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## Global Briefs

- The IMF officials – director of fiscal affairs & chief economist – write that “multilateral action is urgently needed”, as gaps open between countries with access to vaccines and those without. Poorer countries are falling further behind because they have limited fiscal space.
- According to the OECD’s latest report, the world’s major economies that have seen rapid recovery after easing Covid restrictions begin to run out of steam in the past month as a resurgence in the virus depressed consumer spending. The OECD said data supplied by its 38 member countries showed that most major economies had passed their 2021 peak levels of growth and while they were still expanding, it was at a slower pace.
- In its closely watched monthly market report, the International Energy Agency said that the worsening of the pandemic, as well as revisions to historical data, mean its global oil demand outlook has been “appreciably downgraded,” with some of this year’s forecast recovery shifted to 2022. Oil prices have retreated 6% this month as the contagious delta variant triggered renewed lockdowns in China and other key Asian consumers where vaccination rates are lagging.
- Several Fed officials this week came out in support of tapering bond buying in coming months, setting themselves apart from other, more dovish major central banks such as the European Central Bank and the Bank of Japan. Yesterday’s weekly data showed the number of Americans filing claims for unemployment benefits fell again last week as the economic recovery from the Covid-19 pandemic continued.
- Housing prices are rising in many major economies. But because house prices are not directly included in the headline inflation measures that shape central banks’ mandate in advanced economies, those institutions are not required to seek to quell prices when they rise, says the report in Financial Times. While central banks have a mandate to maintain financial stability, most do not see the housing market as a prime source of risk.

## Indian Agri & Rural Scene

- The deficit in cumulative southwest monsoon rainfall that was 7% as on July 12 decreased to 4% as on August 8 but again rose to 6% as on August 12, 2021. India’s met department (IMD) expects monsoon conditions to stay weak over the country for the next five-six days. Rainfall distribution in India has been highly uneven this year.
- According to the CRISIL’s latest report, uneven distribution of monsoon rainfall is likely to impact the kharif sowing, which is expected to fall 1% lower (y-o-y) for the entire season. Cumulatively, sowing till August 8 was lower by 2.4% (y-o-y).
- Foodgrain production in India rose to a record high of 308.7 million tonnes in crop year 2020-21, marking a 3.8% rise over the preceding year’s output of 297.5 million tonnes, as per the fourth advance estimates released by the Ministry of Agriculture and Farmers Welfare.
- In July, total tractor output of India reached 104,308 units, the second highest monthly production figure in this decade, as pent-up demand remained strong. The total number of units exported was 11,187, which was the greatest monthly total ever. The tractor industry is sticking to its single-digit growth forecast for the current fiscal year, despite the fact that the second half of the year may see some slowdown due to the high base effect and lower replacement demand.

## India's Economic & Policy Developments

- Moody's Investor Services expects the Indian economy to return to growth by the end of March 2022. However, it cautioned that the asset quality risk is still looming large amid resurgence of coronavirus infections and the slower pace of vaccinating citizens will add to the woes.
- India's government has started working on Rs 6 trillion asset monetisation plan, which has a range of assets including those of Power Grid Corporation of India, national highways among others. The government is keen on completing the privatisation of Air India and Bharat Petroleum Corporation during the current fiscal. Shipping Corporation of India, Pawan Hans, and Nilanchal Ispat Nigam are other state-owned companies that are being worked upon for privatisation.
- According to the RBI officials, the RBI may come out with a model on initial implementation of the country's sovereign digital currency, Central Bank Digital Currency (CBDC), by the end of this year. Currently, issues of scope, technology, distribution and validation mechanism are being evaluated.
- Many firms in India have reached out to the central government seeking relief from other changes in the tax framework that were retrospective. This has come after the Central government repealed the indirect transfer of assets amendment, in view of the changes made in tax laws that resulted in tax demands retrospectively and led to litigation.
- India's headline CPI inflation moderated to 5.6% (y-o-y) in July (our forecast: 5.7%) from 6.3% in the previous two months due to a favourable base effect and a sequential easing in many food article prices. Even annualised core inflation eased from 6.3% in June to 6.1% in July. This to a great extent reflects a slowdown in demand due to the COVID's second wave. A negative y-o-y growth in consumer nondurable goods production despite the favourable statistical base vindicates the claim of demand destruction by the second wave, especially in the rural belts.

