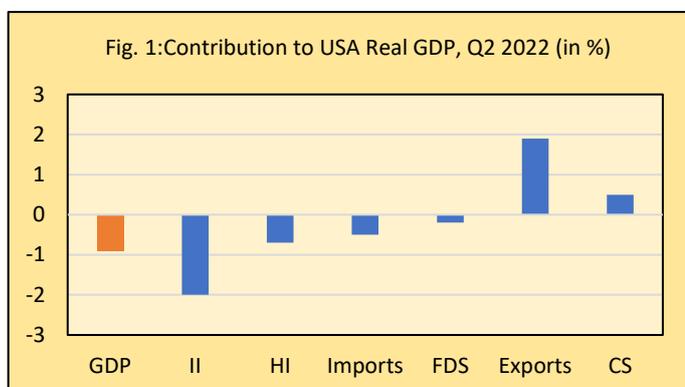


## Global Economic Outlook

### USA Q2 2022 GDP declines by 0.9%

- As per the data released by the Bureau of Economic Analysis of United States' Department of Commerce, real gross domestic product (GDP) decreased at an annual rate of 0.9% in the second quarter of 2022, following a decrease of 1.6% in the first quarter.
- The second quarter decrease in real GDP reflected decreases in inventory investment, housing investment, federal government spending, state and local government spending, and business investment. Exports and consumer spending increased (Fig. 1).



II: Inventory Investment; HI: Housing Investment; FDS: Federal Govt. Spending; CS: Consumer Spending  
Source: US Bureau of Economic Analysis

### USA Federal Reserve raises interest rates by 75 basis points

- Reaffirming its strong commitment to returning inflation to its 2% target, the Federal Reserve raised the target range for the federal funds rate to 2.25% to 2.50% (by 75 basis points), after the inflation for May and June reached new 40-year high. Dr. Jerome Powell hinted that at a similar move was possible in the next meeting, based on the upcoming data.
- In response, the major banks of USA, such as JPMorgan Chase & Co (JPM.N), Citigroup (C.N) and Wells Fargo (WFC.N) raised their prime lending rates by 75 bps to 5.5%.
- In addition, the Committee announced continuation of reducing its holdings of Treasury securities and agency debt and agency mortgage-backed securities, as described in the Plans for Reducing the Size of the Federal Reserve's Balance Sheet that were issued in May.

### Japan's July factory output shows signs of growth, albeit slower than June

- The final au Jibun Bank, Japan Manufacturing Purchasing Managers' Index (PMI) dipped to a seasonally adjusted 52.1 in July from the previous month's 52.7. That marked the slowest pace of growth since September last year.

## Domestic Economic Outlook

### IMF revises estimates of Economic Growth

- The World Economic Outlook update (July 2022) released by IMF has lowered the global growth projections as well as those of major world economies.
- According to it, the global output contracted in the second quarter of this year, owing to downturns in China and Russia. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide, triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID-19 outbreaks and lockdowns; and further negative spill overs from the war in Ukraine.
- As per the revised estimates, the real GDP growth forecasts for the major regions/countries is given below (in %):

Regions/ Countries	2021	2022	2023
World Output	6.1	<b>3.2</b>	2.9
Advanced Economies	5.2	<b>2.5</b>	1.4
United States	5.7	<b>2.3</b>	1.0
Emerging Market and Developing Economies	6.8	<b>3.6</b>	3.9
China	8.1	<b>3.3</b>	4.6
India	<b>8.7</b>	<b>7.4</b>	<b>6.1</b>

Note: For India, data and forecasts are presented on a fiscal year basis.

### Core-Sector growth in double digits in June, albeit lower than previous month

- In India, there are eight sectors that are considered to be the core sectors, which have a combined share of 40.27% in the index of industrial production, viz. electricity, steel, refinery products, crude oil, coal, cement, natural gas and fertilizers.

- Data released by the Ministry of Commerce and Industry indicates that the core sector grew 12.7% in June year-on-year. However, sequentially, it contracted by 4.1%.

### Retail Inflation for industrial workers at 6.16% in June

- As per the data released by the Ministry of Labour and Employment, the inflation (year-on-year) for June stood at 6.16% compared to 6.97% for the previous month (May 2022) and 5.57% during the corresponding month a year before (June 2021). Food inflation stood at 6.73% in June 2022 against 7.92% in the previous month and 5.61% in June 2021.

### GST Revenue in July at 2<sup>nd</sup> highest since introduction

- GST collection in July soared 28% (year-on-year) to ₹1.49 lakh crore, becoming the second highest revenue collection since the introduction of the GST regime.
- During the month, revenues from import of goods were up 48%, and the revenues from domestic transactions (including import of services) were up 22% from revenues from these sources during the same month last year.

### India Manufacturing PMI hits 8-Month high in July

As per the seasonally-adjusted S&P Global India Manufacturing Purchasing Managers' Index. India's manufacturing sector activity gained momentum in July, registering an eight-month high, driven by a significant uptick in business orders. The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index rose from 53.9 in June, to 56.4 in July.

### Monsoon 'above normal' in first two months; Rice Sowing still 13% below year ago level

- According to the India Meteorological Department (IMD), the overall rainfall received in July was close to 17% more than the benchmark – the long period average (LPA).
- However, rainfall has been deficient (by approx. 16%) in eastern and north-eastern region while the cumulative rainfall received in all the four regions of the country during June 1-July 31 was 480 mm, 8% more than the benchmark of 445 mm for the same period
- Deficient rainfall in Uttar Pradesh (46%), Jharkhand (49%), Bihar (39%) and West Bengal

(26%) against the benchmark may have adversely impacted rice sowing. As per the data released by Ministry of Agriculture and Farmers Welfare, rice sowing in the ongoing Kharif season remained 13% below the year-ago level.

### Interest Rate Outlook

#### High Inflation in USA may lead to further rate hikes by Fed

- The Fed's strong commitment to reduce inflation to its 2% objective may lead to rising interest rate again in near future. This may be supplemented with the strong labour market allowing the economy to withstand rapid monetary tightening.
- After the Fed's decision to raise interest rates by 75 bps, U.S. Treasury yields edged lower as bonds rallied, in line with market expectations.

#### Rupee strengthens against dollar

- In recent days, the Indian rupee has gained against the dollar, on account of various reasons such as intervention by RBI, high inflation in USA and rate hikes by foreign commercial banks, etc. A stronger rupee reduces the cost of imports and is good news for moving towards a healthy current account balance.

#### Experts expect RBI to raise interest rates by 30-50 bps

- During the meeting of Monetary Policy Committee (MPC) during 03-05 August 2022, experts believe that it may be decided to raise interest rates by 30-50 bps, in order to tackle the elevated inflation in the country. Inflation has remained RBI's upper limit of 6% for the sixth consecutive month in June.

Weekly Benchmark Bond Yield Movement (%)					
Date	25-Jul	26-Jul	27-Jul	28-Jul	29-Jul
USA 10 years	2.80	2.80	2.78	2.67	2.65
India 10 years	7.39	7.37	7.37	7.33	7.32
India 5 years	7.12	7.12	7.10	7.07	7.03
India 3 months	5.38	5.38	5.60	5.58	5.54

Source: CMIE, [worldgovernmentbonds.com](http://worldgovernmentbonds.com)

- The yield on the government benchmark 10-year bond for the period (01-05 August 2022) is expected to be in the range 7.12% to 7.25%.