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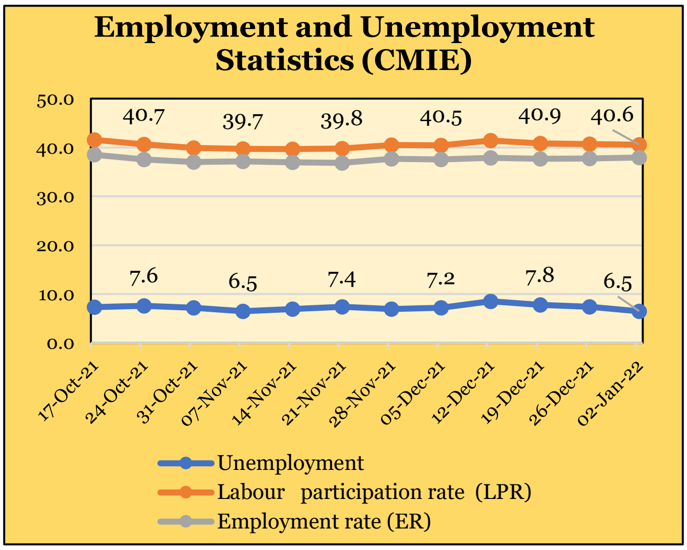
## Global Economic Outlook

- **Global economy to grow by about 4% in 2022:** The world starts the year with economies held back by a supply chain crisis and the rapid spread of the Omicron coronavirus variant, but the global economy is still expected to grow by about 4% in 2022, compared with an estimated 5.1% in 2021, according to the Centre for Economics and Business Research (CEBR).
- CEBR predicts that inflation could jump beyond 6% in the UK and to more than 7% in the US, where it reached a 39-year high of 6.8% in November 2021.
- CEBR forecasted that the face of higher interest rates and the rolling back of quantitative easing, global bond, equity and property markets are expected to fall around the world, with declines ranging from 10% to 25%, and some of the impact to last into 2023.
- **European Central Bank's (ECB) policy maker says Policy Rate can start rising in early 2023**: ECB will be ready for an interest rate hike in early 2023 after ending the remaining bond purchases by the end of next year.
- ECB confirmed that it would wind down its pandemic bond-buying programme but temporarily expand an older quantitative easing programme to cushion the transition.
- The decisive factor in the New Year will be to gradually initiate the exit from negative interest rates and unconventional monetary policy and to avoid any proximity to monetary state financing.
- **Inflation stays hot:** Consumer prices rose in November at the fastest pace in 39 years, driving up the cost of living for families. It is expected that inflation will heat up a bit further in the coming months, before cooling off considerably later in 2022.
- One risk is that new COVID-related bottlenecks limit supply, lifting prices even higher. Another concern is that inflation continues to spread and gets further ingrained in the psychology of consumers and business owners, which in turn could cause a negative feedback loop that drives inflation higher.
- High energy prices have been at the heart of the inflation spike, most notably prices at the pump. Another spike in oil prices, would darken the inflation picture.
- **RCEP to become new centre of gravity for global trade:** On January 1, 2022, the Regional Comprehensive Economic Partnership (RCEP) will go into effect for China, Japan, Australia, New Zealand, Singapore, Thailand, Vietnam, Brunei, Cambodia, and Laos. These countries have ratified the agreement. The Philippines, Myanmar, and Malaysia have yet to ratify it. South Korea has just ratified the agreement and will join soon.
- RCEP is a free-trade agreement among Pacific Rim nations that was initiated by ASEAN. The members account for about 30% of global GDP.
- It will eliminate many tariffs starting in 2022 and will eventually lead to free trade for 90% of goods traded in the region.

## Domestic Outlook

- **Consumer sentiments pose a challenge:** Consumer sentiments seem to have weakened in India during December 2021. Trends seen in the weekly estimates and also in the 30-day moving averages of the index of consumer sentiments during December suggest that the month is likely to register a fall in consumer sentiments compared to November. This would be the first month to record a fall in consumer sentiments since June 2021.
- The impact of fall in consumer sentiments in the month of December may pose a negative bias for performance of Indian economy for the next quarter.
- **The conundrum of unemployment and falling LFPR:** In India, unemployment rate have fallen to 6.5% during the week ending 2nd January 2022 from 7.8% in the previous week. And the labour participation rate has fallen dramatically in the past two weeks from 40.9% to 40.6% as on 2 January 2022.

