NABARD

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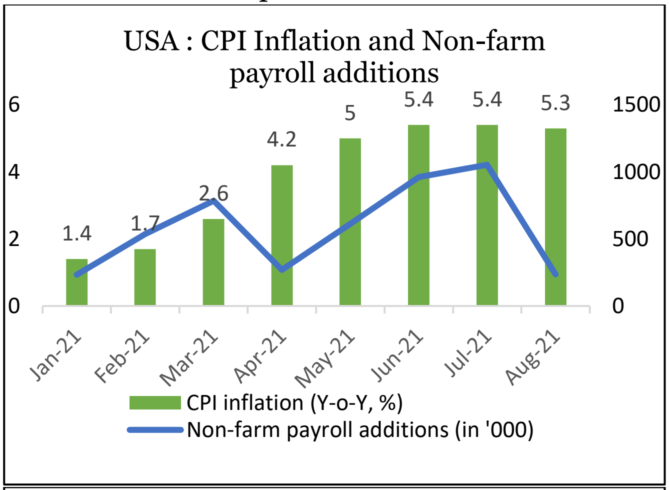
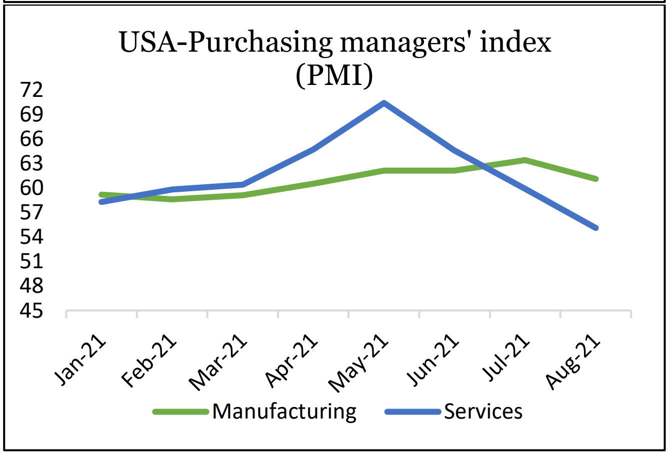
Global Economic Outlook

- The resurgence in Covid-19 cases in United States has impacted the growth trajectory and so has the state of emergency declared by several states because of Hurricane Ida and Tropical Storm Nicholas. Until recently, analysts expected the Fed to announce a timeline for stimulus tapering this week. However, signs of peaking inflation and a slowdown in recovery have changed opinions. Any such announcement is likely to now get delayed. Continued supply bottlenecks and inflationary pressures could also weigh on activity in September. However, PMI is expected to remain above the 50 mark that separates contraction from expansion.





Source-Bloomberg

- Supply chain disruptions and persisting labour shortages have led to slowdown in UK economy with monthly gross domestic product growth being just 0.1% in July 2021 despite an end to most restrictions. Retail inflation rate reached a nine-year high of 3.2% in August, after a marginal dip in July 2021. A policy action from the BoE seems far, until the economy gains durable strength.
- China's housing market has become hugely bloated by years of cheap credit and is reckoned by conservative estimates to account for 16% of GDP, although some estimates put that figure at 25% – far more than the proportion in western economies. The crisis engulfing Evergrande, China's second-biggest property company, is the greatest test yet to reform the debt-ridden behemoths of the economy.
- Brazil is seeing a continued rise in its retail inflation though its central bank became one of the first in the world to withdraw policy stimulus earlier this year. The inflation rate rose from 8.99% in July to 9.68% in August because of higher food and fuel prices. This will be a cause of concern for the rate-setting panel, Copom which has already raised the benchmark Selic rate four times since March 2021.
- Japan's wholesale inflation hovered near a 13-year high in August as raw material imports continued to rise on solid global demand. The corporate goods price index (CGPI), which measures the price companies charge each other for their goods and services, rose 5.5% in August from a year earlier. However, it's difficult to pass over the (wholesale) price increase to consumer goods given the weak consumption.

Domestic Outlook

- United Nations Conference on Trade and Development (UNCTAD) has projected India's economic growth at 7.2% in 2021 as a whole, insufficient to regain the pre-covid-19 income level. It mentioned that income and wealth inequalities have widened, and social unrest has increased in India. Also, it projected global economy to see a strong recovery in 2021, growing at 5.3% after a 3.5% fall in 2020, albeit with a good deal of uncertainty clouding the details
- As per NSO data, India's wholesale price index (WPI)-based inflation accelerated to 11.39% in August after easing for two consecutive months, as growth in prices of manufactured items gained pace. Food inflation contracted 1.29% in August while fuel inflation and manufactured products inflation rose to 26.09% and 11.39%, respectively during the same month.
- India's retail inflation in August 2021 marginally eased to 5.30%, staying within Reserve Bank of India (RBI)'s target range for second month in a row. Inflation trended lower on the back of favourable base effects and moderating sequential food prices in most segments barring oil and fats.

