Global Economic Outlook

Recession fears loom large for the US Economy
- U.S. economic activity unexpectedly contracted in the month of July according to a preliminary purchasing managers’ survey compiled by S&P Global, a sign that the outlook is rapidly deteriorating on the back of elevated inflationary pressures and weakening demand for goods and services.
- The headline Flash Composite PMI, which tracks business trends in both the manufacturing and services sectors, shrank for the first time since the coronavirus-induced lockdowns, falling to 47.5 in July from 52.7 in June (a figure above 50 indicates expansion while a figure below 50 is a sign of contraction).
- Manufacturing PMI slipped to 52.3 from 52.7 in June, registering the weakest upturn in two years, dragged down by a decline in new orders. The services PMI plunged to 47 from 52.7 which is its lowest level in 26 months, with sky-high inflation and soft demand weighing on new sales.
- The US GDP data for the June quarter is expected to be released this week (28th July 2022). Most economists predict that the US economy is likely to have contracted for the second quarter in a row in the April-June quarter raising fears of an impending recession. In the March quarter, the US GDP had contracted 1.6% sequentially.

![Real GDP: Percent change from preceding quarter]

Source: US Bureau of Economic Analysis

Singapore core inflation rises 4.4% in June
- Singapore’s core inflation rose in June at its fastest pace in more than 13 years, driven by higher inflation across a broad set of categories including services, food, retail and utilities.
- Headline inflation rose to 6.7%, compared with economists forecast of 6.2%. Singapore’s central bank tightened its monetary policy in a surprise move on July 14, the fourth tightening in the past nine months.

Asian Development Bank released its Asian Development Outlook for July 2022
- The July supplement of the Asian Development Outlook revised the growth forecasts for developing Asia from 5.2% to 4.6% for 2022 and from 5.3% to 5.2% for 2023, reflecting worsened economic prospects because of COVID-19 lockdowns in the People’s Republic of China (PRC), more aggressive monetary tightening in advanced economies, and fallout from Russia’s protracted invasion of Ukraine.
- The inflation forecast for developing Asia has been revised up, from 3.7% to 4.2% for 2022 and from 3.1% to 3.5% for 2023, amid higher fuel and food prices. Inflation pressures in the region are, however, less than elsewhere in the world.

Domestic Economic Outlook

GDP growth and inflation projections for the Indian economy
- Brokerage firm Morgan Stanley reduced its forecast for India’s GDP growth estimate by 0.4% to 7.2% for the FY23 due to slower global growth. It further said the growth will further slowdown to 6.4% in the FY24, which is 0.3% lower than the earlier forecast.
- The Asian Development Bank has lowered its growth forecast for India to 7.2% for 2022-23 from 7.5% projection made in April, citing higher than anticipated inflation since April along with monetary policy tightening.
- The ADB has also moderated its growth projection for 2023-24 to 7.8% from 8% and raised its inflation projection for that year to 5.8%, just a tad below India’s 6% upper tolerance threshold for price rise, from 5% earlier.
- For this financial year, the ADB has raised its inflation forecast from 5.8% to 6.7% on higher-than-expected oil prices and cautioned that elevated prices will erode consumers’ purchasing power even as their confidence levels continue to improve.

FICCI released its Economic Outlook Survey (July 2022) on 21st July 2022
- The survey was conducted in the month of June 2022 and drew responses from leading economists representing industry, banking and financial services sector. The survey puts forth an annual median GDP growth forecast for 2022-23 at 7%. The growth forecast has been downgraded from 7.4% in previous survey round (April 2022) owing to continuing geopolitical uncertainty and its repercussions on India’s economy.
- The median growth forecast for agriculture and allied activities has been put at 3.3 percent for 2022-23; while industry and services sector are anticipated to grow by 6.2% and 7.8%, respectively.
- The median forecast of CPI-based inflation is 6.7% for 2022-23, with a minimum and maximum range of 5.4% and 7.0%, respectively.
- Based on the responses of the participants, the median forecast for exports has been put at USD 460.6 billion and for imports at USD 727.5 billion in 2022-23.
• RBI’s policy repo rate is projected at 5.65% by the end of the fiscal year 2022-23, with a minimum and maximum range of 5.50% and 6.25%, respectively.

