

Global Economic Outlook

Inflation Hits a Record in Europe

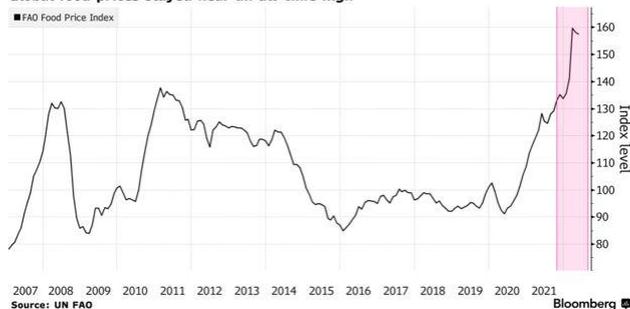
Euro-zone inflation accelerated to an all-time high. The gap between the highest and lowest inflation rates among the currency bloc's 19 members has also jumped to its widest ever. The scale ranges from Malta -- where consumer prices advanced 5.6% last month, to Estonia -- where inflation hit 20.1%. That's a difference of more than 14 percentage points, more than at any time since the dawn of the euro in 1999.

Global food prices pinch

Global food prices stayed near a record as Russia's invasion of Ukraine disrupted trade, fuelling hunger and worsening a cost-of-living crisis. Russia's blockade of key Black Sea ports has exacerbated supply-chain turmoil, sending prices soaring and prompting the United Nations to warn that food shortages may spur millions of people to migrate.

Near Record

Global food prices stayed near an all-time high



US unemployment rate at a low 3.6 per cent

- The unemployment rate remained a low 3.6 percent in May, just above a half-century low as per Bureau of Labour Statistics. US employers added 390,000 jobs in May, extending a streak of robust hiring that has propped up an economy under pressure from runaway high inflation.

Domestic Economic Outlook

Economy grew by 4.1 per cent in the fourth quarter of 2021-22, pushing up the annual growth rate to 8.7 per cent

- India's real GDP grew by 4.1 per cent in March 2022 over its level in March 2021.
- This is the lowest y-o-y growth in real GDP among the four quarters of fiscal 2021-22. However, this low growth was expected by the markets. RBI's professional forecasters' survey of early April 2022 had expected real GDP to scale up by an even more modest 3.9 per cent in the quarter ended March 2022. Other more recent forecasts revealed similar expectations. So, the economy has in fact, done bit better than the low expectations.

- Anaemic growth of 1.76 per cent was seen private final consumption expenditure (PFCE) while the markets had expected it to grow by 3.9 per cent. PFCE accounts for 55 per cent of GDP and therefore its growth plays an important role in determining the growth of India's real GDP.
- Government expenditure grew by a robust 30 per cent in the quarter of March 2022, compared to the previous quarter. But, compared to a year ago, the growth was a modest 4.8 per cent. This is the second year in succession when the peak quarter of government final consumption expenditure has shifted to the March quarter.

Real Gross Domestic Product (Y-o-Y % change)						
Quarter	GDP	PFCE	GFCE	GFCF	Exports	Imports
Jun-19	4.9	7.2	-2.4	8.6	2.8	9.2
Sep-19	4.2	6.2	5.1	-0.4	-1.7	-2.2
Dec-19	3.2	6.1	4.4	-1.4	-5.1	-7.1
Mar-20	2.8	1.7	7.5	-0.4	-8.8	-2.6
Jun-20	-23.8	-23.8	13.6	-45.3	-25.5	-41.1
Sep-20	-6.6	-8.3	-22.9	-4.5	-6.5	-17.9
Dec-20	0.7	0.6	-0.3	-0.6	-8.6	-5.2
Mar-21	2.5	6.5	29	10.1	3.7	11.7
Jun-21	20.1	14.4	-4.8	62.5	40.8	61.1
Sep-21	8.4	10.5	8.9	14.6	20.7	41
Dec-21	5.4	7.4	3	2.1	23.1	33.6
Mar-22	4.1	1.8	4.8	5.2	16.9	18

Source-CMIE

Food Inflation continues to be a concern

- While fuel prices have dropped after the excise duty cuts, food prices appeared to be more stubborn, still hovering above where they were a month ago, a Mint analysis showed

Still in red

Fuel prices have dropped significantly, but food prices appeared to be more stubborn, still hovering above where they were a month ago.

