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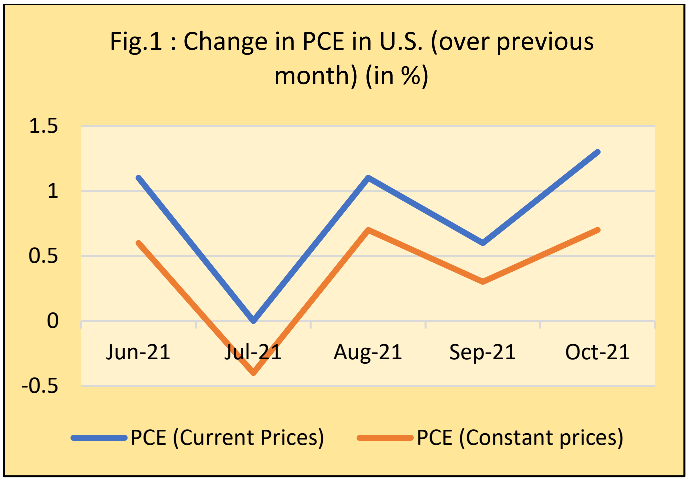
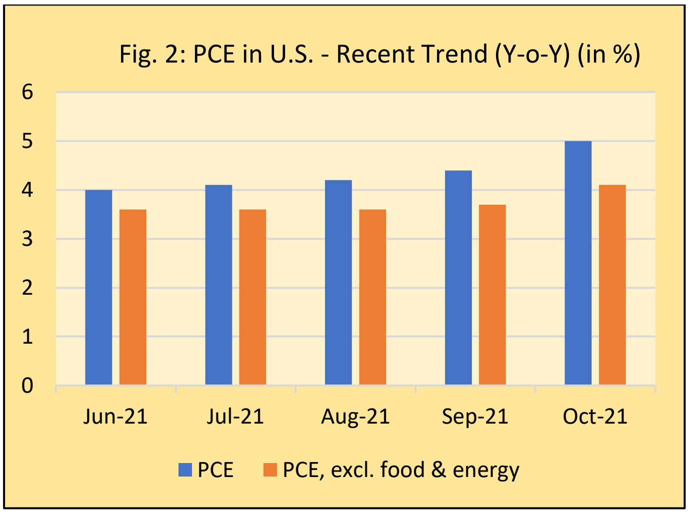
Global Economic Outlook

- **Personal Consumption Expenditure Rises 1.3% in October in U.S.:** As per the data released by the Bureau of Economic Analysis, the personal consumption expenditure (PCE), which accounts for more than two-thirds of U.S. GDP, increased by 1.3% (Fig. 1 and Fig. 2) in October (up from 0.6% in September). Real PCE (i.e., at constant 2021 prices) increased 0.7%. Also, the 'personal income' increased by 0.5% in October 2021. The increase in personal income in October primarily reflected increases in compensation of employees. Within compensation, the increase primarily due to increase in private wages and salaries.





- **Factory Output Expands in Japan:** As per the au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index (PMI), Japan's factory activity grew at the fastest pace in November in nearly four years despite rising input prices, due to factors such as loosening COVID-19 restrictions. The au Jibun Bank Flash Japan Manufacturing Purchasing Managers' Index (PMI) rose to a seasonally adjusted level of 54.2 (up from 53.2 in the previous month), indicating the steady movement of Japan towards economic recovery.
- **Bond Funds in U.S. experienced net outflow:** U.S. bond funds posted a net outflow in the week to Nov. 24. According to 'Refinitiv Lipper' data, investors sold U.S. bond funds worth a net $158 million, the first outflow since the week to July 14. One of the major reasons could be that investors reconsidered the speed of taper and the timing of rate hike announcement by the Federal Reserve, in light of the rising inflation across the world.
- **IHS Markit Index signals expansion in Euro Zone:** The IHS Markit's Flash Composite Purchasing Managers' Index for euro zone, rose form 54.2 in October to 55.8 in November-2021 indicating that the business growth accelerated in November. However, managers reported the possibility of a slowdown in December-2021, due to another wave of coronavirus infections & accompanying restrictions, in addition to increasing inflation.