Indian economy relatively better placed amid grim global scenario: Shaktikanta Das
• The RBI governor has asserted that the Indian economy is relatively better placed amid grim situation in the global market. According to him, the Indian rupee is holding up well as compared to its advanced and emerging market peers.
• According to the governor, there is no need to be alarmed by unhedged exposures on foreign borrowings as bulk of such exposures are by state-owned enterprises and the government can pitch in with help, if need be.
• On the inflation front, the RBI chief stated that the current inflation targeting framework has worked well since its adoption in 2016 and it seemed that the inflation had peaked. He added that the RBI would be reviewing the inflation projection of 6.7% for 2022-23 during the upcoming MPC meeting in August 2022.

India to hold its first ever 5G auction on 26 July 2022
• India is set to start its first-ever auction of 5G airwaves on 26th July. The government will auction 73GHz spectrum across 10 bands with a validity of 20 years.
• The government could mop up a maximum of Rs.1.95 trillion through the spectrum auctions if earnest money deposit (EMD) made by telecom operators is any indication.

![5G spectrum auction](source: Financial Express)

Along with incumbents Reliance Jio, Bharti Airtel and Vodafone-Idea, the auction will also see the participation of Adani Data Networks. The rollout of 5G technology-based services could provide 10 times more speed than what is possible through the 4G services.

Consumer sentiments see improvement in July
• As of July 24, 2022, the 30-day moving average of Index of Consumer Sentiments (ICS) had reached 73.05 (base: 100 during September-December 2015). At this level it was 6.7% higher than its level a month ago on June 24, 2022. It was also 6.7% higher than the ICS’s average level for June 2022. These are distinctly higher growth rates than seen in any of the recent months.
• The 6.7% growth in ICS seen till July 24 is somewhat evenly spread between urban and rural regions. The ICS of the two regions as of July 24 was 6.3% and 6.8% higher than the respective average ICS levels in June. The rise of ICS could be explained by revival of the monsoon and gradual pick-up in sowing for the Kharif crop. (Source: CME)

Interest Rate Outlook

Interest rate hikes and predictions for developed country central banks and India
• The European Central Bank (ECB) raised its interest rates for the first time since 2011 on 21st July 2022 and unveiled a new bond buying programme to keep borrowing costs in check for the Euro zone’s most indebted countries.
• The ECB raised its deposit rate by 50 basis points to zero, in an effort to curb record-high inflation in the Euro zone. ECB also raised its weekly and daily cash auctions by 50 basis points to 0.50% and 0.75%, respectively and signalled that further increases in the three rates were likely to come this year.
• With the US economy grappling with record high inflation, an uptick in imports and supply chain disruptions since Russia’s war with Ukraine started, most economists expect the Federal Reserve to go for a 50-75 basis point rate hike in its next meeting scheduled for 26-27 July, 2022.
• With the UK inflation at a 40-year high of 9.4% and rising, the Bank of England (BoE) is expected to raise its rates for the sixth time since December in its MPC meeting in the first week of August.
• With inflation having remained elevated and above RBI’s upper limit of 6% for the sixth consecutive month in June, the RBI is expected to raise the repo rate further to tame inflation in its next MPC meeting (3-5 Aug. 2022).

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<thead>
<tr>
<th>Weekly Benchmark Bond Yield Movement (%)</th>
<th>18-Jul</th>
<th>19-Jul</th>
<th>20-Jul</th>
<th>21-Jul</th>
<th>22-Jul</th>
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<tr>
<td>USA 10 years</td>
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<td>India 10 years</td>
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<tr>
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<td>India 3 months</td>
<td>5.17</td>
<td>5.23</td>
<td>5.36</td>
<td>5.37</td>
<td>5.39</td>
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Source: CMIE, worldgovernmentbonds.com
• The yield on the government benchmark 10-year bond for the period (14-22 July) fell 0.028% due to buying support and is expected to be in the range 7.38% to 7.48% for the week (25-29 July).