Global Economic Outlook

- **OPEC revises crude oil demand upwards** – The Organisation of the Petroleum Exporting Countries (OPEC) expects oil demand to average 99.13 million barrels per day (bpd) in the first quarter of 2022, up 1.11 million bpd from its forecast last month.

- It further added that the impact of the new Omicron variant is projected to be mild and short-lived, as countries across the globe are better equipped to manage COVID-19 and its related challenges.

- **US retail sales rose slightly** - US Retail sales rose 0.3% in November 2021 compared to October 2021, according to the report released by US Census Bureau. This is the fourth straight month which witnessed a growth in retail sales.

- The continuous increasing trend seen in retail sales is fuelled by increased spending which continues despite rising fear of Omicron and higher prices of goods and services. Though sales growth in November 2021 came well below the economists forecast, it is expected that sales will continue to grow in December 2021 as well.

- **Producer Price Index increased by 0.8%** - According to the US bureau of Labour statistics, the Producer Price Index (PPI) for final demand increased by 0.8% (M-o-M) in November 2021. On annual basis the index rose 9.6%, the largest gain since the series was first calculated in November 2010 as supply chain constraints continue to persist.

- **US manufacturing PMI hints at slowing growth momentum** - IHS Markit Flash US Manufacturing Purchasing Managers Index fell to 57.8 in December 2021 after posting 58.3 in November 2021. The reading in the month of December 2021 was the lowest since December 2020. The US Service PMI also showed the sign of slowing by posting a reading of 57.5 in December 2021, down slightly from 58.0 in November 2021.

- With both manufacturing and services sectors activity slowing, overall business activity cooled this month. The survey's flash Composite PMI Output Index fell to a reading of 56.9 in December 2021 from 57.2 in November 2021.

- **Inflation at wholesale level increases by 14.23%** - Inflation at wholesale level for the month of November 2021 increased by 14.23% as compared to 2.29% in November 2020.

- The high rate of inflation was primarily due to rise in the fuel and power inflation (39.81% Y-o-Y). The current inflation rate is the highest in the current WPI Series (starting April 2012 onwards). Also the November 2021 WPI Inflation witnessed the fastest growth since November 1991 and clocked the eight successive month of remaining in double digit.

Domestic Outlook

- **India’s growth forecast revised downwards** - The Asian Development Bank (ADB) trimmed India’s 2021 growth forecast to 9.7% from its September estimate of 10%, but left the 2022 growth forecast unchanged at 7.5%.

- The reason cited for this downgrade was, lower than expected growth in July-September 2021 quarter and a double-digit contraction in motor vehicle sales in October 2021 resulting out of chip shortages and rising semiconductor prices.

- **Business Activity at all-time high** - For the week ending 12th December 2021, Nomura India Business Resumption Index (NIBRI) touched an all-time record high of 115.8 since the onset of the pandemic.

- The record high of NIBRI was due to uptick seen in Mobility indicators led by Google mobility index (4 percentage points (pp)), retail and recreational index (2 pp) and Apple driving index (2.9 pp).

- **Rabi Sowing up by 2.4%** - Area under Rabi crops stood at 55.8 million hectares as on 17 December 2021, compared to 54.5 million hectares a year ago showing a growth of 2.4% (Y-o-Y). Major growth in area was seen under Oilseed’s segment (22%), of this the safflower (31.15%), rapeseed and mustard (23.68%) and sunflower seeds (22.68%) showed highest growth.
• However, Acreage under coarse cereals decreased by 3.5% (Y-o-Y) to 4 million hectares followed by wheat 0.9% to 27.8 million hectares.

• **Non-food Credit grows at 7.51%**: According to the data released by the Reserve Bank of India (RBI), non-food credit showed a growth of 7.51% (Y-o-Y) during the fortnight ended 3rd December 2021.

• According to the analysts at Credit Suisse, the growth in the Non-food credit came on the backdrop of easing of monetary conditions, the up fronting of infrastructure capex by the government, a pick-up in real estate sales after a multi-year down cycle and a pro-growth turn in India’s Industrial Policy.

### Interest Rate Outlook

• **Bank of England hike Policy Rate to 0.25%**: The Bank of England hiked the policy rate by 15 basis points to 0.25%, whereas the Norway’s central bank hiked the policy rate by 25 basis points to 0.5%.

• The rate hike came in face of persistent inflation pressures (5.1% in November 2021, the highest gain in 10 years and well above the bank’s 2% target) and a tightening labour market.

• Further, the European Central Bank confirmed that it would end its emergency bond purchase program in March 2022, but also signalled plans to continue with its regular asset purchase program for at least several months thereafter.

• **Fed announces cut in its purchase program**: The Federal Reserve after concluding its meeting on 15th December 2021, announced of further tightening up its pandemic era assistance by increasing the pace of tapering.

• The Fed will double down the pace of scaling back its monthly purchases of Treasuries and mortgage-backed securities to $30 million a month, making it possible for Fed to end the program in early 2022, rather than mid-year as initially planned.

• Fed on 3rd November 2021, announced of winding down its bond buying program of $120 million/month it had put in place since the onset of pandemic by reducing the asset purchases by $15 million/month.

• Projections released on Wednesday dated 15th December 2021, indicate that Fed officials see as many as three rate hikes coming in 2022, with two in the following year and two more in 2024.

• **Yield on Benchmark 10-year bond remained steady**: The yield on India’s benchmark 10-year paper remained almost flat throughout the week except on Friday dated 17th December 2021, when it rose nearly 4 basis points to 6.41% after the Federal Reserve increased the pace of tapering its bond purchase programme and the Bank of England hiked rates on 16th December 2021 for the first time since the onset of the pandemic.

• **Variable Reverse Repo Rate Auction**: For the week ending December 19th, RBI conducted variable reverse repo rate auctions for a notified amount of Rs 8.5 lakh crore out of which it received offers amounting Rs 5.6 lakh crore.

• RBI announced that it will conduct a three-day Variable Rate Reverse Repo (VRRR) auction worth Rs 2 lakh crore under its liquidity adjustment facility on 20th December 2021.

• Notably, RBI has decided to conduct a 3-day variable rate reverse repo auction this time instead of having VRRRs for 7, 14 or 28 days. The shortening of period of VRRR auction can be attributed to the lukewarm reactions that recent rounds of VRRR auctions received.

• **Switch/Conversion auction of five Government Securities**: On 20th December 2021, RBI announced Switch/Conversion auction of five Government Securities, 4 maturing in 2022 and 1 in 2023 together aggregating Rs 20,000 crore into 6.01% GS 2028 and 7.57% GS 2033.

• This implies government does not have to redeem the G-Seccs announced in the above mentioned auction. The above step of RBI, may be directed towards reducing the redemption burden of the government.

### Weekly Benchmark Bond Yield Movement (%)

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Source: worldgovernmentbonds.com, CME

• **RBI to hike interest rate faster than projected**: In view of rising underlying price pressures, economists believe that the Reserve Bank of India (RBI) will likely hike interest rates at a faster pace than projected earlier. They expect the RBI to hike repo rate by 100 basis points (bps) cumulatively in 2022, up from the previous forecast of 75 bps due to higher inflation risk. The latest inflation data shows that core inflation rose to 6.1 per cent in November 2021 while wholesale inflation rose to an all-time high of 14.23%.

• The benchmark 10-year bond yield is expected to remain on the higher side of the range (6.40-6.50) for the week ending 24th December 2021. Bond yields across various tenures are expected to rise after seeing RBI’s various effort to reduce the liquidity in the market.