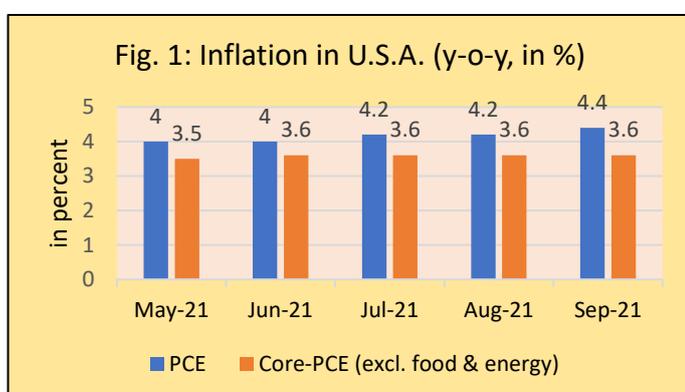
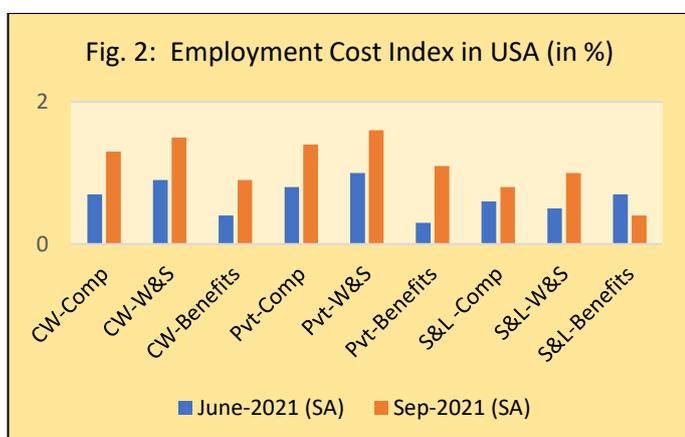


Global Economic Outlook

- As per the data released on 29.10.2021 by the Bureau of Economic Analysis, U.S. Department of Commerce, the annual inflation in USA has been increasing at the fastest pace since 1991. Prices, as measured by the Personal Consumption Expenditures (PCE) index, increased by 4.4 percent year-on-year basis in September, which is marginally higher than 4.2 percent observed in August-2021 (figure 1). The core-PCE (i.e., excluding food & energy) increased by 3.6 percent over the same period. In terms of change over the previous month, prices increased 0.3 percent from August to September, same as rate observed from July to August 2021.



- The rising inflation in USA is accompanied by rising compensation to employees, as measured by the Employment Cost Index released by the U.S. Bureau of Labour Statistics on 29.10.2021. For instance, for Civilian Workers, the *Compensation Costs* increased by 3.7 percent for the 12-month period ending in September 2021, *Wages and salaries* increased 4.2 percent and *Benefit Costs* increased 2.5 percent over the year (figure 2).



CW: Civilian Workers; Comp: Compensation; W&S: Wages and Salaries; Pvt: Private Industry; S&L: State & Local Govt.; SA: Seasonally Adjusted

- The rising employee compensation may increase inflation further by spurring inflationary expectations through the 'wage-price spiral', as employers may consider hiking prices as they try to cover rising labour costs.
- As per the data released by Britain's Office for Budget Responsibility (OBR), Britain's economy is expected to grow by 6.5% in 2021, raising hopes that economy would return to its pre-COVID level at the turn of the year.
- As per Caixin Markit survey, China's factory activity in October expanded at its fastest pace in the last four months, buoyed by stronger demand, but power shortages and rising costs weighed on production. The Caixin-Markit Manufacturing Purchasing Managers' Index (PMI) rose to 50.6 in October, marginally higher than the 50-mark which separates growth from contraction. The Caixin survey, which focuses on smaller, export-oriented firms in coastal regions, showed domestic demand grew stronger in October as local COVID-19 cases dwindled, but foreign demand remained sluggish as the adverse impact of the pandemic continued in many other countries. A sub-index for new orders rose to 51.4 from 50.8 in September, while new export orders shrank for a third straight month.
- The other Asian economies also witnessed signs of expansion. For instance, the factory activity in October expanded in Vietnam, Indonesia and Malaysia. Vietnam's PMI rose from 40.2 in September to 52.1, while that of Indonesia increased to 57.2 from 52.2 and Malaysia's index stood at 52.2, up from 48.1.
- Economists have expressed their opinion on global economic growth. A poll of nearly 500 economists across the globe conducted by Reuters has projected the global economy to grow at 4.5 per cent in 2022 from 5.9 per cent in 2021. Growth for 2023 is forecast at 3.5 per cent. Economists upgraded inflation outlooks for 18 of 21 developed economies by between 0.1 and 0.7 percentage points and for 15 of 27 emerging economies by between 0.1 and 1.8 percentage points. According to them, 13 of 25 central banks would raise interest rates at least once before the end of next year.

