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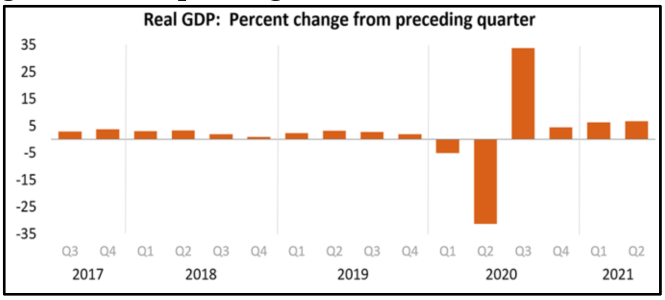
Global Economic Outlook

- The US Bureau of Economic Analysis has put out the third estimate of the second quarter real GDP wherein they have revised the growth rate to 6.7%, a 0.1% upward revision from the second estimate of 6.6%. The revision primarily reflected upward revisions to personal consumption expenditures, exports, private inventory investment, that were partly offset by an upward revision to imports and downward revisions to residential fixed investment, state and local government funding and federal government spending.

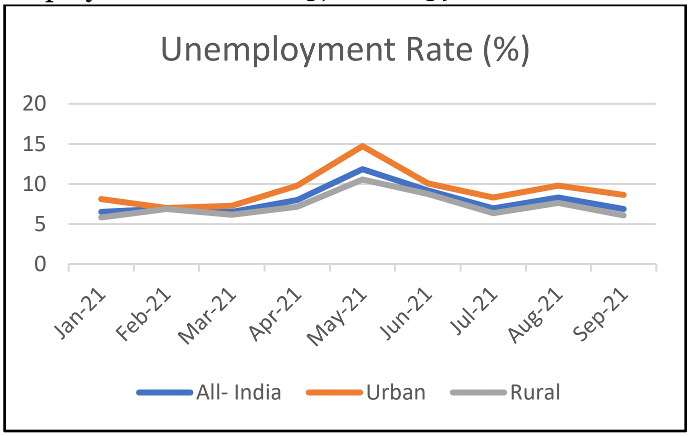


Source- Bureau of Economic Analysis (US)

- The Conference Board US Consumer Confidence Index declined again in September, following decreases in both July and August. The index now stands at 109.3 down from 115.2 in August. The Present Situation Index based on consumers' assessment of current businesses and local market conditions fell to 143.4 from 148.9 last month. The Expectations Index based on consumers' short-term outlook for income, business and labour market conditions fell to 86.6 to 92.8. Consumer confidence fell in September as the spread of the delta variant continued to dampen optimism.
- Consumer prices in the eurozone rose at the fastest pace in 13 years during September, increasing the risk that a period of high inflation will prove more durable. As per data released by the European Union's Statistics Agency on 01.10.2021, consumer prices were 3.4% higher in September than a year earlier, a pickup in the annual rate of inflation from the 3% recorded in August. It was the highest rate of price increases since September 2008, and well above the ECB's 2% target.
- Energy prices again accounted for much of the pickup in inflation, and were 17.4% higher than in September 2020. Other drivers of inflation include faster rise in the price of services and supply constraints in European manufacturing causing delays and shortages at rates not witnessed in a quarter of a century.

Domestic Outlook

- There has been a dramatic increase in the number of jobs created in the month of September which have increased by 8.5 million during the month as seen from CMIE's Consumer Pyramids Household Survey. Correspondingly the unemployment rate has declined from 8.3% in August to 6.9% in September. The labour force participation rate has increased from 40.5% to 40.7% and the employment rate from 37.2% to 39.2%.



Source-CMIE

- As per the same survey, the biggest increase in September has been in salaried jobs while there was a fall in employment as entrepreneurs. The number of farmers has seen a decline from 116 million in August to 113.6 million in September. This could be due to the revival of salaried jobs and could also be indicative of revival of economic activity as additional people could have been absorbed in the form of daily wage labourers.
- The month of September has seen an improvement in consumer sentiments with CMIE's index of consumer sentiments standing at 58.2 (as on September 25, 2021) as opposed to 53.9 and 53 in August and July respectively. Though the improvement in sentiment has been seen in both rural as well as urban areas but it is rural India that has made rapid and impressive gains.
- As per CMIE, it is likely that the rural consumer sentiments index will end September 2021 at a level higher than seen in any month since the first wave of Covid-19. While the climb-back of the rural consumer sentiments index in recent months is impressive, its return to the pre-Covid levels is still a long way off as the index was at 110 in December 2019. On the other hand, urban India has been lagging the rural hinterlands on consumer sentiments.

