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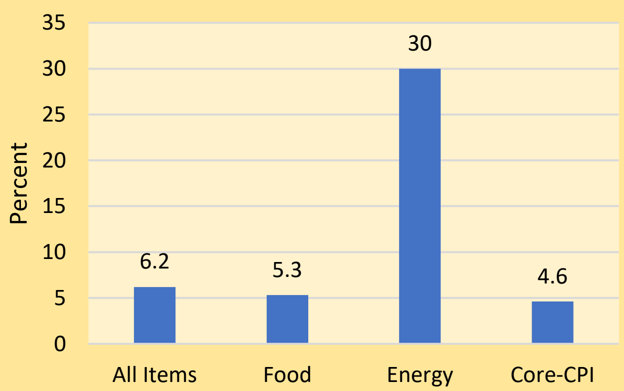
Global Economic Outlook

- **CPI-Inflation in U.S. rises to 6.2% in October:** As per the data released by the U.S. Bureau of Labour Statistics, inflation, as measured by the Consumer Price Index (CPI), rose to 6.2% in October (Fig. 1) on a year-on-year basis. The rise of inflation in October has been the highest since 1990 and is the fifth straight month of inflation above 5%. The core index, which excludes the volatile categories of food and energy, also rose by 4.6% in October (Fig. 2), higher than September's 4% rise. On a monthly basis, the CPI increased by 0.9% (seasonally adjusted) in October from the prior month, a steep acceleration compared to September's 0.4% rise. It is pertinent to mention that the Federal Reserve (or Fed), the US Central Bank, targets an inflation rate of 2 per cent.

Fig. 1: CPI Inflation in U.S.-Recent Trend (in %)

Fig. 2: CPI Inflation-U.S. October-2021 (in %)



- **Price Increased across different Commodities:** Price increase has been observed across different commodities, with costs rising for new and used autos, gasoline and other energy costs, furniture, rent and medical care. Food prices for both groceries and dining out rose by the most in decades.

- **Combination of Demand-side and Supply-side Factors**: Persistent high inflation in U.S. has been caused due to a combination of demand side and supply side factors. These include a faster-than-anticipated economic recovery, stimulus of trillions of dollars provided during the pandemic, disruption of supply chains during the pandemic, high inflationary expectations, etc.
- **Not a US-specific Phenomenon**: While the US has seen the sharpest increase in prices in recent months, the high inflation is not just a 'USA-specific' phenomenon. Other major economies, such as Germany, China and Japan, are also witnessing a rising inflation.
- For instance, **Japan's** wholesale inflation increased to a four-decade high in October. The corporate goods price index (CGPI), which measures the prices companies charge each-other for their goods and services, surged 8.0% in October (YoY).The wholesale prices rose for different goods including fuel, which increased by 44.5% in October.
- **China's** factory gate inflation rose to a 26-year high in October, due to the influence of many factors such as rising coal prices amid a power crunch, thereby raising stagflation concerns. The producer price index (PPI) rose 13.5% (YoY) in October, faster than the 10.7% rise in September.
- **Taper Schedule Released by Fed:** As per the announcement made on 04.11.2021, the Federal Reserve released the schedule of its 'taper' plan. The Fed announced that it will buy $70 billion of Treasuries and $35 billion of mortgage-backed securities (MBS) per month starting this month, and it will drop to $60 billion of Treasuries and $30 billion of MBS per month, in mid-December 2021.

Domestic Outlook

- As is well-known, the rising global prices often accelerate domestic inflation, through the phenomenon of 'imported inflation'. This means that goods in India may become dearer because the items that Indians import have become costlier. Also, high inflation in the advanced economies, especially the US, may force central banks, especially the Fed, to abandon their loose monetary policy. A tight money policy by the Fed and other Central Banks would imply higher interest rates. Broadly, this may affect the Indian economy in two ways. One, Indian firms trying to raise money outside India may find it costlier to do so. Two, RBI

