

Global Economic Outlook

U.S. factory activity slows to two year low in June 2022

- The Institute for Supply Management's (ISM) manufacturing index fell 3.1 points to 53.0 in June. Manufacturing activity slowed more than expected in June, with a measure of new orders contracting for the first time in two years. This could be a sign that the US economy is cooling amid aggressive monetary policy tightening by the Federal Reserve.
- The slowdown in manufacturing followed moderate consumer spending in May along with weak housing starts, building permits and factory production.
- Economists anticipate that the US economy could have contracted again in the second quarter following a slump in GDP in the first three months of the calendar year. They however opine that another decline in GDP would not necessarily indicate a recession unless the economy suffers deep job losses.

UK releases GDP quarterly national accounts (January to March 2022)

- UK gross domestic product (GDP) is estimated to have increased by 0.8% in Quarter 1 (Jan to Mar) 2022.
- In output terms, the largest contributors to the increase in Q1 growth were information and communication, transport and storage; production output was primarily driven by a rise in manufacturing output.
- Real household disposable income fell by 0.2% in Q1. Nominal household income grew but was offset by quarterly household inflation. This is the fourth consecutive quarter of real negative growth in disposable income.

Chinese economy shows signs of recovery

- The Chinese government's purchasing managers' index (PMI) for manufacturing — which mainly covers larger businesses and state-owned companies — rose to 50.2 in June, the first time it has crossed the 50-mark since February, according to the National Bureau of Statistics. A reading above 50 indicates that activity is increasing.

Domestic Economic Outlook

GDP Growth Projections for 2022-23

- CRISIL has revised India's real GDP growth projection for 2022-23 downwards to 7.3 per cent from 7.8 per cent estimated earlier. The rating agency has attributed the downward revision to

rising oil prices, slowing global demand for exports and high inflation.

- ICRA has retained India's real GDP growth projection for 2022-23 at 7.2 per cent. This is in line with that of the Monetary Policy Committee (MPC)'s projections. However, the rating agency's quarterly forecast differs from that of the MPC.
- ICRA has projected GDP growth for the April-June 2022 quarter in the range of 12-13 per cent as compared to the MPC's projection of 16.2 per cent, on expectations of an acute impact of elevated commodity prices on consumer demand and business margins, as well as the delayed monsoons tempering farm demand in the quarter.

RBI released their biannual Financial Stability Report on 30 June 2022

- As per the report, the Indian economy remains on the path of recovery in spite of headwinds from the geopolitical situation, elevated commodity prices, especially of crude oil and volatile financial conditions.
- Banks as well as non-banking financial institutions have sufficient capital buffers to withstand shocks. The capital to risk weighted assets ratio (CRAR) of scheduled commercial banks (SCBs) rose to a new high of 16.7 per cent, while their gross non-performing asset (GNPA) ratio fell to a six-year low of 5.9 per cent in March 2022.
- The RBI has cautioned that inflationary pressures, external spill overs and geopolitical risks require careful handling and close monitoring.

Core sector growth at a 13-month high

- The output of the eight core infrastructure sectors grew and scaled a 13-month peak of 18.1% in May 2022 from a year earlier, compared with 9.3% in the month of April 2022. This was partly aided by a favourable base due to the second Covid wave in this month last year.



Source: CMIE

- Sequentially, the month-on-month uptick in May 2022 was however relatively modest (2.6%) across the eight infrastructure sectors. Seven out of eight sectors witnessed a sequential improvement in growth, while only coal saw a slowdown in the growth momentum despite remaining elevated.
- The decent performance of the core industries augurs well for the Index of Industrial Production (IIP) as the core industries make up for 40.3% of the IIP. This could also mean that an industrial recovery is gradually taking root.