- **Spread of 'Omicron' reduced yield, as investors rush towards safety**: The increased uncertainty & possibility of another slowdown due to the spread of the new variant, called 'Omicron', of the novel coronavirus, which has been designated as a variant of concern by WHO, has decreased the yields for many government securities. For instance, the two-year U.S. Treasury yield, which is believed to move in step with interest rate expectations, was down 14.2 basis points at 0.502 on 26.11.2021, the sharpest drop since March 2020. The reduced yield may be due to factors such as increased demand for safe assets (i.e., government bonds) owing to greater uncertainty, which raises price and lowers yield.

Domestic Outlook

- **Rising direct tax collection augurs well for economic growth:** The net direct tax collection (during 01 April – 23 November) increased to around ₹6.92 lakh crore, recording a growth of 67.93% and 27.29% over the net collection figures for the corresponding period of FY21 and FY20, respectively. Higher direct tax revenues in a year may indicate higher growth of the economy in the previous year and also raises the potential of higher

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economic growth in future, due to increased capacity of the government to undertake higher investments.

- **Positive outlook for the Indian economy continues**: As per a research report released by the State Bank of India, the Indian GDP growth is likely to be around 8.1%in the second quarter of the current financial year and in the range of 9.3-9.6%during fiscal 2022. It may be pertinent to mention that the economy grew 20.1%in the first quarter of 2021-22. For the fiscal 2022, RBI has estimated real GDP growth to be at 9.5 %: 7.9%in Q2, 6.8%in Q3 and 6.1%in Q4.
- **Exports rise but trade deficit widens:** According to data released by the Ministry of Commerce & Industry, the country's exports rose 18.8%to $20.01 billion during the first three weeks of November-2021, due to healthy growth in sectors such as petroleum products, engineering goods, chemicals and gems & jewellery. Imports during the period increased 45.34%to $ 35.11 billion (as against $24.15 billion during the corresponding period last year), resulting in an increase in trade deficit.
- **Consumer survey shows optimism about future**: According to a survey by Deloitte Touche Tohmatsu India, 77%of Indian respondents are optimistic about their financial situation within the next three years, a positive sign regarding consumer sentiments. However, nearly 74%of Indian respondents are concerned about inflation. Also, nearly 85%of Indian respondents plan to spend on leisure travel in the next four weeks, and 68% of Indian respondents feel safe going to a restaurant. These results may signals towards a trend of rising consumer expenditures in the coming months.
- **RBI report indicates rising credit growth:** According to the report on 'Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks' released by RBI, Bank credit growth (y-o-y) increased to 7.0%in September 2021 (up from 5.8%a year ago). In Sep-2021, private sector banks recorded 10.9%and 16.0%growth (y-o-y) in credit and deposit, respectively; the corresponding growth in public sector banks stood much lower at 3.7%and 7.4 %, respectively. Increased credit growth is a positive sign for the future economic growth of the country, since it propels the economy through the 'multiplier effects'.

Interest Rate Outlook

- The spread of the new variant '*Omicron*' has created uncertainty among many sections of the economy, including investors. The yield of USA 10-year bond declined on 26.11.2021 (Table 1). However, it's impact on various indicators will depend upon further scientific evidence regarding evidence regarding its transmissibility, the severity of infection (including symptoms), the performance of vaccines and diagnostic tests, and the effectiveness of treatments. Under adverse results, yield across different securities may fall.
- Release of strategic reserves of crude oil by various countries such as U.S.A., Japan, China, etc. in the market has allowed the price of crude to decline in international market, raising hopes of a decline in inflation in near future.
- RBI has announced that 7-day Variable Reverse Repo Rate (VRRR) auction worth ₹2,00,000 crore will be conducted on 30.11.2021. In addition, the Government of India (GoI) has announced the sale (issue/re-issue) of three dated securities on 03.12.2021 (with varying maturities) for a notified amount of ₹24,000 crore. Ceteris paribus, it may work to push the yield upwards.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	22/11	23/11	24/11	25/11	26/11
USA 10year	1.62	1.68	1.63	1.64	1.48
India 10year	6.35	6.36	6.37	6.37	6.33
India 1Year	4.53	4.50	3.94	4.56	4.28
India 3Month	3.47	3.50	3.49	3.51	3.51

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation including uncertainty regarding '*Omicron*', high inflation, volatile oil prices, increased uncertainty, etc., bond yield for government benchmark 10-year is expected to remain in the range 6.25 to 6.43% for the week (29th Nov-03rd Dec 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 3.42-3.62 %.