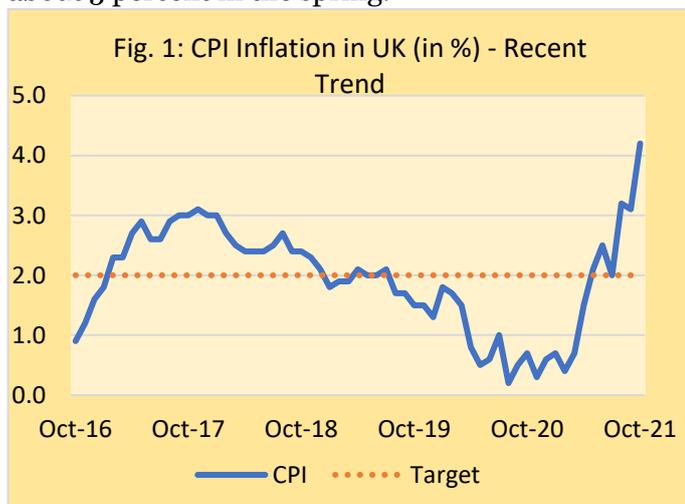


## Global Economic Outlook

- **Rising Production at U.S. Factories:** Production at U.S. factories increased 1.2% in October (to reach its highest level since March 2019), after falling 0.7% in September, on account of reduced adverse effects of Hurricane Ida and rising motor vehicle output, but manufacturing continues to be constrained by shortages of raw materials and labour. Capacity utilization for the manufacturing sector increased 0.9 percentage point in October to 76.7%, the highest since January 2019.
- **CPI-Inflation rises 4.2% in UK:** As per the data released by the Office for National Statistics, the CPI-based inflation in UK rose 4.2% year-on-year in October (up from 3.1 percent in September) and the highest since November 2011. The price increases were more than twice the central bank's target of 2 percent, increasing the likelihood that policymakers may go ahead with the interest rate increase in December that many market participants are already expecting. Earlier, the Bank of England predicted inflation to peak at about 5 percent in the spring.



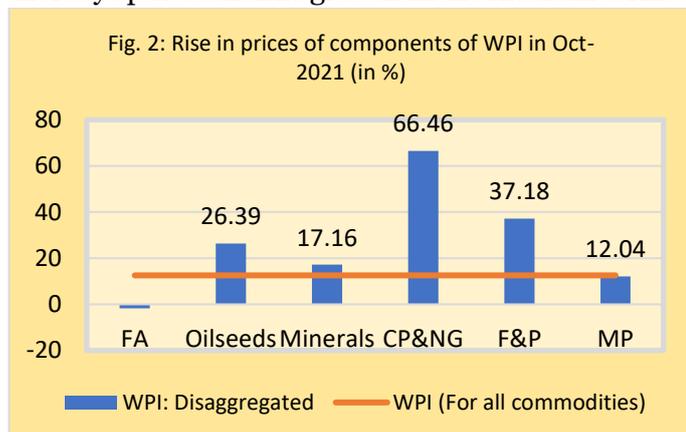
- **Possible Reasons for Rise in Prices in UK:** This may be attributed to a number of factors. The rising demand for oil & gas is pushing up energy prices worldwide, leading to higher bills for householders, and for businesses, many of whom may pass on the extra energy costs to their customers. Shortages of goods, including building materials and computer chips, are also exerting upwards pressure on prices. Further, the Government's support to businesses during the pandemic - like reduced VAT for hospitality - has ended.

- **Business Confidence in U.K. Falls:** As per the Accenture-IHS Markit data, the business confidence has fallen to its lowest level this year, amid strong headwinds. Inflation expectations among UK firms continued to surge higher, with forecasts for both staff and non-staff costs rising to unprecedented levels. Further, firms' employment expectations also dropped last month. The fall reflects ongoing concerns among UK businesses about their ability to hire the skilled staff. For instance, only 35% of firms were confident that they will be able to hire the skills they need over the next 12 months.
- **China's industrial Output Expands:** China's industrial output grew 3.5% in October (YoY) (up from a 3.1% increase in September), indicating a strong environment of recovery from the pandemic.
- **Japan announces a stimulus package:** On 19.11.2021, Japan's Cabinet approved a record 56 trillion yen (\$490 billion) stimulus package, to cushion the economy out of the adverse impacts of the coronavirus pandemic. The plan includes giving 100,000 yen (\$880) in monetary assistance to those 18 years or younger, and aid for businesses whose sales may have declined due to the Covid-19 pandemic.
- **Fed debates faster taper, earlier rate hike:** Federal Reserve policymakers are publicly debating whether to withdraw support for the U.S. economy more quickly than planned to deal with surging inflation, with the reports that the same will also be considered at Fed's next meeting.
- **U.S. equity funds face an outflow:** The U.S. equity funds faced an outflow in the preceding week after six consecutive weeks of inflows, as the market builds expectations of an earlier-than-expected rate hike by the Fed, amid surging consumer prices and strong retail consumption. Investors sold a net \$1.98 billion in U.S. equity funds, marking the first weekly outflow since Sept. 29.

