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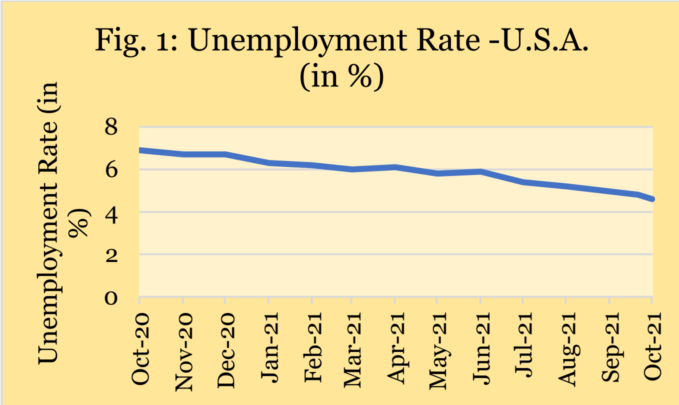
Global Economic Outlook

- The Federal Reserve (Fed) announced on 03.11.2021 that it will begin the 'tapering' process, that is, the process of slowly pulling back the stimulus being provided since March 2020, originally initiated with the objective of reducing he adverse impact of the COVID-19 pandemic on the economy. The Fed currently buys $80 billion in Treasuries and $40 billion in housing-backed securities each month.
- The 'tapering' process will involve reducing the pace of its monthly bond purchases, starting later this month, by $15 billion each month ($10 billion in Treasury's and $5 billion in mortgage-backed securities) from the current $120 billion a month that the Fed is buying.
- In recent months, the bond purchases have added more than $4 trillion to the Fed's balance sheet, which now stands at $8.5 trillion, about $7 trillion of which is the assets bought through the quantitative easing programs. The purchases have helped achieving desirable objectives, such as keep interest rates low and help spur demand.
- Along with the move to 'taper', the Fed also altered its view on inflation slightly, acknowledging that price increases have been rapid in recent months but maintaining that inflation is elevated largely due to factors that are expected to be 'transitory'. With this line of reasoning, there has been no announcement of a rate change at this moment.
- Regarding inflationary expectations for the upcoming months, Fed Chairman, Mr. Jerome Powell said he expects inflation to stay high till supply issues continue and then start to decline around the middle of 2022. He also mentioned that the policy will remain 'accommodative' until U.S has reached the central bank's goals on employment and inflation. In general, 'accommodative monetary policy' means that the central bank may continue to expand the money supply to boost the economy.
- Similar to the Fed's decision to keep the interest rate unchanged, the Bank of England (BoE), too, decided to keep the interest rates unchanged in its meeting held on 04.11.2021, defying many investors' expectations that BoE would become the first major central bank to hike rates following the coronavirus pandemic. The Bank's Monetary Policy Committee voted 7-2 to keep its benchmark interest rate unchanged at its historic low of 0.1%, and 6-3 in favour of continuing the existing program of U.K. government bond purchases at a target stock of $1.2 trillion. The Bank noted that a high degree of uncertainty about the near-term outlook for the labour market was a key factor in its decision.
- The U.S. Bureau of Labour Statistics has released the data on the Employment Situation in October-2021. It presents statistics from two monthly surveys. The household survey measures labour force status, including unemployment, by demographic characteristics. The establishment survey measures non-farm employment, hours, and earnings by industry, Total non-farm payroll employment rose by 5,31,000 in October, and the unemployment rate edged down by 0.2 percentage point to 4.6 percent. Job growth was widespread, with notable job gains in leisure and hospitality, in professional and business services, in manufacturing, and in transportation and warehousing.



- In Australia, the recent developments have prompted the Reserve Bank of Australia (RBA) to reassess the status of the economy. The RBA conceded inflation had returned to its 2-3% target band, around two years earlier than expected, forcing it to abandon a commitment to keeping bond yields super-low. This shift makes RBA the first central bank from an advanced economy to tighten monetary policy in recent months and may be an indication that other central banks may follow this path soon.

