

### Global Economic Outlook

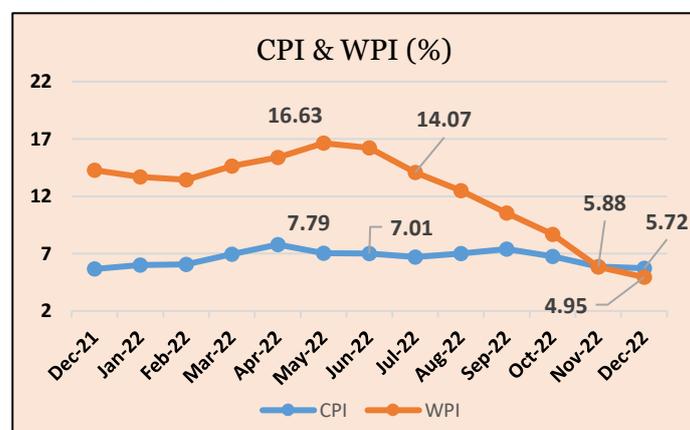
- **Global recession likely in 2023-** A global recession is likely in 2023, as per a World Economic Forum (WEF) survey of 22 economists. Pressures on food, energy and inflation are likely to peak.
- However, the respondents stated that a few economies in the South Asia region including India and Bangladesh may benefit from global trends such as diversification of manufacturing supply chains away from China.
- **Crude oil prices rose in the week ending 13 Jan 2023.** - Crude oil prices rose this week on optimism about demand after the US Energy Information Administration (EIA) forecast record petroleum consumption in 2024, driven primarily by growth in countries like India and China. Prices also rose on supply concerns due to the impact of sanctions on Russia crude output.
- **US inflation cools down to 6.5% in Dec 2022-** As per the estimates released by the US Bureau of Labour Statistics, the year-on-year inflation number for December 2022 has fallen to 6.5% from 7.1% seen in November 2022.
- This was the smallest 12-month increase since the period ending Oct 2021. All items less food and energy index rose 5.7% over the last 12 months, compared to 6% in November 2022. The index for all items less food and energy, however, rose 0.3% (M-o-M) in Dec, after rising 0.2% in Nov 2022.
- **Japan wholesale inflation surges record 9.7% in 2022-** Wholesale prices rose 9.7% on average in 2022 from the previous year, hitting a record high since comparable data became available in 1981. It was much higher than a 4.6% gain in 2021.
- Speculation is rampant that the Bank of Japan (BOJ) could soon phase out its massive monetary stimulus as rising inflation pushes up long-term interest rates, testing its resolve to defend a newly set 0.5% cap on the 10-year bond yield.

### Domestic Outlook

- **World Bank forecasts India's GDP to grow by 6.9% in 2022-23-** The World Bank has revised India's real GDP growth forecast for 2022-23 upwards to 6.9% from 6.5% estimated in October 2022.
- However, GDP growth in 2023-24 is projected to moderate to 6.6%. The World Bank stated that despite external challenges, Indian economy is

relatively well positioned to weather global spill overs compared to most other emerging markets.

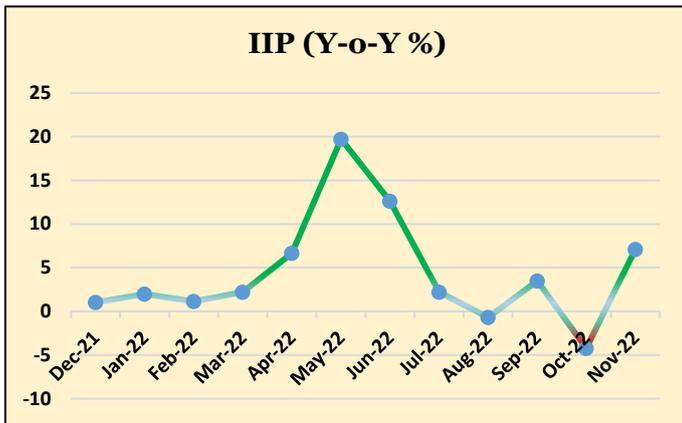
- **CII Business Confidence Index rises to 67.2 in Q3-FY23 after 2 years-** The Confederation of Indian Industry (CII) Business Confidence Index for the December 2022 quarter rebounded to a near two-year high of 67.6 from 62.2 in the previous quarter.
- Of the 120 firms surveyed, about 86 of them attributed the government's infrastructure focus as the reason for their confidence, followed by higher tax collections and good consumption recovery. Nearly 70% of the respondents expect India's real GDP to grow in the range of 6.5% to 7.5% in 2022-23.
- **Inflation cools in December 2022-** Consumer Price Index (CPI), which measures the inflation at retail level, fell to 5.7% in December 2022 from 5.9% in November 2022. This is the lowest retail inflation recorded in the last 12 months.
- On the wholesale front, inflation fell to 5% in Dec 2022 from 5.8% in Nov 2022. Inflation in food & beverages, manufactured and primary article group witnessed a decrease. However, inflation in power and fuel prices saw an increase both at wholesale and retail level.



