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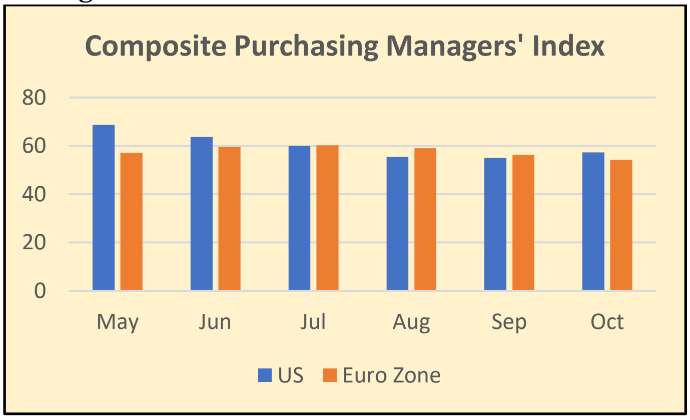
Global Economic Outlook

- As per data put out by IHS Markit on 22.10.2021, the US Composite PMI Index, which tracks the manufacturing and services sectors, rebounded to 57.3 in the first half of October from 55.0 in September. The pick-up in business activity this month was driven by the services sector wherein the services PMI rebounded to 58.2 from 54.9 in September.
- US Manufacturing PMI on the other hand fell to 59.2 from 60.7 in September, the lowest since March. Output rose at its slowest pace since July due to higher input costs and material shortages combined with logistical issues.
- Growth in Euro zone business activity slowed in the month of October as firms faced increasing costs due to supply-chain constraints while the dominant service industry struggled amid ongoing Covid-19 concerns.
- The Euro composite PMI fell to a six month low of 54.3 in October from 56.2 in September. Growth in activity slowed in Germany, Europe's largest economy while in France an expansion in the dominant services sector was offset by weakness among manufacturers.



Source: IHS Markit

- Inflation in the UK cooled to 3.1% in September from 3.2% in September as per data put out by the Office for National Statistics (ONS). This has gone against the expectation of experts who were expecting inflation to remain at 3.2%.
- As per the ONS, the unexpected slowdown in inflation was largely because of base effects. Many economists believe that the September figures could be the "lull before the storm" as UK like other countries has been hit by sharply rising energy prices and supply chain problems.
- China's third quarter GDP growth slowed to 4.9% as per data released by the country's National Bureau of Statistics on 18.10.2021. The slowdown is attributed to industrial output which rose way below expectations (3.1% as opposed to 4-4.5%) in September. Reasons for the slowdown include the massive fuel crunch, systemic crisis in the real estate sector precipitated by the Evergrande fiasco and souring of sentiment amid the federal government's crackdown on multiple Chinese sectors.

Source: www.statista.com

Domestic Outlook

- The International Monetary Fund (IMF) on 18.10.2021 reduced its forecast for India's potential growth by 25 basis points (bps) to 6%. Potential growth refers to the growth rate an economy can sustain over the medium term without generating excess inflation.
- The IMF has cut its forecast citing the corona virus pandemic's impact on investments and the labour market. Investment has taken a big hit and capital stock is lower than what it would have been otherwise. The IMF has also highlighted the human capital component in the labour market distortion caused by the pandemic. The reduced access to education and training due to the pandemic would weigh on human capital growth going forward.
- As per Mint's emerging markets tracker, India retained its advantage over key emerging market (EM) peers in September, helped by a covid-19 vaccination drive that picked up pace, improved mobility and an equity market flush with liquidity. India remained at the second position behind Russia in the latest update to the tracker (19.10.2921) for the second straight month.
- India crossed the key landmark of administering 1 billion Covid-19 vaccine doses on 21.10.2021, having given half of its population at least one shot. Though the scale has helped address some of the