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- **GST collections slipped to ₹1.3 lakh crore in December:** Gross GST (Goods and Services Tax) revenue collected in December 2021 stood at ₹1,29,780 crore, which is slightly lower than the revenue collected in November.
- The gross GST collection in November stood at ₹1.31 lakh crore, which was the second highest ever since introduction of GST.
- The revenues for December are 13% higher than collection in the same month last year and 26% higher than the GST revenues in December 2019.
- **India's current account slips into deficit in Q2, CAD now at 1.3% of GDP**: India's current account slipped into a deficit of $ 9.6 billion or 1.3% of GDP in the September quarter.
- The deficit was mainly due to widening of trade deficit to $44.4 billion from $30.7 billion in the preceding quarter, and an increase in net outgo of investment income.
- **Exports Rose 37% to $37.29 Billion in December 2021:** India's exports in December 2021 rose 37% on an annual basis to $37.29 billion. It is highest ever goods export in the history of India.
- Cumulative export for April-December 2021 period rose to $299.74 billion, which is 48.85% higher than $201.37 billion recorded in the corresponding period of the previous year.
- India's merchandise import in December 2021 rose to $59.27 billion, an increase of 38.06% over $42.93 billion in December 2020.
- The trade deficit in December 2021 was $21.99 billion, while it was $143.97 billion during April-December 2021.

**Interest Rate Outlook**

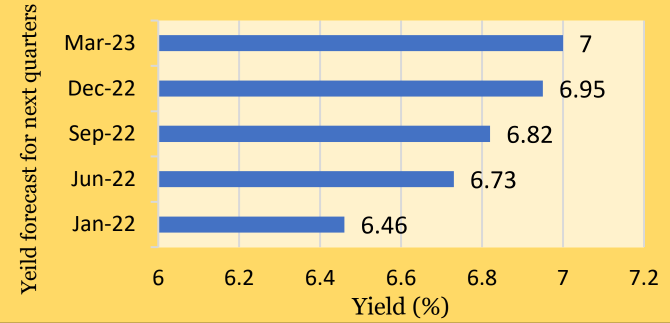
- **U.S. yields advance as mounting COVID cases unlikely to slow 2022 rate hikes**: Yields on U.S. 2-year notes, which are sensitive to rate hike expectations along with 5-year notes, soared to their highest since March 2020. U.S. 30-year, 20-year, 10-year and 5-year yields rose to six-week peaks.
- Sharp rise in COVID infections was outweighed by inflation fears, with some investors believing the Fed could raise rates in March soon after it completes tapering of its bond purchases.
- **Liquidity Flush**: With Banks bulking up deposits due to quarter end considerations, the Reserve Bank of India (RBI) received offers aggregating ₹2,40,598 crore against the notified amount of ₹2 lakh crore at the 3-day variable rate reverse repo (VRRR) auction.
- Banks usually build up short-term deposits towards the end of the every quarter, resulting in surplus funds. With limited credit deployment opportunities, Banks sought to park more than the notified amount at the VRRR window.

**Table 1: Weekly Benchmark Bond Yield Movement (%)**

| Date | 27/12 | 28/12 | 29/12 | 30/12 | 31/12 |
|---|---|---|---|---|---|
| USA 10 year | 1.51 | 1.48 | 1.56 | 1.51 | 1.51 |
| India 10 year | 6.46 | 6.48 | 6.46 | 6.47 | 6.45 |
| India 5 Year | 5.86 | 6.13 | 6.12 | 5.88 | 5.86 |
| India 3 Month | 3.50 | 3.53 | 3.62 | 3.62 | 3.54 |

- RBI cancelled the primary sale of sovereign bonds for ₹17,000 crore on 31 December 2021 in what could help arrest rising yields.
- The benchmark paper carrying a coupon of 6.10% was on the offer for ₹13,000 crore. Another set of Floating Rate Bond maturing in 2028 was up for sale for ₹4,000 crore. Both were withdrawn. However, it sold a 40-year paper for ₹7,000 crore.
- During December, the benchmark 10-year bond yield touched a new 20-month high on 28 December 2021 amid concerns of higher fiscal borrowing. The gauge rose to its highest level since April last year. Shorter duration rates too rose with the central bank normalising liquidity.
- Even though the RBI has been sucking out excess cash from the system, the country's growth remains a key priority for the central bank. The stance remains accommodative as long as necessary to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy.
- We expect the 10 year benchmark bond to trade in the range of 6.45-6.55 in the week of 3-7th January 2021.

**India's 10 yr Benchmark bond movement forecast Yield**




Source: CMIE, www.worldgovernmentsbonds.com