Source: CMIE

- **Exports down 12.2%, imports down 3.5% in December 2022-** India's merchandise exports fell year-on-year by 12.2% to USD 34.5 billion in December 2022. Petroleum, Oil and Lubricants (POL) exports fell by 26.8% to USD 4.9 billion and non-POL exports fell by 9.2% to USD 29.5 billion in December 2022.
- At USD 58.2 billion in December 2022, India's merchandise imports were 3.5% lower than the year-ago level. POL imports rose by 5.9% to USD 17.5 billion, but non-POL imports fell by 7% to USD 40.8 billion in December 2022.

- **IIP rises by 7.1% in November 2022-** Index of Industrial Production (IIP), which measures the industrial output, rose by 7.1% on a year-on-year basis in November 2022. The index rose after falling by 4% in October 2022.
- Output of mined products grew by 9.7%, while electricity generation increased by 12.7%. The manufacturing sector reported a 6.1% growth in production in November 2022. The growth was broad-based, with 16 of the 23 sub-groups of the manufacturing sector reporting a rise in production and output of seven reported a fall.



Source: CMIE

- **ICRA estimates fiscal deficit at 5.8% of GDP in FY24-** ICRA expects fiscal deficit to be capped at 5.8% of GDP in the next fiscal (2023-24) from 6.4% of GDP targeted for in 2022-23.
- As per ICRA, the upcoming budget for 2023-24 needs to focus on sustaining domestic growth momentum, fiscal consolidation and check the rise in market borrowings.

### Interest Rate Outlook

- **RBI MPC to hike repo rate to 6.5% in Feb 2023: Barclays-** RBI Governor stated that the central bank is on the right track in terms of containing inflation. The easing of supply-side issues, combined with monetary policy action, should aid in the reduction of price pressures. However, the governor stated that core inflation in India remains an area of concern.
- Analysts at Barclays expects the Reserve Bank of India (RBI) to maintain a broadly hawkish policy stance going into the February 2023 monetary policy meeting and deliver a 25-basis point (bp) hike, taking the Repo rate to 6.50%.
- Nomura projections suggest that India's GDP growth will slow sharply to 4.5% in 2023, prompting the Reserve Bank of India (RBI) to lower the key repo

rate by 75 basis points (bps) in the second half of 2023.

- **Government bond prices rise in the week ending 13 Jan-** The prices of the government bond ended higher in the week ending 13 January 2023. Yield of the benchmark 10-year bond (7.26%-GS 2032) closed at 7.30% on 13 January 2023 compared to 7.37% in on 06 January 2023.
- Investor's sentiments for bonds got boosted after December 2022 data from India and US indicated signs of easing inflation, raising hopes that the central bank may pause on rate hike.
- However, further gain in bonds were capped after weekly auction of securities held on 13 January 2023 added to the debt supply. RBI auctioned New GS (government securities) 2025, 7.10% GS 2029, 7.41% GS 2036 and 7.40% GS 2062.) for a notified amount of ₹30,000 crore.
- **RBI conducted a variable Rate Reverse Repo auction on 13 Jan 2023** for a notified amount of Rs 1 lakh crore, against which it received offers amounting ₹52,290 crore.
- **Dollar steadies after hitting 7 months low-** US dollar started the week (16 Jan- 20 Jan 2023) on the back foot, hitting a seven-month low against a basket of major peers in Asian trade, with the yen in particular focus as traders ramped up bets that the Bank of Japan will tweak its yield control policy in its two-day monetary policy meeting scheduled on 17 and 18 Jan 2023.
- US dollar is down almost 14% against the yen over the last three months, and the Japanese 10-year bond yield has jumped from 0.256% on 19 Dec 2022 to around 0.502% on 16 Jan 2023.

Weekly Benchmark Bond Yield Movement (%)					
Date	09-Jan	10-Jan	11-Jan	12-Jan	13-Jan
USA 10 years	3.53	3.62	3.53	3.43	3.5
India 10 years	7.34	7.31	7.29	7.29	7.30
India 5 years	7.26	7.22	7.21	7.18	7.15
India 3 months	6.34	6.34	6.38	6.38	6.38

Source: CMIE, worldgovernmentbonds.com

- We expect benchmark 10-year bond to trade in a range of 7.30%-7.40% during the week (16 Jan-20 Jan 2023) as it is expected that oil prices may remain elevated.