Global Economic Outlook

World Economy: Problems in the three nations

- Macroeconomic stability in the USA is under threat due to inflation crisis raising concerns about Monetary Policy strategy. It is argued that the inflation rate can be brought under control (2%) with a hike in the policy rate of about 150 basis points in a year.
- China with its non-market economy is facing distress. China’s exports to USA also have been declining owing to MNC’s flight from China.
- Russia with economic collapse due to war can generate ripples in the world economy. (Source: BS)

Fed raises short term interest rates by 25bps forecasting hikes

Russia’s invasion of Ukraine upended that sanguine forecast by raising the threat of reduced oil supplies from Russia and intensified supply bottlenecks, especially for commodities shipped from the region. Worker shortages continue to trigger sharply rising wages, spurring companies to lift prices to maintain profits. The Federal Reserve is taking aim at this soaring inflation (Inflation reached a 40-year high in February with the consumer price index (CPI) rising 7.9% annually in February as pump prices, propelled by the Ukraine war, combined with rent, food and other rapidly rising costs to squeeze Americans already struggling with sky-high costs).

The Fed raised its key short-term interest rate—by a quarter-percentage point – for the first time in more than three years and forecast six more hikes this year (rate hike is done to curb borrowing, temper an overheated economy and fend-off inflation hikes). The US economy is expected to grow @2.8% in 2022 (down from its December estimate @4%) as per median projections. Fed officials still expect unemployment, now @3.8%, to drop to its pre-pandemic mark of 3.5%—a 50-year low – by the end of this year and to remain at that level by the close of 2023 (Source: USA Today, ET).

Retail inflation in UK is at a 30 year high

Retail inflation soared to a 30 year high of 5.5% in January 2022 forcing the Bank of England to raise the benchmark rates. As per the data available with Office of National Statistics, UK, the sky-high inflation is due to surge in energy prices and the rising cost of daily household items and rents. The crisis in Ukraine has further worsened the matter. It is expected that a typical household will see its real income drop by £1,000 in 2022-23 as inflation rises more (inflation could reach about 8% in April as indicated by the central bank) (Source: Mint).

Domestic Outlook

Fall in Unemployment Rate

As per the Periodic Labour Force Survey (PLFS) data released on 14 March 2021, the unemployment rate has fallen to 12.6% in April-June 2021 from 20.8% in April-June 2020 (National Statistical Office (NSO) launched PLFS in April 2017 to estimate the key employment and unemployment indicators (viz. Worker Population Ratio(WPR), Labour Force Participation Rate(LFPR), Unemployment Rate) in the short time interval of three months for the urban areas only in the 'Current Weekly Status’ (CWS)).

From the data analysed, it has been observed that both LFPR and WPR have improved in last one year (LFPR increased to 46.8% from 45.9% and WPR increased to 40.9% from 36.4%). (Source: MOSPI, PLFS-Quarterly Bulletin-April-June 2021)

New policy to boost edible oil output

The ban on Russian oil and energy imports raised concerns over surging crude oil prices. Edible oils are also threatening to strain India’s current account due to spike in global prices (imports of edible oils surging 65% on year to $17 billion in 2020-21).
Based on India’s dependence on imports, the GoI has taken initiative to boost the production of edible oils, mainly mustard, sunflower by expanding area under cultivation and improving crop yields and thereafter creating incentives for the farmers with forward linkage.

Maize Exports up 29%

Exports of maize have also surcharged (likely to reach 3.5 MT by March 2022 from 2.87 MT in 2020-21) in the current year along with leaps in rice and wheat exports. As per the available data, maize exports stood at $816 million during April-January 2021-22 (up 29% over shipments of $634 million over last fiscal). (Source: FE)

Ukraine being one of the biggest suppliers of maize with a share of around 13% in the global maize trade, India could boost exports in the next couple of months (mandi prices of maize ranges from ₹1,900/- to ₹2,100/- per quintal against MSP of ₹1,870/- per quintal). From the present data available, maize production is estimated to reach a record of 32.42 MT in 2021-22 crop-year against 31.65 MT in the previous year.

Dip in Tea Exports

Tea exports are expected to dip further in Russia, one of the largest importers of Indian tea, is facing sanctions from Western countries, giving rise to fears among Indian tea exporters. The value of tea exports has slipped from $828 million in 2012-13 to $785 million in 2017-18 to $700 million in 2020-21. India’s outbound shipments of tea were down by 2.21% ($628.55 million) as against $642.74 million in last year. As per the experts’ views, tea exports of India is already suffering prior to the war due to quality issues. (Source: Mint)

Interest Rate Outlook

Crude prices have been on a rollercoaster ride (both Brent and U.S. crude futures benchmarks settled below $100 per barrel for the first time since late February), boosted by the supply crunch from traders avoiding Russian barrels and dwindling oil stockpiles. But prices have been pressured by worries about demand with COVID-19 cases surging in China, while stumbling nuclear talks with Iran have been a wild card on the market.

India, the world’s third-biggest oil importer and consumer, ships in more than 80% of its crude needs and relies heavily on the Middle East. India’s crude imports rose in February to 4.86 million barrels per day (bpd) (highest since December 2020), as refiners cranked up runs to meet increasing demand on better refining margins. Iraq supplies 23% of India’s oil, followed by Saudi Arabia at 18% and the United Arab Emirates at 11%. It is expected that India’s oil imports from the United States will rise by 11% this year, as the severely energy-deficient country looks to secure supplies from producers around the world, including heavily sanctioned Russia (Source: Reuters).

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<th>Weekly Benchmark Bond Yield Movement (%)</th>
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<tr>
<td>Date</td>
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<tr>
<td>USA 10 years</td>
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<td>India 5 years</td>
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<td>India 3 months</td>
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Source: CMIE, Economic Outlook, worldgovernmentbonds.com

We expect the 10-year benchmark bond to trade within the range of 6.70-6.80 per cent in next week.