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DEAR
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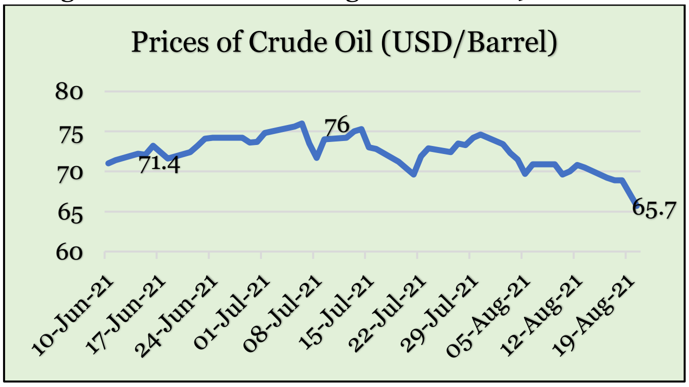
Global Economic Outlook

- According to International Energy Agency, the global Oil demand has slowed sharply and had gone in reverse in July-21 (estimated monthly fall of 120,000 barrels/day) due to fresh restrictions on movement worldwide amidst surging cases of CoVID-19.
- The Agency fears that higher output by OPEC+ countries coinciding with slow global demand may lead to oversupply by Q1-2022. In contrast, OPEC stuck to its forecast of rebound in oil demand this year and further growth in 2022 even though there is a rising concern about the surge in CoVID-19 infections.



Source: CMIE

- The US Industrial Production increased by 0.9 % in July (M-o-M) from downwardly revised 0.2% in June. The Manufacturing output rose 1.4% driven mainly by increase in motor vehicles and spare parts production (11.2% rise).
- Despite large production of automobiles, vehicles assemblies continued to be constrained by persistent shortages of semi-conductor and parts. The total industrial production though increased (6.6% above the last year), it remained 0.2% below its pre-pandemic level (February 2020).
- Chinese economy's sharp rebound from the coronavirus pandemic is now deaccelerating and is showing sign of waning. Industrial production grew 6.4% year-on-year in July-21 much below analyst's expectation of 7.8%. While retail sales growth decreased to 8.5% in July 21 from 12.1% in June 21.
- Chinese economy though rebounded to its pre-pandemic level, is losing steam as new CoVID-19 delta outbreak and floods disturbed business operations already grappled with high cost and supply bottlenecks.

Domestic Outlook

- According to ICRA, the GDP for the April-June 2021 quarter is projected to grow by 20% (RBI revised estimate is 21.4%), while Gross Value Added (GVA) is expected to grow by 17% in June 2021 quarter.
- The double-digit growth is inordinately benefitted by last year's contracted base (GDP contracted by 24%). ICRA has forecasted GDP and GVA to have shrunk by 9% each in Q1 of FY22, as compared to pre-pandemic level of Q1- FY20. The official data for GDP by Central Statistical Office (CSO) is expected by end of the month.

Q1 and FY22 Real GDP growth Estimate (%)

Forecaster	Q1	FY22
RBI	21.4	9.5
Care Ratings	14.2	8.8-9
Barclays	19	9.2
Crisil	19	9.5
ICRA	19-20	-
SBI Research	18	7.9

Source: CMIE

- Retail inflation for agricultural labourers and rural labourers as measured by CPI-AL and CPI-RL rose marginally, by 3.92% and 4.09% respectively in July-21 from 3.83% and 4% in June-21 respectively.
- According to Ministry of Labour and Employment, major contribution towards the rise in general index of Agricultural Labourers and Rural Labourers came from Food and Miscellaneous group.
- RBI has constructed a composite Financial Inclusion Index (FI-Index) to capture the extent of financial inclusion. It incorporates details of banking, investments, insurance, postal as well as the pension sector. The index ranges between 0 and 100, where 0 represents complete financial exclusion and 100 indicates full financial inclusion.
- The annual FI-Index for the period ending March 2021 is 53.9 as against 43.4 for the period ending March 2017.
- CMIE's Index of Consumer Sentiments (ICS) grew by 10.7% to 53.1 in July over June 2021, reflecting a sharp rebound after hitting at 47.87 in June due to second wave of the pandemic. This is a good signal for demand recovery but is still halfway compared to level before Covid induced lockdown began in March 2020 (ICS- 105.3 in February 2020).
- The recovery in July though broad based, was much more pronounced at the extremities of income distribution. The households with income (<1 lakh & >10 lakh) saw 46% and 16% improvements in the sentiments. Although sentiments recovered among middle income household (1 lakh-10 lakh), the recovery was not much impressive when compared to others.
- While the figures for July 2021 are impressive, the sentiments need to percolate more in the middle-income household as they are the one which largely drives the consumption in the economy.

