Global Economic Outlook

- United States Gross Domestic Product (GDP) for the Q2-2021 was upwardly revised to 6.6% from 6.5% according to the second advance estimate released by Bureau of Economic Analysis (BEA). In the first quarter of 2021, GDP increased by 6.3%.
- IHS Markit Flash U.S. Composite PMI Output Index posted 55.4 in August 21, down from 59.9 in July 21. U.S. private sector companies though reported a further substantial expansion in business activity during August 2021, the rate of growth eased for the third month running to the lowest since December 2020, as weaker recovery was seen across manufacturing and service sector due to capacity pressures, labour and material shortages and the spread of Delta variant.
- US Personal and Disposable Personal Income increased by $225.9 billion (1.1 percent) and $198 billion (1.1 percent) M-o-M in July respectively.
- Personal consumption expenditure (PCE) price index, a key marker of inflation increased by (0.4 percent) M-o-M and 4.2 % Y-o-Y the biggest increase since 1991, according to estimates released by the BEA on 27th August 2021.

![US PCE Index](image)

Source: Bureau of Economic Analysis

- IHS Markit Eurozone PMI, hit a 2-month low of 59.5 in August 2021 versus 60.2 in July 2021. With further reopening of economy, service sector exceeded manufacturing sector in growth for the first time since pandemic.
- Though the momentum cooled in August 2021 largely because of widespread supply chain delays, growth in hiring, which stood fastest in 21 years is expected to bring significant growth in the third quarter of this year.
- Crude oil price jumped nearly 10% this week (ending on Friday 27th August 2021), the biggest weekly gain since June 2020 as oil companies in the Gulf of Mexico were forced to shut down their production ahead of Hurricane Ida (expected to hit the coast early next week (30th Aug -5th Sept 2021).
- Sentiments for energy demand saw a rise following US regulator approving Pfizer-BioNTech Covid vaccine and China able to achieve no new locally transmitted cases of CoVID-19 this week.

Domestic Outlook

- Nomura India Business Resumption Index (NIBRI), continued to stay above 100 and touched 101.8 for the week ended 22nd August 2021 after breaching the pre-pandemic level of 100 for the first time (100.1 on 15th August) since March 2020.
- According to Nomura, the Index has a huge scope for improvement (by 2-3 pp) as Google mobility still remains 13-14 percentage points below normal. Further, the risk of third wave on businesses can’t be negated even though the cases per day haven’t seen a flare-up in August 2021 and vaccination pace reaching a level of average 5.1 million doses per day.
- Under National Monetisation Pipeline (NMP) worth Rs 6 Lakh crore, the government will raise Rs 88,000 crore this fiscal by leasing infrastructure assets of central government ministries and state-run companies to fund new infrastructure projects, helping boost economic growth.
- Aggregate Fiscal Deficit of states for 2021-22 is expected to moderate to 4.1% (previous forecast 4.3%) of the GDP, according to India Ratings & Research analysis of finances of 14 states.
- The revised figures came after states being seen putting slightly better performance on their public finances and on expectations of high GDP at current prices and revenues in the current FY.
- Nomura Chief Economist believes that a more benign view has been taken on the current surplus liquidity conditions in the banking system and allowing this quantum of liquidity, which Indian economy does not need, may create macro-economic challenges down the line.
- A calibrated normalisation of liquidity must continue and the monetary policy must be forward looking in its approach, the economist added.
- According to IMD, the rainfall in August 2021 has been deficient by 26% so far, in July the rainfall was less by 7% than the normal.
- This has severely affected the sowing of paddy in many parts of the country. Area sown under paddy is reported to be 1.23% lower than the corresponding period of last year. Oilseed sowing also got impacted with currently 18.9 million hectares under it being lower by 11.7-million-
hectare for last year, data released by Ministry of Agriculture shows.

- According to Barclays, below normal monsoon (8% monsoon rainfall deficit) may impact future sowing and harvesting and may raise concerns for inflation and economic growth in rural areas over the medium term.

**Interest Rate Outlook**

- RBI governor, ahead of Jackson Hole conference stated, RBI is in no hurry to go with a policy shift or rate hike. It would consider revision in policy rates only when revival of economic activity shows signs of durability and signs of sustainability.
- US Dollar Index fell sharply this week with the index hitting below 93 on 23rd August as forex players expected US Fed chief could delay rolling back the monthly stimulus amidst the spread of the Covid-19 delta variant.
- Rupee rose to two-months high and settled at 73.96 (higher by 53 paise) on 27th August against its previous close of 74.22 fuelled by foreign banks selling dollar persistently for overseas investment in Asian economies.

![Dollar Index](Image)

**Weekly Benchmark Bond Yield Movement (%)**

<table>
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<tr>
<th>Date</th>
<th>23/8</th>
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<th>25/8</th>
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<td>India 10 year</td>
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<tr>
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<td>1.349</td>
<td>1.354</td>
<td>1.31</td>
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Source: CMIE, worldgovernmentbonds.com

- RBI on 27th August conducted 13-day Variable Rate Reverse Repo (VRRR) auction (cut off rate 3.42%) for a notified amount of Rs 3 lakh crore. The total amount of offers received by central bank was Rs 5.07 lakh crore.
- US 10-year treasury yield rose consistently for the first four days of the week ahead of Annual Jackson Hole Symposium, which was scheduled to be held on 27th August 2021, the uptick in the yield also got support following US regulators granting approval to Pfizer-BioNTech Covid vaccine.
- Federal Reserve Chair Jerome Powell, in a speech to Jackson Hole, said, US economy continues to make progress towards Fed’s benchmarks.
- Inflation as measured by headline and core PCE have run at 4.2 percent and 3.6 percent, respectively—well above Fed’s 2 percent longer-run objective. Outlook for labour market also brightened with job gains rising with an average of 8,32,000 over the past three months.
- Labour market recovery and price stability are important factors for Federal Reserve to take decisions on interest rate hike and rollback of monthly debt purchase (currently at $ 120 million per month).
- Powell agreed with most participants on US economy recovery and reducing the pace of asset purchase by end of this year if economy evolves as anticipated at Federal Open Market Committee (FOMC)’s July meeting. But cautioned that, reduction in asset purchases should not be taken as direct signal regarding interest rate hike as Fed’s have articulated a different and substantially more stringent test for it and there is much ground that needs to be covered before rate hike.
- RBI announced to conduct auction of three GOI dated securities amounting Rs 26000 cr on 3rd September 2021. The securities included are 4.26% GS 2023, Benchmark 10 year (6.10% GS 2031), 6.76% GS 2061.

**India’s 10 yr Benchmark bond movement forecast**

<table>
<thead>
<tr>
<th>Date</th>
<th>6.25%</th>
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<th>6.57%</th>
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<td>Sep-22</td>
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Source: worldgovernmentbonds.com

- Bond yield for government benchmark 10 year is expected to remain on the higher side of the range 6.20-6.28 due to increase in crude oil prices. The market consensus for Q1 GDP data is 20% and any figure lower than that may dent the market sentiments, and this may lead to increase in bond yield.