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Global Economic Outlook

U.S Inflation continued to rise

- Retail inflation in the US continue to rise and almost a four-decade high of 7% in December 2021. Prices have remained stubbornly high amid unprecedented demand for good, while supply constraints for both labour and raw materials refuse to ease.
- The increase in CPI inflation during the month was primarily led by higher prices for shelter and used vehicles while the energy index fell after a long series of increases. With rampant spending and supply bottlenecks still at play, the price pressures are expected to have been at elevated levels in January, too. The data will be released on 10 February 2022.
- The persistent inflation has led to a perceptible shift in the policy stance of the Federal Reserve as it has scaled down its policy support and hinted at interest rate hikes. It plans to aggressively reduce its balance sheet, too, and will focus on preventing inflation from becoming entrenched.

U.S. labour market shows positive signs

- The U.S. economy created far more jobs than expected in January but despite the disruption to consumer-facing businesses from a surge in COVID-19 cases, pointing to underlying strength that should sustain the expansion as the Federal Reserve starts to raise interest rates.
- The Labour Department's closely watched employment report on Friday also showed a whopping 709,000 more jobs were added in November and December than previously estimated. Wage gains accelerated last month and the labour pool expanded.

Ukraine clouds on the horizon for Europe's economy

- European Central Bank President Christine Lagarde has warned of "geopolitical clouds" over the European economy due to possible fall-out from further escalation of tensions between Russia and the West over Ukraine.
- From rising energy and food prices to economic sanctions and the harm done to investment confidence, the impacts could be far-ranging but hard to quantify.
- Global crude oil prices climbed up rapidly throughout January 2022 after falling for a small period in December 2021. As of January 31, 2022, they stood at a record-high level of USD 89.4 per barrel.

Domestic Outlook

- The Budget for 2022-23 has firmed up a roadmap for catapulting India to a high-growth trajectory without resorting to fiscal profligacy. Fiscal deficit for FY23 is estimated to drop to 6.4% of GDP from 6.9% this year, when it breached the target by a notch.

Stock Markets and Households liked the Union Budget

- The Indian stock markets welcomed the union budget with the major indices pencilling higher than normal returns. The most comprehensive index the CMIE Overall Share Price Index (COSPI) that houses over three thousand actively traded scrips recorded a 1.2 per cent gain on the day of the budget and another 1.2 per cent on the following day. It shed part of these gains on the following two days. Nevertheless, the week of the union budget yielded a gain of 2.6 per cent, which is much better than what a week usually generates on the Indian bourses.
- Households welcomed the union budget as well. While equity markets react to budget announcements in real time, households take a little longer to digest it. CMIE's Index of Consumer Sentiments (ICS) provides weekly estimates of household sentiments shot up by 6.4 per cent in the week ended February 6. The union budget was presented on February 1. This is the best change in sentiments recorded since 2016 when the ICS series began.

Inflation Expected to Harden

- India's retail price inflation rate has been rising for the past three months. It touched 5.6 per cent in December 2021.
- As per economists from various private sector organisations, it is expected to move closer to 6 per cent, the upper limit of the RBI's tolerance, in January 2022. The probable rise in inflation can be attributed to two major reasons - firstly, imported inflation primarily through high global crude oil prices and secondly, lower prices in the base period for food products.

Recovery in Consumer Sentiments

- Fast frequency data had indicated a recovery in consumer sentiments in January 2022 from its fall in December 2021 (As per the Consumer Pyramid Household Survey by CMIE).
- The recovery of consumer sentiments in January 2022 was driven by an improvement in

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households' perception regarding their current incomes and their propensity to spend on non-essentials. During January 2022, 11.4 per cent of the households said that their household incomes were higher than they were a year ago. This is not a large proportion but, it is the best in a long time.

Profits for India's listed companies continues to soar

- Listed companies are headed to make record profits again in the quarter ended December 2021. In the four quarters preceding the pandemic, the average net profit made by listed companies was Rs.0.71 trillion per quarter.
- This was the average quarterly profit during 2019. In comparison, the average profit in 2020 was Rs.0.86 trillion. In the first three quarters of 2021, the average quarterly profit was Rs.2.1 trillion. Evidently, profits of listed companies have trebled compared to pre-pandemic levels.
- The growth in profits in the December 2021 quarter is powered by a robust increase in the top line of non-finance companies accompanied by their respectable margins and, higher margins by the finance companies on a modest increase in total income growth.

Interest rate outlook

- Yields on benchmark 10-year U.S. Treasury notes hit their highest levels since January 2020 after strong payrolls data showed the U.S. economy added 467,000 jobs last month.
- U.S. consumer price figures for January are due on 10 February 2022 and could show core inflation accelerating to the fastest pace since 1982 at 5.9%. As a result, the U.S. Federal Reserve might hike interest rates by a full 50 basis points in March.

U.S. rate hikes could hit highly dollarized emerging market banks

- Banks in Latin America and emerging Europe are most exposed to dollarization among developing economies, making them vulnerable to weaker local currencies and increasing withdrawals in the face of tighter U.S. monetary policy, Moody's said on 7 Feb 2022.
- Interest rate hikes from the U.S. Federal Reserve are likely to slow capital flows to emerging markets, weakening countries' currencies and economic growth, and potentially triggering credit risk at highly dollarized banks.

India's Bond Yield's witness sharp spike

- The estimated record gross market borrowing of Rs.14.95 lakh crore for FY23 was announced in the Union Budget. The 43% year-on-year rise in borrowing has spooked the bond market. At 6.88% on Friday, the yield on benchmark 10-year government securities was 11 bps higher than a week before, and up 43 bps so far this year.

All Eyes on the Monetary Policy Committee Meeting

- The first challenge for the MPC is a traditional growth inflation trade-off, where most likely the Central Bank will be revising down their GDP growth forecast, but at the same time, there will be upside risks to inflation, because of the higher oil prices, etc.
- With oil prices above USD 90/bbl. and threatening to go higher, MPC is expected to incrementally prioritise inflation.
- Even if a hike in the benchmark policy repo rate is not expected any time soon by analysts, the reverse repo rate, which for the last couple of years has dictated the overnight cost of funds for banks, is likely to be hiked.
- The yields on 10-year govt. bonds have already risen to two-year high since the announcement of the Budget. Any decision to reduce liquidity may further push the yields higher.
- A Reuter's poll of economists forecast that the RBI would raise the reverse repo rate -the rate at which it borrows from banks - to 3.55% from 3.35%, narrowing the corridor between it and the repo rate to 45 bps.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	31-Jan	01-Feb	02-Feb	03-Feb	04-Feb
USA 10 year	1.78	1.79	1.77	1.83	1.91
India 10 year	6.68	6.83	6.91	6.92	6.9
India 5 Year	6.03	6.13	6.23	6.24	6.19
India 3 Month	3.72	-	3.72	3.85	3.9

- We expect the 10-year benchmark bond to trade in the range of 6.85-7.0% in the week of 07-11 February 2022.