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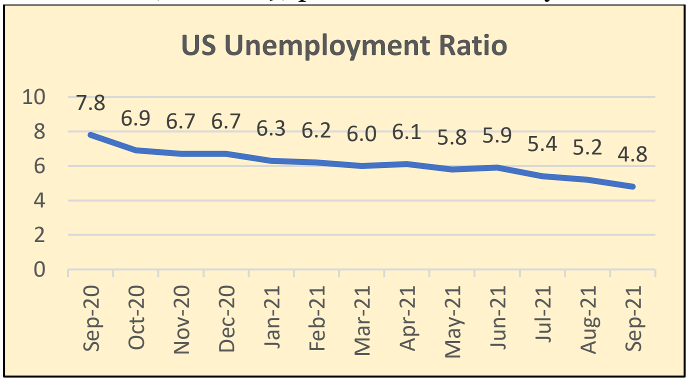
Global Economic Outlook

- The US Bureau of Labour Statistics put out the employment numbers for the month of September on 08.10.2021. Nonfarm payroll employment rose by 194,000 in September, and the unemployment rate fell by 0.4 percentage point to 4.8 percent. Notable job gains occurred in leisure and hospitality, in professional and business services, in retail trade, and in transportation and warehousing. As of this year, monthly job growth has averaged 561,000. Employment has increased by 17.4 million since April 2020 but is down by 5.0 million, or 3.3 percent, from its level before the onset of the coronavirus (COVID-19) pandemic in February 2020.



Source- Bureau of Labour Statistics (US)

- Though the improvement in employment figures is not as robust as was expected, most economists in the US believe that it may just be enough to cross the 'decent' September jobs report expectation of the Fed Reserve to stick to their November taper announcement. Greater clarity would come with the September retail inflation figures which are due to be released this week (13.10.2021).
- As per the World Bank's Europe and Central Asia update released on 05.10.2021, the regional economy is expected to expand by 5.5% in 2021. The rebound was largely driven by a strong recovery in exports during the first half of the year as activity in the Euro area bounced back and commodity prices rose sharply, as well as strengthening domestic demand due to vaccinations and support packages. In 2022, regional growth is forecast to moderate to 3.4% as external demand and commodity prices further stabilize, global growth plateaus, and pandemic stimulus is withdrawn.
- The World Trade Organization on 04.10.2021 upgraded its forecast for global merchandise trade volume to an increase of 10.8% in 2021 from the 8% projected in March this year. Due to a lower base y-o-y growth in Q2 of 2021 was 22% but the figure is projected to fall to 10.9% in Q3 and 6.6% in Q4.
- A global deal to ensure big companies pay a minimum tax rate of 15% and make it harder for them to avoid taxation has been agreed by 136 countries on 08.10.2021. The deal was negotiated by OECD which said that four countries Kenya, Nigeria, Pakistan and Sri Lanka – had not yet joined the agreement, but that the countries behind the accord together accounted for over 90% of the global economy. Economists expect that the deal will encourage multinationals to repatriate capital to their country of headquarters, giving a boost to those economies.

Domestic Outlook

- RBI has retained its projection for real GDP growth at 9.5% in 2021 consisting of 7.9% in Q2, 6.8% in Q3 and 6.1% in Q4 of 2021-22. RBI projects real GDP growth for Q1- 2022-23 at 17.2%. Impact of elevated input costs on profit margins, potential global financial and commodity markets volatility and a resurgence in COVID-19 infections, however, impart downside risks to the growth outlook.
- The World Bank (WB) in its October update has left India's growth rate for FY 2021 unchanged at 8.3% from its June forecast. The Bank has said that increasing pace of vaccinations will determine India's economic prospects this year and beyond.
- Higher than expected inflation and slow recovery of the informal sector have been flagged as the main risks to consumer spending by the WB. Growth is projected to stabilize around 7% from FY23 onwards.
- Ratings agency Moody's on 05.10.2021 has changed India's sovereign rating outlook to "Stable" from "Negative" and affirmed the country's rating at Baa3. "Baa3" rating is the lowest investment grade, just a notch above junk status.
- According to Moody's, the change in outlook stems from lower risks from the financial sector and its impact on the real economy. On the other hand, risks from a high debt burden and weak affordability remain. S&P Global Ratings and Fitch Ratings have also assigned India the lowest investment grade but with a stable and negative outlook respectively.
- Global Ratings Agency Fitch slashed India's growth forecast for the year ending March 2022 to 8.7% from 10% projected in June on grounds of the severe second wave of the pandemic. As per the Agency, high frequency indicators pointed to a strong rebound in Q2 as business activity returned to pre-pandemic levels.
- Fitch has raised the FY23 growth forecast to 10% from 8.5%. Fitch has however kept India's rating unchanged at BBB (-) with a negative outlook. The negative outlook reflects uncertainty over the debt trajectory following the sharp deterioration in India's public finances due to the pandemic shock.
- India's prospects for a sustained recovery were bolstered in September as public mobility scaled pre-pandemic levels for the first time as shown by Mint's state recovery tracker. Other high frequency indicators such as the railway freight traffic, port cargo, cement production,