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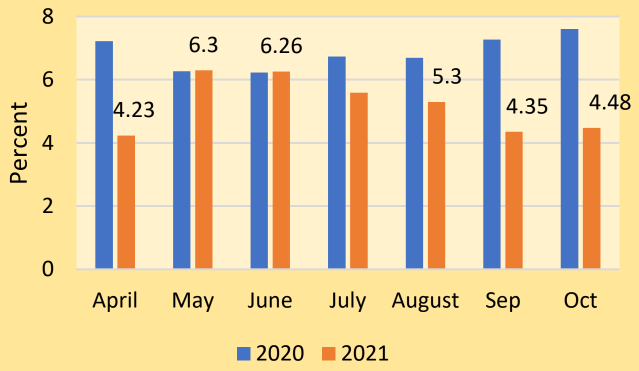
may have to align its monetary policy to the global events by raising interest rates domestically.

- **Rising CPI-Inflation in India**: As per the data released by the National Statistical Office (NSO), retail inflation based on Consumer Price Index (Combined) rose to 4.48 per cent in October, rising slightly from 4.35 per cent a month ago, on account of factors such as rising fuel prices, commodity prices, etc.

Fig. 3: CPI Inflation in India (YoY, in %)



- **Increase in WPI Inflation to 12.54%:** India's WPI inflation increased to 12.54% in October (up from 10.66% during September and 11.64 during August). The fuel & power subsector registered a rise in prices of 37.18%, while the prices of 'manufactured articles' grew at 12.04%.
- **IIP expands by 3.1%:** As per the latest data on Index of Industrial Production (IIP) released by the Ministry of Statistics & Programme Implementation (MoSPI), the industrial production for the month of September grew (YoY) by 3.1% (up from 1% growth observed in in the same month last year). IIP had increased by 11.9% in the month of August.
- **Consumer Sentiments Yet to Recover**: Consumer sentiments have been sluggish in recovering from the pandemic, even in face of many positive developments in recent times. In Octo 2021, although the CMIE's index of consumer sentiments was 13.2 per cent higher as compared to October 2020 but it was still a substantial 44.3 per cent lower than it was in the pre-pandemic month of October 2019.
- **Rise in Unemployment:** As per CMIE's data, unemployment rate in India rose from 6.9 per cent in September to 7.8 % in October 2021. However, this was accompanied by an increase in 'self-employment', possibly as a response to difficult conditions in labour market and the onset of festive season.

Interest Rate Outlook

- Ceteris paribus, rising inflation fuels expectations of a rise in short-term interest rates.
- In the past week, the data on US-CPI released by the U.S. Bureau of Labour Statistics, raised expectations of an earlier-than-expected rate hike by the Fed. This expectation, combined with other factors, worked to push the yields upwards, for different maturities. The same was also observed for the USA 10 year bond (Table 1).
- In India too, the high inflation, combined with other factors, such as high crude prices, high inflationary expectations, etc. has kept the yield high, with the yield of the 10-year govt. bond increasing to 6.37% in the previous week. In the coming week also, the yields are expected to remain high.
- RBI has announced that 7-day Variable Reverse Repo Rate (VRRR) auction worth ₹2,00,000 crore will be conducted on 16.11.2021. In addition, the Government of India (GoI) has announced the sale (issue/re-issue) of three dated securities on 18.11.2021 (with varying maturities) for a notified amount of ₹24,000 crore. Combined with other factors, it may work to push the yield upwards.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	08/11	09/11	10/11	11/11	12/11
USA 10year	1.49	1.44	1.56	1.57	1.57
India 10year	6.31	6.29	6.34	6.37	6.37
India 1Year	3.91	3.90	4.10	4.58	4.17
India 3Month	3.57	3.49	3.46	3.47	3.48

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation including high inflation, volatile oil prices, increased uncertainty, etc. bond yield for government benchmark 10-year is expected to remain in the range 6.28 to 6.43 % for the week (15th Nov-19th Nov 2021). The short-term market is also expected to be volatile, with the yield for the 3-month Treasury-bill in the secondary market expected to remain in the range 3.45-3.70 %.