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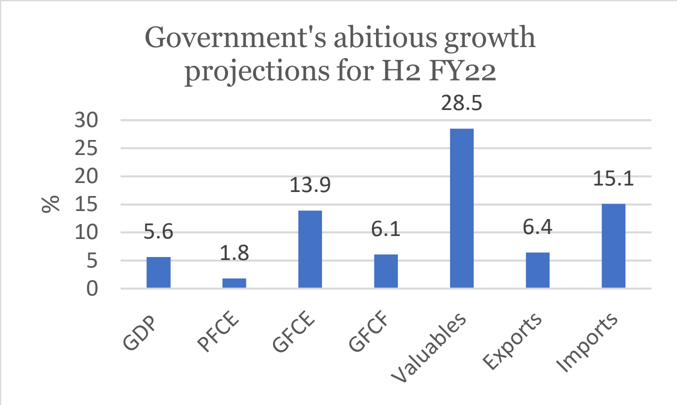
Global Economic Outlook

- **US inflation scenario:** United States government released data on December inflation. Investors expected annual inflation to hit 7%. Consequently, investors were not surprised. Bond yields fell slightly. Although inflation is high, the report did offer a mixed picture concerning the intensity of inflation.
- Consumer prices were up 7% in December versus a year earlier, a nearly 40-year high. Prices were up 0.5% from the previous month. However, when volatile food and energy prices are excluded, core prices were up 5.5% from a year earlier and up 0.6% from the previous month. There was a high annual increase in energy prices, up 29.3%.
- Inflation is threatening the economic recovery given that real (inflation-adjusted) wages are mostly declining. This reduces the actual purchasing power of consumers at a time when fiscal stimulus is being withdrawn. Moreover, tightening monetary policy also threatens to boost borrowing costs for consumers and businesses. Thus, reducing inflation soon will be critically important to a sustained recovery.
- The best hope is that supply chain problems will abate and that energy prices will stabilize or decline. At the least, both fiscal and monetary policy are now on a path that will not exacerbate inflation.
- **Eurozone inflation continues to rise:** Inflation continued to accelerate in the 19-member Eurozone, with consumer prices up 5% in December versus a year earlier. This was the highest headline inflation since the Eurozone was created two decades ago.
- Prices were up 0.4% from the previous month. In addition, when volatile food and energy prices are excluded, core prices were up 2.6% in December versus a year earlier, also a record high. Core prices were up 0.4% from the previous month. The difference between the headline and core inflation was mainly due to the 26% annual increase in energy prices.
- European Central Bank leadership has consistently taken the view that the recent surge in inflation is temporary and that, as supply chains return to normal, inflation is expected to diminish.

Domestic Outlook

- **Optimistic advance GDP & GVA estimates:** The government's first advance estimates project GDP (gross domestic product) to grow by 9.2 per cent and GVA (gross value added) to grow by 8.6 per cent in 2021-22.
- GDP advance estimates imply that government final consumption expenditure (GFCE) will grow year-on-year by 13.9 per cent in real terms during October 2021-March 2022.
- Central Government's revenue expenditure is scheduled to rise by only 4.3 per cent in the second half of 2021-22. This 4.3 per cent growth is in nominal terms.



- Government expects gross fixed capital formation (GFCF) to grow by 6.1 per cent in real terms during October 2021-March 2022, over and above the 6.8 per cent growth clocked during the same period of last year.
- Government expects agricultural GVA to grow by 3.4 per cent in the second half of 2021-22.
- Government estimates GVA of manufacturing sector to grow by 4.4 per cent in the second half of 2021-22.
- **New Year, New High:** Indian companies raised $6 billion selling offshore bonds during January 1-14, the most in the first fortnight of a year, showing the confidence of international investors in India's economy despite looming uncertainties globally.
- Emerging consensus is that India by and large is delinked from most emerging markets and does constitute a separate asset class.
- Globally, the bond market is weak amid looming uncertainties on account of monetary tightening and inflation concerns. Indian companies are benefiting from this, as international investors are seeking diversification of portfolios through emerging markets.

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- **SEBI gives itself powers to grant exemptions to FPIs:** SEBI can now use special powers to relax compliance requirements for foreign funds. The capital markets regulator's board has been empowered to give overseas investors leeway in the event of inadvertent lapses while investing in the country.
- Currently, there are no provisions in the law to provide exemptions to foreign portfolio investors (FPIs). The regulator, however, has powers to provide special exemptions to listed companies, fund houses and other market entities.
- **India's Economy set to Improve over next 12 months:** India's economic growth is all set to improve over the next 12 months despite the coronavirus pandemic-related problems and global headwinds, says the PwC Annual Global CEO Survey.
- The vigour with which most Indian business leaders took the challenges brought in by the pandemic head-on, coupled with the will to emerge stronger in the face of adversity, has led to sustained growth for businesses in India
- **Centre set to miss disinvestment target yet again:** The government had set out with a privatisation target of ₹1.75 lakh crore in FY22. So far, the government has managed to mop up around 5% of this target, or ₹9,329.90 crore
- Divestment of two players in particular, largely, would take the government closer to its target, BPCL and LIC. The LIC IPO, the biggest ever, is expected to hit the bourses in March 2022. The Centre is eyeing ₹80,000-1 lakh crore, diluting around 5-10% stake. It appears to be a mammoth task.
- While the tax revenues have been robust as the economy has recovered, one would think the government is banking quite hard on the divestment proceeds to meet the fiscal deficit target for FY22, 6.8% of the GDP.

Interest Rate Outlook

- **India's 10-year bond yield hits 2-year high:** India's benchmark 10-year bond yield hit a two-year high this week. There is also a larger quantum of state development loans available at higher yields. Corporate bonds issuances have seen a drop amid rising G-sec rates.
- An uptick in US yields and continued rise in global crude oil prices have raised expectations of rate increases by the RBI.
- US Treasury yields rose and stayed higher in Asia trade as a batch of soft consumer and manufacturing activity data was seen as not enough to derail the Federal Reserve's path of tightening policy.
- India's benchmark 10-year bond yield rose 6 basis points to 6.64%, its highest since January 22, 2020.
- The RBI has held its key repo rate at a record low since mid-2020 but has started scaling back secondary market bond purchases and withdrawing liquidity through short-term reverse repurchase auctions as it begins policy normalisation.
- Oil prices edged up as investors bet supply will remain tight amid restrained output by major producers with global demand unperturbed by the Omicron coronavirus variant.
- The RBI has projected inflation to stay high in the near term but a sustained rise in global crude prices threatens to keep retail prices higher for much longer and drive inflation above its mandated 2%-6% range.
- **Gold Prices Tumble:** The gold prices are trading in a tight range after the release of the December Federal Reserve meeting minutes signalled a possibility of earlier and faster rate hikes due to increasing inflation.
- Gold prices in India tumbled over half a percent last week, on the back of weak global cues. On the Multi Commodity Exchange, gold February futures were down 0.53 per cent or ₹256 to ₹47,765 per 10 gram, as against the previous close of ₹48,021

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	10/01	11/01	12/01	13/01	14/01
USA 10 year	1.77	1.74	1.74	1.70	1.79
India 10 year	6.59	6.57	6.59	6.56	6.58
India 5 Year	6.03	6.01	6.02	5.97	5.97
India 3 Month	3.58	3.60	3.61	3.57	3.57

Source: CMIE, www.worldgovernmentsbonds.com

- We expect the 10 year benchmark bond to trade in the range of 6.56-6.66 in the week of 17-21st January 2021.