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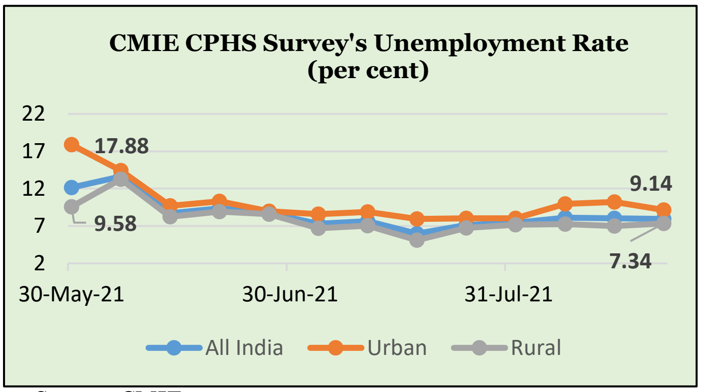
Consumer Sentiments by Household Income Groups (Index Numbers)		
Income Group	**June 2021**	**July 2021**
<or = Rs 1 lakh	38.52	56.42
Rs 1- 2 lakh	44.54	49.91
Rs 2-5 lakh	48.80	49.28
Rs 5-10 lakh	48.78	52.59
> Rs 10 lakh	54.27	63.29

Source: CMIE

- Unemployment rate (UR) in urban area eased to 9.14% from an eight-week high of 10.23%, while Rural India witnessed a increase to 7.34% (7.01% for week ended 15 Aug) for the week ended August 22, according to date released by CMIE.
- The fall in Unemployment rate in urban area can be attributed to easing restrictions on mobility and businesses on account of decreasing Covid cases (daily average< 40000) and with more population getting vaccinated.



Source: CMIE

Interest Rate Outlook

- US 10-year treasury yield fell on 16th August 2021, as investors focused on minutes of the Federal Reserve's latest meeting published on 18th August 21. It remained steady on 17th August after July retail sales data released was worse than expected (a decrease of 1.1% in July 21 from the month of June 21)
- The Fed's latest policy minutes highlighted that the central bank is preparing to taper bond purchase this year. (Fed currently buys 120 billion $ of bond each month, helping to keep prices of those bond high and yields low, with the aim of keeping cost of borrowing less and ensuring households and companies get access to easy credit).
- US treasury yield fell to 1.243% on Aug 19 2021, despite Fed's decision of tapering bond purchase this year. Mixed reading from various economic data sources (drop in U.S consumer confidence and retail sale), have raised concern about US economy growth and have weighed heavily on bond yield even after central bank signalling its stance on bond purchase program.
- The yield on the most traded bond (G-Sec 5.63% 2026) in the market fell nearly by 10 basis points on 18th August 2021 (low was 5.63%) on account of surplus liquidity in the system (estimated to be around Rs 7.2 lakh crore as on 22 August 2021) and investors are expected to be on buying side.
- The rates are expected to be range bound, however, any increase in liquidity will put downward pressure on yields.
- RBI on August 20 2021, conducted auction for the sale (re-issue) of benchmark 10 year 6.10% GS-2031(Rs 14000 crore) and cut off yield (6.23%) was in line with the secondary market.
- RBI will conduct open market purchase of government securities of Rs 25,000 crore on 26 August 2021 under the G-sec Acquisition Programme (G-SAP 2.0). Accordingly, RBI will purchase 7.59% GS 2026, 8.28% GS 2027, 7.59% GS 2029, 7.88% GS 2030, 6.64% GS 2035.
- RBI released its third Bi-monthly Monetary Policy Committee minutes on 20th August 2021.
- RBI observes, the resurgence in inflation since June 2021, largely driven by adverse-supply side constraints caused by the pandemic and considers this current price shocks to be one-off or transitory.
- Although it admits several supply sides measures undertaken to ease inflation but suggests more measures to deal with the inflationary pressure. It also expresses concerns over slow growth of Domestic Demand and considerable slack in the economy.
- MPC minutes reveal, RBI is cautious of possible third wave and feels economy still requires support in terms of maintaining congenial financial conditions and fiscal boosters.
- The need of the hour is to continue the monetary policy support to the economy and at the same time remain watchful of any durable inflationary pressure and sustained price momentum in key components so as to bring the CPI inflation back to 4% over a period of time in a non-disruptive manner.

Weekly Benchmark Bond Yield Movement (%)					
Date →	**16/8**	**17/8**	**18/8**	**19/8**	**20/8**
India 10 year	-	6.23	6.23	-	6.23
India 5 year	-	5.69	5.66	-	5.69
USA 10 year	1.27	1.27	1.26	1.24	1.25

Source: CMIE, worldgovernmentbonds.com

- Bond yield for government benchmark 10 year is expected to remain in the range of 6.20-6.28. Taper tantrum talks by Federal Reserve, increasing USD/INR will weigh heavily on the bond market.