Domestic Outlook

- As per the data released by IHS Markit, seasonally adjusted Manufacturing Purchasing Managers' Index (PMI) for India rose from 53.7 in September to 55.9 in October-2021, pointing towards the

strongest improvement in overall operating conditions since February 2021. Robust gains in new work aided production growth in October.

- Recently released data for Index of Industrial Production (IIP) signals towards an expansion of economic activity. As per the data released on 29.10.2021 by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry, the output of eight core sectors, which comprise 40.27 per cent of the weight of items included in IIP, rose 4.4 per cent in September-2021 (fig. 3) on account of healthy performance by segments like natural gas, refinery products and cement. The core sector had registered a growth of 0.6 per cent in September 2020 while the core sectors' growth stood at 11.5 per cent in August this year. The reported growth had been higher in some of the previous months (e.g., 62% in April-21, 16% in May-21, etc.) primarily due to reasons such as lower base, since in 2020, these sectors were reeling under the impacts of COVID-19.



- The National Council of Applied Economic Research (NCAER)'s Business Confidence Index (BCI) rose by 90 per cent on a quarter-on-quarter (q-o-q) basis during July-September 2021, signalling towards an expansion of economy. This upward movement in BCI was driven by an improvement in sentiments for all the four components of the BCI-overall economic conditions, financial position of firms, present investment climate is positive and present capacity utilisation.
- As per the data released by the Ministry of Labour, the retail inflation for industrial workers eased to 4.41 per cent in September 2021, compared to 4.79% in August 2021 and 5.62 per cent during the corresponding month (September 2020) a year before, mainly due to lower prices of food items.

- As per the data on Sectoral Deployment of Bank Credit released by RBI, banks' non-food credit growth accelerated to 6.8 per cent in September 2021 as against a rise of 5.1 per cent in the same period of last year, signalling towards an expansion of economic activity. Loans to agriculture and allied activities registered a higher growth of 9.9 per cent in September 2021 as compared to 6.2 per cent a year-ago.

Interest Rate Outlook

- In the past week, the India 10-year Government bond yield continued to be around 6.35% and closed at high of 6.39% on 29.10.2021, on account of various reasons such as high brent crude price. The brent crude continued to persist over the \$81 per barrel mark. On the other hand, the 10 year US treasury yield hovered close to the 1.6% mark compared to the 1.65% level in the previous week.
- The 10-year U.S. Treasury yield curve has shown signs of flattening, due to the reasons such as the expectations of the investors that the Federal Open Market Committee may announce (on 03.11.2021) its plan to begin tapering its \$120 billion-per-month bond buying program. At least some investors believe that rising inflation may force Fed to unwind its bond buying faster and eventually raise interest rates sooner than many investors had earlier expected.
- RBI has announced that 28-day Variable Reverse Repo Rate (VRRR) Auction worth ₹50, 000 crore will be conducted on 02.11.2021. So far, RBI has absorbed liquidity using 7-day and 14-day VRRR. This, combined with other factors such as rising crude prices, may work to push the yield upwards.

Weekly Benchmark Bond Yield Movement (%)					
Date	25/10	26/10	27/10	28/10	29/10
India 10year	6.35	6.36	6.34	6.37	6.39
India 5 year	5.83	5.94	5.95	5.95	5.85
USA 10year	1.63	1.61	1.55	1.57	1.56

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation including volatile oil prices, coal shortage etc. bond yield for government benchmark 10-year is expected to remain in the range 6.33-6.46 for the week (01st Nov-05th Nov 2021).