	Change from a week ago (in %)	Change from a month ago (in %)	Latest unit price (in ₹)
Wheat	-0.4	2.9	29.6
Sugar	-0.2	0.6	41.8
Soya Oil	-0.6	0.9	168.7
Sunflower Oil	-0.2	1.6	192.7
Petrol	0.0	-8.2	96.7
Diesel	0.0	-7.3	89.6

Note: Prices of wheat and sugar in ₹ per kg, and those of soya oil, sunflower oil, petrol and diesel in ₹ per litre. Prices as on 2 June.

Source: Department of Consumer Affairs

Fiscal deficit improved to 6.7% in FY22 on higher tax mop up

- Fiscal deficit for 2021-22 improved to 6.71 per cent of the GDP over the revised budget estimate of 6.9 per cent mainly on account of higher tax realisation.
- In April 2022, the government scaled up capital expenditure. This grew year-on-year by 67.5 per cent to ₹789 billion. The government expended 10.5 per cent of its annual budgeted capital expenditure.

Interest Rate Outlook

Another rate Hike by RBI expected

- The June round of monetary policy committee meeting (MPC) is set to last from June 6-8 2022.
- There are speculations that the central bank may go for at least 35 basis points (bps) hike over and above the 40 bps hike effected last month after an off-cycle Monetary Policy Committee (MPC) meeting.
- The RBI is expected to increase the repo rate again to contain inflation, which is largely driven by global factors such as the Ukraine war. The retail inflation, which RBI considers for deciding on rates had surged for a seventh straight month to an 8-year high of 7.79 per cent in April, mainly on account of surging commodity prices, including fuel, amid the Russia-Ukraine conflict.
- The wholesale price-based inflation has remained in double digits for 13 months and touched a record high of 15.08 per cent in April.

Crude Prices continues to be uncertain

- The already-elevated India's crude oil basket price is rising, with the average based on daily costs for June jumping to over \$115 per barrel, compared to \$109.51 in May and \$102.97 in April. It is expected to be in range of \$120 per barrel of crude oil for next two months as per SBI report.

CAD may rise to a decade high in FY23

- India's current account deficit (CAD) could widen to a 10-year high of 3.3% during the current financial year due to continued geopolitical tensions and surging oil prices as per Morgan Stanley report

Bearish forecasts for rupee

- Indian rupee may drop further to between 79 to 81 per dollar over the next few months, according to analysts from UBS AG to Nomura Holdings Inc. and Bloomberg Economics.
- The bearish forecasts - which will see the rupee drop as much as 4 per cent from current level -- stem from a deterioration in India's external finances. Higher oil prices threaten to widen the current-account deficit to at least 3 per cent of the gross domestic product, compared to a 2 per cent sustainable level, according to UBS, even as outflows from its equity markets accelerate.

Market Operations

- RBI would conduct an auction of State Government securities of Andhra Pradesh,

Maharashtra, Tamil Nadu and Telangana of an aggregate amount of ₹12,000 Cr. (Face Value) on June 07, 2022.

- The auction of 91 days, 182 days and 364 days Treasury Bills of amount ₹13,000 crore., ₹12,000 crore., and ₹8,000 Crore, respectively will be conducted by RBI on June 8, 2022 using multiple price method.
- The hardening of interest rates continued through May 2022. Call money rates, GSec yields and corporate bond yields continued their northward journey. The rate of escalation in interest rates is uneven but the direction is unmistakably upwards.



- India's 10-yr bond yield hit 7.5% in intra-day trades, before closing at 7.49% on 06 June 2022, highest since 2019 ahead of RBI policy

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	30 May	31 May	1 June	2 June	3 June
USA 10 year	2.80	2.85	2.91	2.91	2.94
India 10 year	7.39	7.44	7.42	7.43	7.46
India 5 Year	7.17	7.21	7.19	7.21	7.25
India 3 Month	4.82	4.82	4.95	4.95	4.95

Weekly Expectation

The India 10 Years Government Bond Yield is expected to trade in the range 7.45-7.60% in the current week (06-12 June 2022).