## India's Industrial & Services Sectors

- India's eight core industries' production growth eased from 16.3% in May to 8.9% in June, 2021 led by a y-o-y growth slowdown for the sectors refinery products, steel, cement and electricity. Core sector's output was 4.7% lower than the pre-COVID level of June 2019 and also lower than the April, 2021 print. This is reflective of continued weakness in economic revival.
- India's industrial production growth stood at 13.6% (y-o-y) in June, 2021 (our forecast: 7.4%) versus 28.6% in May. Rating agency ICRA points out that the sequential rise in manufacturing in June (7.4%) is muted as compared to the sharp pickup in the generation of GST e-way bills (36.8%) that month. This suggests that the sequential trend in GST e-way bills is not a good lead indicator of industrial production. The level of IIP at 122.6 in June, 2021 is much lower than its level at 126.7 in April, 2021 & the level at 129.3 in June, 2019.
- The IHS Markit Manufacturing PMI rose to 55.3 in July, 2021 from 48.1 in June with over one-third of companies surveyed noting a monthly expansion in production, amid a rebound in new business and the easing of some local COVID-19 restrictions. While the overall level of positive sentiment rose from June's 11 month low, it remained historically subdued as some companies were concerned about the path of the pandemic.
- However, India's services sector contracted for the third month in a row in July, 2021 with fresh job losses for the eighth successive month, as per the Purchasing Managers' Index (PMI) which stood at 45.4 in the month, marginally better than the 41.2 recorded in June.

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## Indian Financial Markets

- Liquidity in the banking system is estimated to be in a surplus of over Rs 7.37 trillion as of today. Liquidity surplus widened by Rs 250 billion after the RBI purchased five government bonds on August 12<sup>th</sup> under the GSAP 2.0.
- Sentiment in the government bond market has turned bearish despite surplus liquidity as well as the RBI's assurance to support yields for three reasons. One, the vote for the accommodative stance was 5-1 in the monetary policy committee (MPC) meeting held on Aug 6<sup>th</sup>. Second, the MPC raised its average inflation forecast for the current fiscal year from 5.1% to 5.7%. Third, the RBI has increased the amount of money that it drains from the banking system via its variable rate reverse repurchase agreements. While a lower CPI print announced yesterday has eased the pressure to some extent, the yield on 10-Yr benchmark paper has hardened to 6.24% as of today (13<sup>th</sup> August) from 6.10% a month ago.
- The benchmark 10-year yield will climb to 6.40% by December, while the five-year yield will increase to 5.90%, according to the median estimate in the Bloomberg survey of 15 traders, fund managers and economists conducted this week.
- Even as yields on government bonds have risen in the past one month, weak demand from debt funds and low supply of corporate bonds have kept yields on these papers mostly range bound. This has resulted in narrowing the spread between government securities and corporate bonds.
- Indian rupee has hovered in the range of 74.15 to 74.48 per US dollar in the month of August so far. FII inflows, growth outlook for India in the shadow of COVID's third wave, trajectory of global crude prices and the Fed's stance towards monetary policy are some of the key variables that shall steer the movement of the local currency in the near to medium terms. Strengthening of the US dollar index in recent weeks has deepened the depreciation bias for Indian rupee.
- While the domestic benchmark stock indices scaled historic highs this week on continued fund flows, the stocks face risks from factors such as inflation, valuation, and the policy stance of the US Fed.
- Indian petrol/diesel prices remain unchanged for nearly three weeks as global oil rates remain volatile amid rising COVID cases in some parts of the world and subsequent concerns over demand. While global oil prices remain volatile, state-run oil marketing companies (OMCs) have not yet reduced rates. It is likely that OMCs are awaiting a favourable situation where global oil rates see a further dip.

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