

Global Economic Outlook

- **Fed officials on board with more modest pace of interest rate hikes:** Federal Reserve officials have indicated that more interest rate rises are on the cards as the U.S. central bank presses forward with its efforts to cool inflation although none were ready to suggest that January's hot jobs report could push them back to a more aggressive monetary policy stance. Moving to a federal funds rate of between 5.00% and 5.25% seems very reasonable this year in order to get the supply and demand imbalances down.
- **EU executive raises euro zone 2023 growth forecast, sees lower inflation:** The EU executive arm said economic growth in the 20 countries using the euro was likely to be 0.9% this year, rather than the 0.3% predicted in November 2022. Euro zone economic growth is likely to be stronger than expected this year while inflation will be lower than in forecasts made towards the end of 2022.
- **Japan's weak Q4 GDP rebound poses challenge for Bank of Japan (BOJ) exit path:** The world's third-largest economy expanded by 0.6% in the final quarter of last year after slumping by 1.0% in July-September. The increase in Gross Domestic Product (GDP) was much smaller than a median market forecast for a 2.0% rise, due to a downswing in capital expenditure and inventory. With inflation exceeding the BOJ's 2% target, the outlook for the economy and wages will be key to how soon the central bank could phase out its massive stimulus programme.

Domestic Outlook

- **India's retail inflation breaches RBI's tolerance level first time since October:** India's annual retail inflation in January rose above the Central Bank's upper threshold for the first time in three months, on higher food prices, vindicating last week's hawkish monetary policy stance.
 - India's annual retail inflation rate (CPI) rose to 6.52% in January from 5.72% in December. January's retail inflation was above the Reserve Bank of India's upper targeted limit of 6% for the first time since October and much higher than the 5.9% estimate, according to a Reuters poll of 44 analysts.
- Inflation in urban India rose to 6% in January 2023 from 5.4% in December 2022 and that in rural India increased to 6.9% from 6%. At the all-India level, inflation in the food & beverages group jumped to 6.2% in January 2023 from 4.6% in December 2022.
 - **Agriculture exports see double digit growth in the first 9 months:** India's agricultural and processed food product exports increased by 13% to USD 19.7 billion during April-December 2022 as compared to USD 17.5 billion recorded during April-December 2021, as per the Ministry of Commerce & Industry. The ministry stated that it had a target of USD 23.6 billion for 2022-23 for agricultural and processed food products under the Agricultural and Processed Food Products Export Development Authority (APEDA). Out of this, 84% have been achieved in the first nine months.
 - **Consumer Confidence Improves:** As per RBI's latest Bi-monthly Consumer Confidence Survey (CCS), consumer confidence improved further both for the current period as well as for the year ahead. The Current Situation Index (CSI) continued on its recovery path for the ninth survey round since the historic low recorded in mid-2021 and increased by 1.3 points (83.5 to 84.8) in January 2023 on the back of improved sentiments on general economic situation and household income. One year ahead outlook, as reflected by the Future Expectations Index (FEI), also rose by 1.3 points (114.9 to 116.2) to its two-year high on the back of improved optimism on general economic situation, employment and income over the next one year.
 - CMIE's Index of Consumer Sentiments (ICS) also improved in January 2023 and reached 83.9 (base 100 during September-December 2015), which is the highest since sentiments were hit severely by the Covid-19 induced lockdowns. The ICS, however, continues to remain lower than its pre-pandemic level.
 - **GDP to grow by 6% in FY24-RBI's Professional forecasters' Survey:** Median projection of India's real GDP growth for 2022-23 and 2023-24 remained unchanged at 6.9% and 6%, respectively, in the 80th round of Survey of Professional Forecasters (SPF) compared to the preceding round.

Interest Rate Outlook

- **Rupee Tumbles as U.S. yields and dollar index rise:** The rupee last week recorded its worst performance in almost two months, weighed by the rise in U.S. yields and the dollar index. The December U.S. jobs report has prompted investors to reassess terminal rate expectations and the quantum of rate cuts the Fed will deliver later this year, lifting U.S. yields and the dollar.
- **Foreign portfolio investors (FPI) continued their streak of net selling:** They pulled out a total of USD 934 million between 6-10 February 2023. They withdrew cash across the board - from debt, equity and debt-VRR during the week.
- **Unexpected jump in inflation leaves door open for further rate hikes:** Last week, the Reserve Bank of India (RBI) hiked its key repo rate by a quarter percentage point and surprised markets by leaving the door open to more tightening, saying core inflation remained high.
- The unexpectedly large jump in headline consumer price inflation in January to 6.5% year-on-year is a clear challenge to the view that the hiking cycle is at an end.
- Economists opine that the Reserve Bank of India (RBI) may hike repo rate by 25 basis points (bps) during its monetary policy meeting scheduled to be held in April 2023. HDFC Bank chief economist Shri Abheek Barua stated that in view of durable moderation in core inflation, the RBI may opt for another 25 basis points rate hike as a yardstick for policy tightening. However, withdrawal of accommodation stance may be changed to neutral. According to Acuite Ratings' chief analytical officer Shri Suman Chowdhury, there is a likelihood of further moderate hikes in the repo rate since the Central Bank has given no such indications.
- **Yield on 10-Year bond increased last week:** Yields on 10-year-maturity G-secs have shown a steady increase during the week of February 6-10. Averaging 7.32% on Monday and Tuesday, the yield increased by four basis points by Friday, to average at 7.36%. The yield jumped 8 basis points (bps) last week, its biggest such move in more than four months. Bond yields jumped after the RBI highlighted core inflation concerns, keeping the door open for another hike. The RBI raised rates by 25 bps last week, its sixth consecutive hike.

- **Bond yields rise as debt supply adds to RBI-led bearishness:** A continuous supply of debt weighed on sentiment at a time when banking system liquidity is tilting towards deficit. RBI on Friday (10 February 2023) infused 500 billion rupees via 14-day repo, and analysts expect this tool to be used more often as the banking system is poised to move from surplus towards a more consistent deficit.
- Indian states raised nearly 720 billion rupees (\$8.73 billion) over the last three weeks, while the Central government raised 880 billion rupees through sovereign bond sale and 160 billion rupees through green bond issuance. Even as the federal government's bond auction-cycle ends in February, the market remains worried about an elevated gross supply of Rs. 15.43 trillion during the next financial year, according to several traders.
- The supply of debt in the coming fiscal is likely to outstrip demand, pushing up bond yields, and prompting the Reserve Bank of India to likely provide support via bond buys.
- **Bond Yields expected to Jump in the week ahead:** Indian government bond yields are expected to jump after domestic retail inflation was sharply higher than expected, cementing bets on one more rate hike from the central bank. Meanwhile, traders also await U.S. retail inflation data due later in the day, which could show a 0.5% and 0.4% month-over-month gain in headline prices and the core CPI, respectively for January.

Weekly Benchmark Bond Yield Movement (%)					
Date	06-Feb	07-Feb	08-Feb	09-Feb	10-Feb
USA 10 years	3.64	3.68	3.62	3.66	3.74
India 10 years	7.32	7.30	7.34	7.34	7.36
India 5 years	7.21	7.20	7.27	7.28	7.31
India 3 months	6.58	6.55	6.58	6.70	6.69

Source: CMIE, worldgovernmentbonds.com

- Bond yields are likely to trade in steady range but yield may rise towards 7.40% levels in the near term.
- We expect benchmark 10-year bond to trade in a range of 7.35 %-7.45% during the week (13 Feb-17 Feb 2023).