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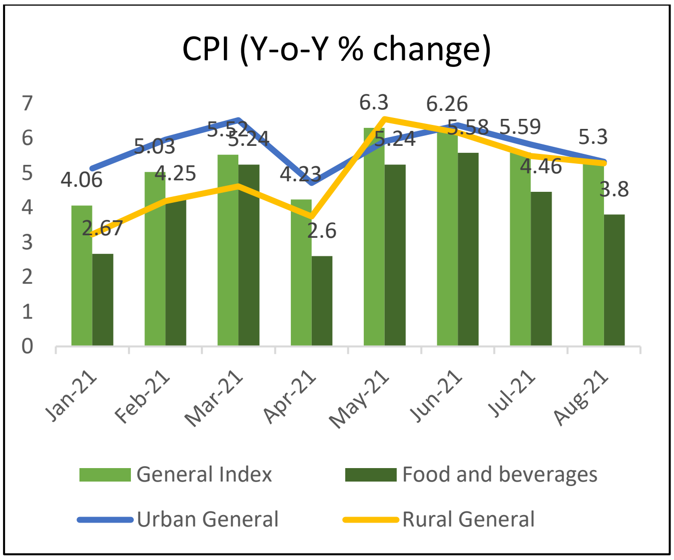
Core inflation also rose by a slower 5.8% y/y in August vs average 6.1% in the prior three months.



Source-MOSPI

- In the week ended September 3, the reserves had surged by USD 8.895 billion to a life time high of USD 642.453 billion. It declined by USD 1.34 billion to USD 641.113 billion in the week ended September 10, 2021, according to RBI data. The fall in the reserves was on account of a decline in Foreign Currency Assets (FCAs), a major component of the overall reserves. Gold reserves were down by USD 413 million to USD 37.669 billion in the reporting week, as per the data.
- Indian equities have outperformed all emerging economy peers in 2021-22 so far, delivering the highest returns. By September 13, the BSE Sensex was more than 20 per cent higher on a year to date basis, on track for the best annual gain. in four years. Valuations are stretched but supported by expectations of strong earnings growth.
- E-way bill collections till September 9th registered a strong growth in y-o-y terms as well as over corresponding levels of 2019. Automobile wholesales recorded an uptick in August with positive momentum in growth across all categories barring passenger vehicles, where acute supply shortages of semiconductor chips impacted production.

Interest Rate Outlook

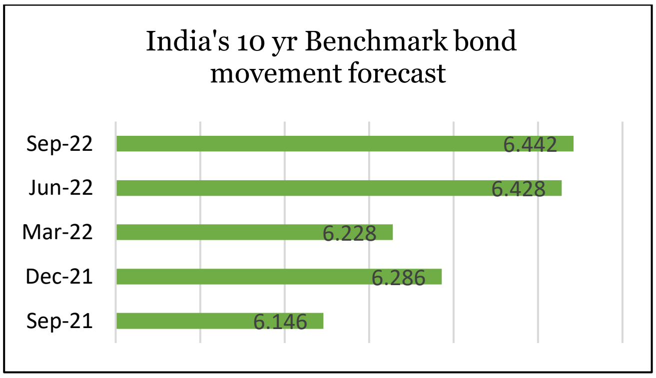
- RBI on 14th September conducted 7-day Variable Rate Reverse Repo (VRRR) auction (cut off rate 3.38%) for a notified amount of ₹ 1 lakh crore. The total amount of offers received by central bank was ₹ 2.46 lakh crore.
- During August-September (up to 13th September), the liquidity surplus absorbed under the liquidity adjustment facility (LAF) ballooned to ₹8.0 lakh crore.
- In the primary market, all the auctions conducted in August sailed through smoothly, leading to the completion of nearly 89 per cent of the budgeted government borrowing slated for H1:2021-22.
- The 10-year G-sec yield eased to 6.17 per cent on September 17, 2021 from 6.22 per cent at end-August 2021. The 5-year G-sec yield eased to 5.62 per cent on September 17, 2021 from 5.65 per cent at end-August 2021. The term spread, usually measured as the difference between the 10-year and the 2-year G-sec yield, has been increasing, reflected in a steepening of the yield curve since July 2021
- The United States 10 Years Government Bond has 1.343% yield on 20th September 2021. The yield has changed +1.7 bp during last week, +8.8 bp during last month, +64.6 bp during last year.

Weekly Benchmark Bond Yield Movement (%)

Date →	13/9	14/9	15/9	16/9	17/9
India 10 year	6.19	6.20	6.16	6.17	6.17
India 5 year	5.63	5.64	5.60	5.60	5.62
USA 10 year	1.32	1.28	1.30	1.33	1.36

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation, we expect that 6.25 per cent level will act as a support in the near term and the benchmark 10-year bond yield is unlikely to shoot beyond this mark unless there is any unanticipated shock in terms of inflation or external factors.



Source- worldgovernmentbonds.com