Global Economic Outlook

- The US Consumer price index rose 5.4% in July 2021 (Y-o-Y) unchanged from June 5.4% (largest surge since 2008) and higher than 5.3% expected by economists. The July figures reflected supply chain constraints, soaring demand and low base effect.
- Though inflation remained unchanged compared to June 2021, a closer look suggests the spread of inflation to other sectors of economy. Used car and truck prices which drove inflation in April, May and June (rising at least 7.3% in each of the last 3 months) eased to 0.2%. While the cost of other goods including medical care, housing and food in grocery stores and at restaurant climbed in July 2021.

![US CPI (%)](image)

Source: US Bureau of Labour Statistics

- US Producer Price Index (PPI) for final demand, which capture the changes in prices charged by domestic producers to suppliers and retailers, increased by 7.8% in July 2021 (Y-o-Y) fastest since November 2010 as supply chains disruptions, materials shortages, job market recovery and rise in demand due to opening of economy without raising prices continued to put upward pressure on cost of production.
- UK GDP increased by 4.8% in Q2 (April-June-21) Q-o-Q compared to 1.5% decrease in Q1 2021. Easing of restrictions, opening of hospitality service throttled the growth led by government spending and household consumption. The current level of GDP is still well below pre-pandemic level Q4 2019 (Oct-Dec). The Q2 quarter have seen increase in services, production and construction output over the previous quarter.

Domestic Outlook

- The Nomura India Business Resumption Index (NIBRI) rose to 99.4 for the week ended 8th August 2021 from 94 the previous week thus inching towards the pre-pandemic level of 100. The uptick in the index was largely on account of good numbers from different mobility indicators, power sector, labour sector, etc.

- As per Moody’s projection, Indian Economy is expected to return to growth in the fiscal year ending March 2022. However, it has cautioned about the looming asset quality risk amid resurgence in Covid cases. It is of the opinion that continued support by central bank and government for borrowers may help fix increasing defaults of bank loans thereby preventing any further dent in the economy.
- Industrial output, as measured by the Index of Industrial Production (IIP), rose by 13.6% on a year-on-year basis in June 2021 from 29.3% in May 2021. The steep decline in daily Covid cases and increase in economic activity owing to opening of the economy has driven the improvement in June 2021 IIP.
- IIP has been growing sharply since March 2021 on account of low base effect as industrial output virtually came to standstill following the nation-wide lockdown. The impact of low base effect on IIP figure is expected to ease only after October 2021 as it was only after October 2020 that lockdown restrictions were minimal across the country and IIP figures showed positive growth.

![IIP (%)](image)

Source: CMIE

- Inflation (as measured by CPI) remaining above 6% tolerance limit of RBI for last two months, came back within the RBI’s target range of 2-6% in July 2021. CPI for the month of July 2021 eased to 5.6% from 6.3% in June 2021.
- While there was marginal decrease (0.9 percentage points) in fuel & light inflation, Food inflation component saw a substantial decrease to 3.96% in July 2021 from 5.15% in June 2021. The decrease came after supply interventions by GoI leading to softening of price pressure on edible oil and pulses.
- According to economist, inflation is expected to be in the range of 5-6% over the next three quarters but a small disruption can push inflation above 6% threshold thus creating some kind of uneasiness about how soon the Monetary Policy Committee initiates policy normalisation.
- WPI softened and fell for consecutive two months to 11.16% in July 2021, as inflation in Fuel and Power sector eased (3.55% in June to 0.53% in July-21 (M-o-M)). However, the wholesale inflation remained in double digit for straight three months mainly due to low base effect of last year.

Source: CMIE

- According to 4th Advance estimate, Foodgrains production in India hit a record high of 306.7 million tonnes (MT) (revised from 305.4 MT estimated in 3rd advance estimate) in crop year 2020-21, a 3.8% rise over the preceding year’s output of 297.5 MT.

- As on 13th August 2021, area sown under kharif crop is 1.8% lower than the previous period, so the onus will be on rabi crops to match last year’s foodgrain production in 2021-22 crop year.

- Unemployment rate (Percentage of unemployed persons in the labour force) increased to 8.1% (six week high) in the week ended August 8, 2021, according to date released by CMIE. The rising unemployment over the week reflects economy’s inability to create jobs even if the restrictions and lockdown are eased in many parts of the country.

- According to CMIE’s MD the rise in unemployment can also be attributed to the increase in labour force participation rate (LFPR) and if it is so then the figures are not of much worry.

**Interest Rate Outlook**

- Increased job opening in US by 5,90,000 to record high of 10.1 million on the last business day of June as reported by Bureau of Labour Statistics on 9th August, pushed the prospect of early bond tapering by Fed. This led to 10-year US benchmark treasury yield rising higher on 10th August 2021.

- On 13th August, 10-year Treasury yield fell below 1.3% as U.S consumer confidence fell in August to its lowest since December 2011, according to data released by University of Michigan.

- Over the past few weeks, the spread between 364-day Treasury Bills (T-Bill) and 10-year benchmark government bond yield has broadened mainly on account of surplus liquidity in the system and steep rise in bond yield. The spread currently is approximately around 250 basis points, nearly 60-70 basis points higher than usual.

- Currently the surplus liquidity in the system is estimated to be Rs.7.5 lakh crore and is expected to fall due to Variable Rate Reverse Repo Rate (VRRR).

- Analysts are of the view that RBI will hike interest rate in the first half of 2022 and may consider rolling back its accommodative policies.

- RBI conducted the third tranche (securities included were 5.63% GS 2026, 7.17% GS 2028, 7.26% GS 2029, 7.61% GS 2030 and 7.95% GS 2032) of GSAP 2.0 on 12th August 2021 amounting to Rs.25000 crore at the prevailing rates in the secondary market hence it did not have much impact on 5-year benchmark yield.

- CPI hit 3 month low but core inflation remained elevated. High core inflation negated the positive impact of low headline inflation on bond yields.

- In the first fortnight of August, daily average E-way bill generation rose to 2 million from 1.8 million in July. This points towards increased business activity and may lead to higher GST collection in the month of August, thereby, bringing relief to central government.

- RBI, on 13th August, conducted 14-day VRRR auction worth Rs 2.5 trillion at cut-off rate 3.43%.

- RBI exercised the green shoe (over subscription of G-Sec) option worth Rs 5495 crore in G-Sec auction on 13th August.

- RBI will release the minutes of its Monetary Policy Committee (MPC) meeting on 20th August 2021. The views of members of MPC may suggest the future course of monetary policy

### Weekly Benchmark Bond Yield Movement (%)

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Source: CMIE, worldgovernmentbonds.com

- According to a Bloomberg poll of 15 traders, fund managers and economists, the benchmark 10-year yield is expected to climb to 6.40% by Dec.2021.

- Bond yield for government benchmark 10-year is expected to remain in the tight range of 6.20-6.28 for the week (16th-20th Aug 2021) due to uneventful week and lack of fresh market cues. RBI’s MPC minutes to be released on 20th August may impact the yield at the end of the week.