Macro Perspectives

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Global Briefs

- While Bank of England has become the first of seven major central banks to raise interest rates since the pandemic, the U.S. Federal Reserve officials have signaled they favour a faster-than-expected pace of hikes next year. However, European Central Bank is taking a more gradual approach as it sticks to a view that inflationary pressures are transitory. Bank of Japan followed US Federal Reserve to taper bond buying but held rock-bottom rates last week.
- Asian stocks fell and oil prices slid on Dec 20th as surging Omicron COVID-19 cases triggered tighter curbs in Europe & threatened to swamp the global economy into the New Year. The spread of Omicron saw the Netherlands go into lockdown on Dec 19th and put pressure on others to follow, though the U.S. seemed set to remain open.
- According to a report by Nomura Holdings Inc., most economies, including the euro area, U.K., Japan & China haven't fully recovered from the ongoing pandemic and their fragile private demand leaves them vulnerable to growth setbacks. A slowdown in growth could come from the erosion of profits & household incomes from higher inflation, higher savings amid economic uncertainties, and fiscal policy switching to be a major drag, the report added.
- Omicron, sticky inflation, Fed lift-off, China's Evergrande slump, Taiwan, a run on emerging markets, hard Brexit, a fresh euro crisis, and rising food prices in a tinder-box Middle East — all these feature in a rogues' gallery of global risks for the year 2022.
- The value of global mergers & acquisitions (M&As) topped $5 trillion for the first time ever, with volumes rising 63% to $5.63 trillion by Dec. 16, according to Dealogic data, easily surpassing the pre-financial-crisis record of $4.42 trillion in 2007. This was facilitated by healthy corporate balance sheets that are sitting on $2 trillion of cash in the U.S. alone and easy access to capital that was available at historically low costs.

Indian Agricultural & Rural Scene

- Area sown under India's winter (rabi) crops was higher by 2.4% (y-o-y) until Dec 17th. On y-o-y basis, while acreage sown under wheat (-0.9%) & coarse cereals (-3.5%) has declined, that under pulses has remained unchanged from a year ago level. However, area sown under oilseeds has increased healthily by 22.0% (y-o-y), driven by much higher prices of edible oils this year.
- Unemployment in the rural non-farm sector has also increased in recent months. According to the latest statistics, only 40 million man-days were generated under the Mahatma Gandhi National Rural Employment Scheme (MGNREGS) during 1-17 December 2021, as compared to over 280 million in the same month last year and 220 million each in the previous two months. This could be attributed to the non-release of funds this month, as per reports.
- India's rural demand has slowed significantly compared to urban demand and this is getting reflected in the negative sales growth of tractors, two wheelers, etc. in the month of November, 2021. Many FMCG companies like Hindustan Lever, Marico & Dabur have started cautioning about rural demand slowdown in their recent investor calls.

India's Economic & Policy Briefs

- According to Oxford Economics – global investment firm, India's growth recovery has been led by capital expenditure push by the government so far, but fiscal constraints might prove to be a challenge going forward in terms of driving investments. It further said structural shifts, such as digitisation and decarbonisation, do provide tremendous investment opportunities.

- A poll conducted among the member CEOs of the CII National Council showed that the Indian economy is all set for a strong rebound in the current fiscal year ending March, posting a growth rate of 9-10%. However, a large number of CEOs polled, appeared worried about the impact of the new Covid-19 variant Omicron on services and the manufacturing sectors.
- November CPI inflation increased to 4.9% from 4.5% in the previous month, led by a sequential pick-up in food inflation and also in core inflation. Sequentially, fuel inflation declined in November. However, WPI inflation accelerated to 14.2% in November from 12.5% in October, driven by rise in food prices, esp vegetables and minerals & petroleum products. This is the highest level of WPI inflation in 2011-12 series and it has stayed in double-digits for the eighth consecutive month. Sticky core inflation indicates that manufacturers are increasingly passing on the higher input costs to their output prices despite uneven recovery in demand.
- India's trade deficit more than doubled to peak at $23.3 billion in Nov., 2021 as compared to $10.2 billion in Nov., 2020 as exports grew by 26.5% (y-o-y) whereas imports rose by 57.2% (y-o-y). According to Nomura – the Japanese investment firm, India's current growth cycle is not durable on the back of high inflation, uneven growth and wider trade deficits.
- India's government is still 95% short of its disinvestment target. While the government has raised Rs 9,240 crore through sale of stake in seven central public sector enterprises until December, it has budgeted Rs 1.75 lakh crore from divestment in FY22. This is reported by the Department of Investment and Public Asset Management. Asset sales are key to bridging the government's budget gap. India targets to bring the fiscal deficit to 6.8% of the GDP in the year ending March 2022, down from 9.5% in FY21.

India's Industrial & Services Sectors

- India's index of industrial production posted a growth of 3.2% (y-o-y) in Oct., 2021 versus 3.3% in the previous month. Both the capital goods and consumer goods sectors posted negative growth rates in October, reflective of weak aggregate demand.
- India's Union government has notified the semiconductor policy in an attempt to boost the electronics manufacturing ecosystem in the country. Under the policy, the Centre will provide 50% of the project cost for two semiconductors and two display fabs. The application window starts from 1st Jan., 2022 and will be open for 45 days. Support under this scheme shall be provided on a pari-passu basis for a period of six years.
- India's passenger vehicle wholesales declined by 18.6%(y-o-y) in Nov., 2021 amid shortage of semiconductors. According to SIAM, this is lowest in the past seven years.
- Smile Foundation's Twin E-learning program team highlights that hiring by India's services sector will increase around 23% in 2022, as the economy experiences post-pandemic recovery. Banking and financial services, retail and hospitality sectors are expected to lead the hiring of skilled young professionals in the coming year.
- The shared economy or popularly known as the Co-living segment in India is expected to see a recovery in 2022 driven by reopening of offices, record vaccination and reopening of colleges in a phased manner.

Indian Financial Markets

- Liquidity in the banking system is estimated to be in surplus of over Rs 6.06 trillion today. So far, the RBI has drained Rs 5.99 trillion through multiple variable rate reverse repo auctions.
- Yield on India's 10-Yr GOI bond has crossed pre-pandemic levels (today at 6.47%), as inflation has been rising (WPI inflation at record high) and the RBI's move to nudge overnight interest rates towards the repo rate of 4% has begun to reflect across the sovereign yield curve. There is also a concern that the Government will announce a large supply of bonds for the next fiscal year in the upcoming Union Budget, whose onus will primarily fall on the market.

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- Corporate bond yields too have been steadily rising tracking the movement in G-Sec yields amid low trade volumes.
- Indian rupee depreciated significantly against the USD in Q3, FY22, driven by the FPI pullout from the equity markets on the back of overstretched valuations, rapidly rising trade deficit (high oil prices), Omicron related growth concerns and the divergent monetary policy stance of the RBI and the US Federal Reserve. Bearish calls are rising on rupee amid India's widening twin deficits and divergence in the yield cycles between India & the U.S.
- Indian equity markets have seen sharp corrections in the past few trading sessions. Concerns over the spread of Omicron, coupled with high oil prices and a hawkish stance by global central bankers will lead to greater volatility in stocks in the months to come.
- Outlook for oil prices has again become uncertain as the Omicron-linked fears have aggravated the concerns created by cost-push inflation and threatened demand. Brent crude was hovering between $73-74 per barrel in today's trade.

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