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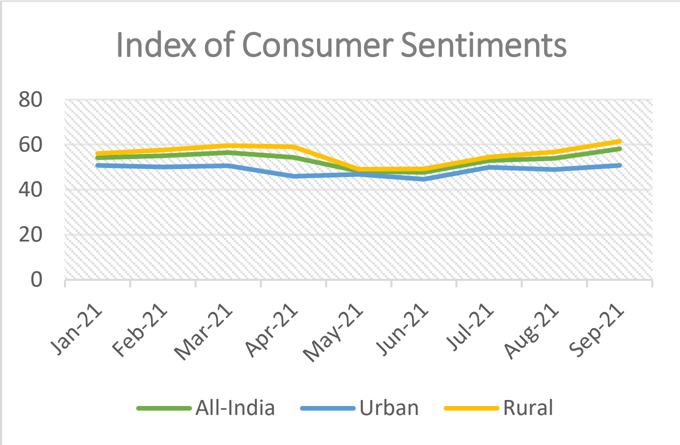

Source- CMIE

- Business activity in the manufacturing sector is on the path to recovery after the side-effects of the second wave of the pandemic as seen from the seasonally adjusted IHS Markit India Manufacturing Purchasing Managers' Index (PMI) which rose to 53.7 in September, from 52.3 in August, highlighting a stronger expansion in overall business conditions across the sector. For Q2 FY22, the PMI averaged at 53.8 an improvement over 51.5 in the last quarter. A reading above 50 indicates expansion and below the threshold points to contraction.
- The government's fiscal deficit stood at Rs 4.68 lakh crore or 31.1% of the budget estimates at the end of August, as per data released by the Controller General of Accounts (CGA) on 30.09.2021. Meanwhile, net tax receipts were Rs 6.45 lakh crore while total expenditure was Rs 12.77 lakh crore.
- India's merchandise trade deficit in September was $22.94 billion, as per preliminary data released by the government on 01.10.2021. Merchandise exports rose to $33.44 billion for the month from $27.56 billion in the same period last year, while imports rose $56.38 billion in September from $30.52 billion last year. The country's foreign exchange reserves declined by $997 million to reach $638.646 billion in the week ended September 24 as per RBI data released on 01.10.2021.

Interest Rate Outlook

- All eyes are on the MPC meeting set to take place on 08.10.2021. A Mint survey of economists shows that most are of the view that RBI is likely to signal a gradual unwinding of emergency liquidity measures introduced after the Covid-19 outbreak but keep interest rates unchanged in its bi-monthly monetary policy review this week.
- Most of them are of the opinion that RBI would gradually start the normalization process in the October policy while keeping the accommodative stance unchanged.
- The RBI is expected to maintain its FY22 real GDP growth forecast at 9.5% year-on-year while lowering its inflation forecast owing to lower than expected CPI in the past few months.
- With the ₹2 trillion seven-day variable rate reverse repo (VRRR) cut-off rate being determined at 3.99% in the auction conducted on 28.09.2021, questions are being raised whether this is a signal that the RBI will consider hiking the reverse repo rate in the October policy itself.
- Many economists opine that October policy would be an appropriate time period to resort to durable liquidity absorption through the use of longer tenor VRRR. With RBI resuming 14-day VRRR from August and announcing more VRRR for 3–7-day tenor in recent weeks the next logical step seems to be to announce longer term (28 day or 56 day) VRRR to absorb liquidity on a durable basis.
- The 10-year G-sec yield increased to 6.24 per cent on October 01, 2021 from 6.18 per cent on 24 September 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 10-year US Treasury yield breached 1.55% on September 28, 2021 to hit its highest level in recent times as investors continued to react to the Federal Reserve's policy announcement. The United States 10 Years Government Bond has 1.465% yield on 3rd October 2021. It is expected to trade between 1.50-1.55 in the forthcoming week.

• Weekly Benchmark Bond Yield Movement (%)

Date →	27/9	28/9	29/9	30/9	01/10
India 10 year	6.21	6.23	6.21	6.22	6.24
India 5 year	5.69	5.67	5.65	5.67	5.69
USA 10 year	1.49	1.55	1.52	1.53	1.46

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation, bond yield for government benchmark 10-year is expected to inch up and remain in the range 6.25-6.27 for the week (4th Oct-8th Oct 2021).