

Global Economic Outlook

- **US economy expands by 2.9% in Q4-2022** - According to the advance estimate released by the Bureau of Economic Analysis (BEA), Real gross domestic product (GDP) increased at an annual rate of 2.9% in the fourth quarter of 2022 compared to preceding quarter. In the third quarter, real GDP increased by 3.2%.
- The increase in real GDP reflected increases in private inventory investment, consumer spending, federal government spending, state and local government spending, and non-residential fixed investment that were partly offset by decreases in residential fixed investment and exports.
- **US Inflation eased in December 2022**- Personal consumption expenditures (PCE) price index eased further to 5.0% y-o-y in December 2022 after advancing by 5.5% in November 2022. Core PCE price index (which excludes prices of food and energy) rose by 4.4% y-o-y, marking the slowest pace of increase since October 2021.
- Personal spending in the US dropped 0.2% m-o-m in December 2022, worse than market forecasts of a 0.1% fall as high-interest rates and elevated inflation levels weighed on consumer sentiments.
- **Downturn in US Business Activity eases slightly**- The headline Flash US PMI Composite Output Index registered 46.6 in January 2023, up from 45.0 in December 2022.
- This is for the straight seven month that the business activity has shown contraction. However, the contraction moderated across both the manufacturing and services sectors for the first time since September 2022.
- **Eurozone's business activity improves in January 2023**- S&P Global Eurozone Composite PMI rose to 50.2 in January 2023 from 49.3 in December 2022, pointing to the first expansion of business activity since June 2022.
- January saw service sector activity rise for the first time since last July 2022, while manufacturing output contracted only modestly registering the smallest drop in factory production since last June 2022.

Domestic Outlook

- **UN predicts India's growth to moderate to 5.8% in 2023**- The United Nations (UN) slashed

its forecast for India's real GDP growth in 2023 calendar year to 5.8% from 6% earlier.

- UN attributed this downward revision to possible adverse effects of high interest rates on investment and of slowing global growth on India's exports.
- Further, UN expects retail price inflation in India to moderate to 5.5% in 2023 from 7.1% in 2022 as global commodity prices moderate and slower currency depreciation eases imported inflation.
- **IMF Retains India's GDP growth at 6.2% for FY 24**- According to the IMF World Economic Outlook update, titled "Inflation Peaking amid Low growth", growth in India is set to decline from 6.8% in 2022-23 to 6.1% in 2023-24, before picking up to 6.8% in 2024, with resilient domestic demand despite external headwinds.
- The forecast is in line with the Reserve Bank of India's projection of 6.8% GDP growth for 2022-23.
- **Business confidence recovers from low: NCAER**- The NCAER Business Confidence Index (BCI) improved to 126.6 during October-December 2022 as compared to the year-ago level of 124.4.
- However, sentiments continued to soften sequentially in the three quarters of the current fiscal. The share of positive responses increased for the component 'overall economic conditions will improve in the next six months' and remained unchanged for the component 'present investment climate is positive'.
- **India's CAD manageable: RBI Governor**- The Reserve Bank of India (RBI) Governor Shaktikanta Das stated that India's current account deficit is within the parameters of viability and is eminently manageable.
- He argued that while the slowing global demand was weighing on merchandise exports, India's services exports and remittances are still strong. The Indian economy, he added, is resilient in the current hostile and uncertain global environment backed by its strong banking system and deleveraged corporate balance sheets.
- **India's crude oil imports hit 5 month high**- India's crude oil imports rose to a 5-month high in December 2022, as refiners stocked up discounted Russian fuel amid a steady increase in consumption in the country. Russia continued to be the top oil supplier to India in December 2022, shipping a record 1.25 million barrels per day (bpd).
- **Oil prices saw a fall in the beginning of the week** (30 Jan- 03 Feb 2023) as expected hikes in interest rates by major central banks and signs of

strong Russian exports offset rising Middle East tension over a drone attack in Iran and hopes of higher Chinese demand.

Interest Rate Outlook

- **Interest rate may remain high for long: RBI Governor-** According to RBI governor Shaktikanta Das, Interest rates may remain high for a long time even as central banks around the world are beginning to shift toward lower interest rate increase or even a pause amid signs of peaking inflation.
- While inflation is still a concern for the developed world, in India it appears to be tapering though external spill overs remain a threat.
- **Real rate of interest must not exceed 1%-** According to Monetary Policy Committee (MPC) member Ashima Goyal, a 1% real interest rate would help anchor inflation expectations at this stage of the economic cycle.
- However, interest rates should not exceed 1% as it would hurt growth. She further stated that excessive monetary-financial tightening and excessive stimulus, both, must be avoided.
- **States' borrowing cost inches up-** After remaining stable for many weeks, the cost of borrowing for States inched up by 5 basis points to 7.64% at the auction conducted on 24 January 2023 when 15 States raised Rs 25,700 crore from the market.
- The amount of debt raised on 24 Jan 2023 was a 13-week high and for the first time in the year showed an annualised growth of 8%. However, the weekly borrowing has been below the year-ago weeks and 15% lower than the indicated amount in the borrowing calendar.
- **Fed likely to raise interest rate by 25 bps-** The Federal Reserve is widely expected to announce its eighth consecutive rate hike at this week's policy meeting which is scheduled to begin on Tuesday, 31 January 2023.
- With inflation starting to ease, Fed officials will likely approve a 0.25 percentage point increase, a more modest pace compared with its earlier rate hikes in 2022.
- As per the Reuters poll of economists, RBI is expected to raise its interest rate by a modest 25 basis points (bps) to 6.50% at its meeting scheduled during 6-8 February 2023.

- **Government bond prices ended lower in the week ending 27 Jan 2023-** Bond yields were little changed during most part of the week. At the end, bond yields surged after weekly government bond auction held on 27 January 2023, added to the supply in secondary market.
- Reserve Bank of India conducted the auction of four government securities, namely, 6.89% GS 2025, 7.10% GS 2029, 7.41% GS 2036 and 7.40% GS 2062 for a notified amount of Rs.30,000 crore, which was completely accepted.
- Yield on the 10-year benchmark paper (7.26% GS 2032) rose 4 bps to close at 7.39% on 27 January 2023 as compared to 7.35% on 20 January 2023.
- **Sale of Government of India Sovereign Green Bonds-** The government sold its first sovereign green bonds viz. NEW GOI SGrB 2028 and NEW GOI SGrB 2033 worth Rs.80 billion on 25 January 2023, at yields below comparable government bonds (The cut-off yield was at 7.10% and 7.29%, respectively.). The proceeds will be deployed in public sector projects seeking to reduce carbon intensity of the economy.
- RBI on January 2023, **conducted a variable rate reverse repo auction** for a total notified amount of Rs.1 lakh crore against which it received offers amounting to Rs.35,039 crore.
- **India's foreign exchange reserves** rose for the second straight week climbing to a near six-month high of USD 573.7 billion for the week ending 20 January, 2023.

Weekly Benchmark Bond Yield Movement (%)					
Date	23-Jan	24-Jan	25-Jan	26-Jan	27-Jan
USA 10 years	3.52	3.46	3.45	3.50	3.52
India 10 years	7.35	7.35	7.35	-	7.39
India 5 years	7.24	7.20	7.19	-	7.24
India 3 months	6.42	6.40	6.38	-	6.46

Source: CMIE, worldgovernmentbonds.com

- We expect benchmark 10-year bond to trade in a range of 7.40%-7.55% during the week (30 Jan-03 Feb 2023) on the expectation of record borrowing by the centre for the fiscal 2023-24.