Fiscal deficit at 12.3% of target in April-May

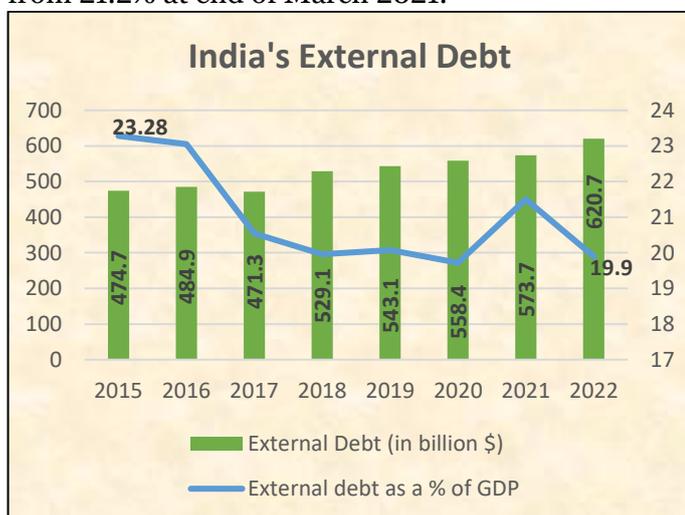
- The Central government's fiscal deficit stood at 12.3% (Rs. 2.04 trillion) of the full year budget estimate (BE) in April-May of the current financial year compared to 8.2% in the same period a year ago.
- This is due to a rise in expenditure while non-tax revenue declined substantially year-on-year and is 65% higher than the first two months of the last fiscal.

Total liabilities of the government rise 3.7% sequentially in March quarter

- As per the finance ministry, the government's liabilities rose 3.74% to Rs. 133.22 trillion in the March quarter from Rs. 128.41 trillion in the previous quarter.
- Public debt accounted for 92.28% of the total outstanding liabilities at the end of March as against 91.6% at the end of December 2021.

External debt increases 8.2% year-on-year to \$620 billion in FY22

- According to the RBI, India's external debt rose by 8.2% to \$620.7 billion at the end of March, 2022 from a year ago. However, the external debt to GDP ratio declined to 19.9% at the end of March 2022 from 21.2% at end of March 2021.



- Excluding the valuation effect due to the appreciation of the US dollar vis-à-vis the Indian rupee and major currencies, India's external debt would have increased by \$58.8 billion instead of \$47.1 billion at the end of March 2022 over end-March 2021.

Interest Rate Outlook

FPIs withdraw USD 6.4 billion in June as on 29.06.2022

- Foreign portfolio investors (FPIs) have withdrawn an overwhelming \$6.4 billion which is their second highest monthly withdrawal ever owing to fast tightening monetary conditions.
- Market participants believe that a quick reversal in FPI flows is highly unlikely as long as the US dollar remains strong and bond yields stay attractive.

Rupee faces high volatility in the month of June

- The rupee depreciated from a value of 77.53 per dollar on June 1, 2022 to 79.04 per dollar on July 1, 2022. In the period from June 23 to July 1, the rupee depreciated 0.087% and is likely to remain under pressure in the near future as long as outflows continue with tighter dollar liquidity.
- The RBI has been intervening in the market to defend the rupee. The government also stepped in by hiking the gold import duty to 15% from 10.75% to curb gold imports to keep current account deficit in check.

Forex reserves rise by USD 2.73 billion

- According to the RBI, the country's foreign exchange reserves increased by \$2.73 billion to \$593.323 billion for the week ended June 24 on the back of a surge in foreign currency assets and also in gold

Date	27 June	28 June	29 June	30 June	01 July
USA 10 year	3.20	3.17	3.09	3.02	2.88
India 10 year	7.41	7.47	7.46	7.45	7.42
India 5 Year	7.16	7.27	7.27	7.20	7.19
India 3 Month	5.06	5.09	5.06	5.09	5.10

reserves.

Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (23 June to 01 July) fell 0.025% due to buying support and is expected to be in the range 7.40% to 7.50% for the week (04-08 July).