Domestic Outlook

- Unlike 2013, now the announcement of 'taper' by Fed hasn't affected the domestic markets significantly. There may be multiple reasons on why markets may not be too perturbed at this point. One, the taper of bond purchases by Fed does not mean that the liquidity in the system will reduce immediately. In fact, liquidity will continue to increase until June 2022. Two, the Fed has prepped

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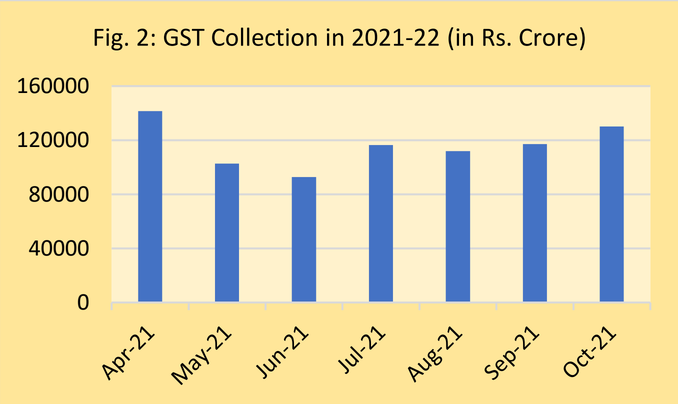
the market adequately about the coming taper with hints and indications. Three, markets are more concerned about hike in Fed rate and there is no signal from Fed about a rate hike yet.

- Although the loans borrowed in U.S. is responsible for driving trading in stocks and commodities across the world, Indian equity markets are also unlikely to react much to the Fed taper. Stocks have been rising to record highs in October despite FPIs pulling out close to ₹13,550 Crore. Purchases by domestic retail and institutional investors seems to be mitigating the impact of the FPI outflows quite efficiently.
- On the domestic front, a combination of many positives, such as recovery of consumption post the June quarter, as signalled by assorted high-frequency indicators, namely, rise in inter-state trade in goods and services, have amplified the expectation of an economic rebound. A turnaround is visible in manufacturing and construction industries as well, while some of the services sectors, too, are showing encouraging signs.
- Growth in manufacturing activities in India continued gathering momentum. The seasonally-adjusted IHS Markit Purchasing Managers' Index increased to 55.9 in October, rising from 53.7 in September. New orders also posted an increase in October. However, data shows that panelists continued to report rising prices for several inputs, including the cost of transportation.
- The recovery of the Indian services sector was also extended to October with the seasonally adjusted IHS Markit India Services PMI index signalling the strongest rate of growth in ten-and-a-half years. The index rose to 58.4 in October, from 55.2 in September.



- In line with the above trends signalling an economic revival of the economy, the goods and services tax (GST) collected in October rose to ₹1.3 trillion, which is 24 per cent higher than in the same period a year ago and 36 per cent more than the collection in the equivalent month of 2019-20.

Interest Rate Outlook

- In the past week, the U.S. Treasury yield curve showed signs of flattening, due to reasons such as reconsideration of rate hike expectations in light of announcements by the Fed. The U.S. Treasury yields fell on 04.11.2021, with the 2-year rate posting its biggest one-day drop since March 2020.
- Experts believe that the Indian markets are unlikely to be affected significantly due to the 'taper' plan announced by the Fed.
- The Bank of England's decision to hold-off on a widely expected interest-rate hike on 04.11.2021, which experts believe the futures markets had already priced-in, may lead to a rethink of expectations by market participants regarding the extent to which the central banks are willing to raise rates in the face of elevated inflation pressures around the world. This expectation of lesser-than-anticipated monetary tightening may, at least, partly explain the falling yields on U.K. government bonds last week.
- RBI has announced that 7-day Variable Reverse Repo Rate (VRRR) Auction worth ₹2,00,000 crore will be conducted on 09.11.2021. In addition, the Government of India (GoI) has announced the sale (issue/re-issue) of four dated securities on 12.11.2021 (with varying maturities) for a notified amount of ₹24,000 crore. Combined with other factors, this may work to push the yield upwards.

Weekly Benchmark Bond Yield Movement (%)

Date	01/11	02/11	03/11	04/11	05/11
India 10year	6.39	6.36	6.36	--	--
India 5 year	6.02	6.01	6.01	--	--
USA 10year	1.56	1.54	1.60	1.53	1.45

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation including volatile oil prices, etc. bond yield for government benchmark 10-year is expected to remain in the range 6.22-6.36 for the week (08th Nov-12th Nov 2021).