Prepared by Mr. Benjamin Thomas Ipe, AM
Editorial team: Dr. K J S Satyasai (CGM), Dr. Ashutosh Kumar (DGM) and Ms Neha Gupta (AM)
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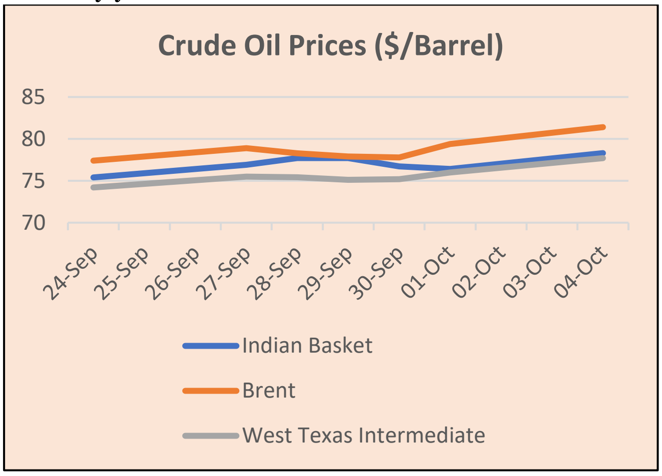
PMI and GST e-way bills are also looking upwards. Electricity demand recorded a growth over 2019 figures for the third consecutive month in September.

- India's services sector activity continued to expand in September, supported by favourable underlying demand amid the easing of COVID-19 restrictions, but lost some momentum from August's 18-month high level as can be seen from the seasonally adjusted services purchasing managers index which fell from 56.7 in August to 55.2 in September but remained well above its long run average. Indian companies benefitted from a recovery in demand as the pandemic receded further and restrictions were lifted.
- As the manufacturing PMI increased in September and Services PMI saw a drop compared to the August numbers, the Composite PMI Output Index which measures combined manufacturing and services was at 55.3 in September, little changed from 55.4 in August.
- Crude oil prices have seen increased volatility in recent times and prices are on an upward trend. Brent Crude was trading at 81.4 USD/Barrel as on 04.10.2021 and as per a Goldman Sachs prediction could even hit $90 per barrel by year end.



Source: CMIE

- Headline CPI inflation at 5.3 per cent in August registered a moderation for the second consecutive month and a decline of one percentage point from its level in June 2021. The inflation print for the month of September is expected this week. Overall, the CPI headline momentum is moderating which, combined with favourable base effects in the coming months could bring about a substantial softening in inflation in the near-term.
- RBI projects CPI inflation at 5.3 per cent for 2021-22; 5.1 per cent in Q2, 4.5 per cent in Q3; 5.8 per cent in Q4 of 2021-22, with risks broadly balanced. CPI inflation for Q1:2022-23 is projected at 5.2 per cent.

Interest Rate Outlook

- The Reserve Bank of India (RBI) maintained status quo in its bi-monthly Monetary Policy meeting held on October 8. The six-member Monetary Policy Committee (MPC) of India's central bank kept the key lending rate — repo rate unchanged at 4 per cent for the eighth time in a row. Reverse repo rate remained unchanged at 3.35 per cent. The MPC continues to maintain its 'Accomodative' stance.
- RBI has announced that the Variable Reverse Repo (VRR) auctions will be stepped up fortnightly from ₹4 trillion to ₹6 trillion. RBI may complement the 14-day VRR auctions with 28-day VRR auction. Further, Governor has said that there is no need for undertaking further G-SAP operations now given the liquidity overhang and the absence of fresh government borrowing for GST compensation.
- According to RBI Deputy Governor Dr. Michael Patra, what has changed materially in the latest policy is the shift in active liquidity management to a passive style wherein market determines the rate at which liquidity will be absorbed by RBI in the 14 day VRRR.
- The MPC announcement means that yield curve at short end rates are likely to normalise faster than long-end yields. Long-end yields will have to contend with volatile oil prices, higher global bond yields and a strengthening dollar.
- RBI has set the pace for policy normalisation in the coming months. The first step was taken in this policy which could probably be followed up with a formal reduction in the policy corridor to 25 bps by increasing the reverse repo rate and then followed by a change in stance.
- Money inflows into US bond funds dropped in the last week as a surge in energy prices drove inflationary pressures. Investors purchased a net $727 million in US bond funds in the week up to 08 October which was their lowest weekly inflow since July 2021.
- Given the moderate September jobs data in the US and the belief that the Fed would stick to the November tapering announcement, bond yields in the US have hardened. The United States 10 Years Government Bond has 1.61% yield on 8th October 2021.

Weekly Benchmark Bond Yield Movement (%)

Date →	4/10	5/10	6/10	7/10	8/10
India 10 year	6.25	6.26	6.27	6.27	6.32
India 5 year	5.68	5.69	5.71	5.71	5.71
USA 10 year	1.48	1.53	1.53	1.58	1.61

Source: CMIE, worldgovernmentbonds.com

- In the wake of our reading of the global and domestic situation including volatile oil prices, coal shortage etc. bond yield for government benchmark 10-year is expected to remain in the range 6.25-6.40 for the week (11th Oct-15th Oct 2021).