## Domestic Outlook

- **WPI surges 12.54%:** The WPI-inflation in India rose 12.54% (provisional) for the month of October, on year-on-year basis, as compared to 1.31% in October-2020. The high rate of inflation is primarily due to rise in prices of mineral oils, basic metals, crude petroleum & natural gas, chemicals and chemical products etc. (fig. 2).
- **Increase in Capex by State Govts.:** According to a newspaper report based on data relating to 20

states, the capital expenditure incurred by the state governments has increased by 79% in the first half of the present financial year, compare with a decline of 31% in the corresponding period of FY21. Rising public investment is an encouraging sign, since it can lead to other positive developments such as benevolent climate for private investments and thereby spur economic growth in the medium term.



FA: Food Articles; CP&NG: Crude Petroleum & Natural Gas; F&P: Fuel & Power; MP: Manufactured Products

- Monthly Trade Deficit Moderates:** India's merchandise export earnings peaked at \$35.6 billion in October-2021 (up from \$33.8 billion in September-2021). The rise was across-the-board, but exports of gems & jewellery jumped particularly to \$4.2 billion in October 2021 from \$3.2 billion in September 2021. India's merchandise import bill in October 2021 stood at \$ 55.4 billion (only second to the record-high imports of \$ 56.4 billion registered in the preceding month). Trade deficit moderated to \$19.7 billion in October 2021 from a record-high \$22.6 billion in September 2021.
- Demand for petroleum products exceeds pre-pandemic level:** The demand for petroleum products in October in India surpassed the corresponding pre-Covid level by 3.1 per cent during this month, despite record high prices, indicating a robust economic recovery in progress.
- Manufacturing jobs yet to recover:** Listed companies in India made record profits in the quarter ended September 2021, with their combined net profits touching Rs.2.5 trillion (record high), raising hopes of an increased private investment. However, the wage bill of manufacturing companies remains well below the pre-pandemic level, indicating that the economy has recovered only partially from the pandemic.
- Acreage under rabi crops impressive:** Acreage under rabi crops as on November 19, 2021 increased year-on-year by 8.9 percent to 26.1

million hectares, a positive sign for the macro-economic environment of the upcoming year.

### Interest Rate Outlook

- Due to rising inflation in India as well as in other major countries of the world, market participants continue to speculate about the timing of hike in interest rates by the major central banks around the world. Many experts believe that the Bank of England may strongly consider raising the benchmark interest rates next month. The recent data on CPI-inflation in UK gives more weight to this expectation.
- A major component of rise in inflation is the rising energy prices. Countries are exploring avenues to increase the supply in the near-future.
- In India, too, the high & rising 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 continuing to remain over 6.34% in the previous week. In the coming week also, the yields are expected to remain high.
- RBI has announced to conduct the 7-day Variable Reverse Repo Rate (VRRR) auction worth ₹2,00,000 crore on 23.11.2021. In addition, the Government of India (GoI) has announced the sale (issue/re-issue) of four dated securities on 26.11.2021 (with varying maturities) for a notified amount of ₹24,000 crore. The reduced liquidity in the market in combination with other factors, may work to push the yield upwards.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	15/11	16/11	17/11	18/11	19/11
USA 10year	1.62	1.64	1.59	1.58	1.54
India 10year	6.34	6.36	6.36	6.35	--
India 1Year	4.54	4.58	4.57	4.55	--
India 3Month	3.45	--	3.47	3.52	--

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 (22<sup>nd</sup> Nov-26<sup>th</sup> 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 3.37-3.60 %.