

Global Economic Outlook

- **USA CPI increases 0.5% in January (MoM) and 6.4% YoY:** According to the data released by the U.S. Bureau of Labor Statistics, the consumer price index (CPI) rose 0.5% in January month-on-month (MoM) and this translated to a rise of 6.4% on year-on-year (YoY) basis. Economists surveyed by Dow Jones had projected increases of 0.4% (MoM) and 6.2% (YoY), respectively. The CPI had risen 0.1% in December.
- Excluding the volatile food and energy sector, the core-CPI increased 0.4% on MoM and 5.6% on YoY basis, against respective estimates of 0.3% and 5.5%.
- Rising shelter costs accounted for about half the monthly increase. Energy also was a significant contributor, up 2% (MoM) and 8.7% (YoY), respectively, while food costs rose 0.5% (MoM) and 10.1% (YoY), respectively.
- **German wholesale price index up by 10.6% YoY in January:** Germany's wholesale price index rose by 10.6% on YoY basis in January.
- High wholesale prices were driven mainly by increased prices for food, beverages and tobacco, which posted a 16.2% YoY increase in January 2023. The prices of solid fuels and mineral oil products also had a large impact on the annual rate of change, rising 13.1% YoY.
- Compared with December-2022, the index saw a minor rise of 0.2% in January 2023.
- **U.S. Retail Sales Rise; Manufacturing Shows Improvement:** U.S. retail sales increased by the highest magnitude in nearly two years in January 2023, after two straight monthly declines as Americans increased purchases of motor vehicles and other goods, pointing to the economy's continued resilience despite higher borrowing costs.
- Retail sales surged 3.0% in January 2023, the largest increase since March 2021, after declining by an unrevised 1.1% in December.
- In January 2023, increase in retail sales was led by motor vehicle purchases, with receipts at auto dealers rising by 5.9%.

Domestic Outlook

- **Morgan Stanley pegs India's GDP growth in 2023-24 at 6.2%:** Morgan Stanley has projected India's real GDP to grow by 6.2% in 2023-24. Despite concerns of a slowdown, cyclical recovery in consumption, pickup in private capex with healthy balance sheets in the private corporate and financial sector and acceleration in government capital spending would help in sustaining the growth momentum.
- **RBI estimates the year 2023 may witness a milder global slowdown than earlier anticipated:** The year 2023 is expected to be characterised by a milder global slowdown than earlier anticipated, but the trajectory remains unpredictable, as per the Reserve Bank of India bulletin released in February 2023.
- However, India's economy would likely decouple from the rest of the world. Its domestic consumption and investment would benefit from stronger prospects for agricultural and allied activities, strengthening business and consumer confidence and strong credit growth.
- As per the bulletin, the tax, capital expenditure and fiscal consolidation proposals in the Budget are expected to take India's real GDP growth close to 7% in 2023-24.
- **Exports dip by 6.58% in Jan; trade deficit lowest in 12-months at USD 17.75 bn:** Contracting for the second month in a row, India's exports dipped by 6.58% to USD 32.91 billion in January 2023 due to slowdown in global demand, even as the trade deficit touched a 12-month low of USD 17.75 billion during the month.
- Imports in January 2023 also contracted by 3.63%, the second consecutive month, to USD 50.66 billion. Cumulatively, however, during April-January 2022-23, the country's merchandise exports rose 8.51% to USD 369.25 billion, while imports increased 21.89% to USD 602.20 billion.
- **Net services exports up 96.4% in January 2023:** India's net earnings from trade in services rose year-on-year by 96.4% to USD 16.5 billion in January 2023. Receipts from service exports rose by 49.1% to USD 32.2 billion, while payments for service exports increased by 19% to USD 15.8 billion in January 2023.

- **WPI inflation eases to 24-month low of 4.73% in January:** Wholesale price inflation (WPI) hit a 24-month low of 4.73% in January this year, aided by a favourable base effect and moderation in prices of manufactured products and fuel and power, although a number of food items became more expensive. With wholesale price index registering further moderation, it is expected that retail inflation too would ease, though with a lag.
- **Bankers optimistic about credit demand in coming quarters:** The Bank Lending Survey of RBI shows that bankers are highly optimistic of credit demand across all the main sectors in the coming quarters between March 2023 and September 2023.
- Bankers' sentiments on lending in terms of assessment of credit conditions quickly improved after the adverse reaction witnessed during April-June 2020 and April-June 2021 due to the first and the second waves of the Covid pandemic, respectively. The survey pointed out that banks' sentiments were also observed to be in sync with the SCBs' actual credit growth.
- **IIP grows 4.3% in December:** Giving mixed signals on the demand in the economy and confirming that a broad-based industrial recovery is yet to take root, the index of industrial production (IIP) grew 4.3% YoY in December, down from a five-month high rate of 7.1% in the previous month.
- The sequential slowing of the pace of growth in industrial output was due to a modest expansion in the manufacturing sector, which grew 2.6% in December from a year ago even as mining at 9.8% and electricity generation at 10.4% registered robust growth rates.
- **Wheat production expected to reach 112.18 MT:** As per the Ministry of Agriculture and Farmers Welfare, India's wheat production is estimated to be 112.18 million tonne (MT) during the 2022-23 crop year (July-June), which may be helpful in containing rising prices of wheat. Inflation in wheat prices rose by a sharp 25.05% on YoY in January, pushing up retail food inflation to 5.94%, from 4.19% reported in the previous month.

Interest Rate Outlook

India's economy may see another bout of inflation: Economists at HSBC Securities and Capital Markets (India) foresee demand recovery in

rural and informal sectors driving another bout of inflation in the country.

- HSBC's research estimates that while rural demand was weak in the early part of 2022, wage growth, adjusted for inflation, has now surpassed pre-pandemic levels. Further, strong sowing patterns in the winter season are also expected to help incomes.
- **Goldman Sachs now expects three more Fed rate hikes in 2023:** Goldman Sachs said it now expects the U.S. Federal Reserve to raise interest rates three more times this year, by a quarter of a percentage point each, after data this week pointed to hot inflation and labour market resilience. Producer prices accelerated in January by the biggest margin in seven months, one report on Thursday showed, while another showed the number of Americans filing new claims for unemployment benefits unexpectedly fell last week.
- **10-Year bond Yield Increased last week:** Indian government bond yields jumped on Friday after the Reserve Bank of India (RBI) devolved a bulk of the 10-year bond on primary dealers at an auction, while a spike in U.S. yields further weighed. The 10-year benchmark bond yield ended at 7.3889%, after closing at 7.3426% on Thursday.

Weekly Benchmark Bond Yield Movement (%)					
Date	13-Feb	14-Feb	15-Feb	16-Feb	17-Feb
USA 10 years	3.70	3.75	3.79	3.86	3.81
India 10 years	7.36	7.37	7.35	7.34	7.39
India 5 years	7.31	7.38	7.35	7.31	7.36
India 3 months	6.67	6.68	6.71	6.73	6.75

Source: CMIE, worldgovernmentbonds.com

- The yield of benchmark 10-Year bond is expected to be remain high in the near term.
- We expect benchmark 10-year bond to trade in the range of 7.32% -7.42% during the week (20 Feb-24 Feb 2023).