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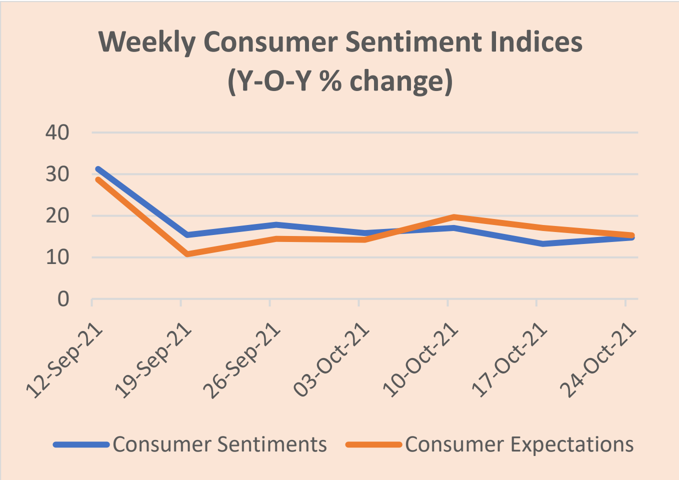
vaccine inequities over time but not fully. The populous states of UP (508) and Bihar (505) still lag much behind the national average (729) of doses per 1,000 population.

- As per CMIE data, consumer sentiments improved by 9.8% for the week ended October 10 while the index of consumer expectations jumped by 10.4%. The gain in consumer sentiments emanates from a jump in the expectation that the economy as a whole would do better in the coming one year and also in the coming five years.



Source: CMIE

- Weekly data put out by CMIE shows the labour force participation rate (LPR) stood at 41.6% in the week ended October 17 compared to 39.2% in the week ended October 3 and 40.4% in the week ended October 10.
- The unemployment rate though higher than September has seen a week-on-week decline in October. It stood at 7.3% in the week ended October 17 compared to 7.6% and 8.9% in the weeks ended October 3 and October 10 respectively. This translated into an increase in employment rate from 36.8% in the week ended October 10 to 38.5% in the week ended October 17.
- According to India Ratings and Research (Ind-Ra), the recently concluded normal monsoon season will provide a much needed cushion to India's agriculture and inflation in 2021-22. Ind-Ra expects average inflation for 2020-21 to remain under 6%.
- In 2021, India witnessed 99% of its long period average (LPA) rainfall in the monsoon season of June-September, although there were significant variations across months and different regions. The rainfall for the country as a whole was 110 per cent of LPA in June; 93 per cent in July; 76 per cent in August and 135 per cent in September.
- The first advance estimates for kharif foodgrains production is projected to reach to 150.5 million tonnes. Among the major kharif crops, acreage of rice and pulses was higher Y-o-Y whereas the sown area for oilseeds and coarse grains was lower by 1.5% and 2.7% respectively.

Interest Rate Outlook

- In the past week there was no respite for G-Sec yields even as crude prices and the US treasury yields continued to rise. The benchmark yield closed at 6.36% after having nudged the almost 6.4% level. Brent crude continued to persist around the \$85 mark and even touched the \$86 mark. On the other hand the 10 year US treasury yield hovered close to the 1.7% mark compared to the 1.57% level in the previous week.
- On the domestic front, the RBI released the minutes of the MPC meeting on 22.10.2021. According to market participants, the minutes are fairly balanced and do not present any element of surprise.
- According to experts, with the benchmark yield hovering close to the 6.4% mark, expectations were building up that the RBI would announce some sort of bond buying which would help calm the yields. The yields even saw some softening on Thursday with the yield cooling to 6.34% on 21.10.2021. Since there was no such announcement, the benchmark yield edged higher to close at 6.36% on 22.10.2021.
- According to market dealers, the 6.4% level is crucial and that despite the buying support in recent times, the yield could edge higher if oil prices continue to rise.

Weekly Benchmark Bond Yield Movement (%)

Date	18/10	19/10	20/10	21/10	22/10
India 10year	6.39	6.39	6.37	6.34	6.36
India 5 year	5.85	5.85	5.85	5.93	5.96
USA 10year	1.50	1.64	1.66	1.67	1.64

Source: CMIE, worldgovernmentbonds.com

- There is a strong expectation of some sort of action from the RBI to cool yields but if oil prices continue their upward momentum bond yields could even touch 6.5%. The benchmark 10-year yield is expected to remain in the range 6.35-6.45 for the week (25th Oct-29th Oct 2021).