benefit from the lower rupee," colleague Evan Lorenz points out. "Shares have lagged the market as the company posted figures that trailed rivals such as Tata Consultancy Services Ltd. Despite this, sales grew 9.4% but net income fell by 4.1% in U.S. dollars in the first calendar quarter. To reinvigorate growth, the company appointed Infosys founder, Narayana Murthy, to chair the board. The stock trades at 15 times trailing earnings and has dropped 22% in dollar terms since the start of April."

Not such an ill wind, perhaps.

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