

Global Economic Outlook

Failure to build resilience to cost 1% to 5% of annual global GDP growth

- The World Economic Forum (WEF), estimated a cost between one percent and five percent of annual global GDP growth because of failure to build resilience to crises emanating from climate change, Covid-19 and Russia-Ukraine war.
- It added that, companies and countries need to pivot rapidly from reactive risk management to strategic recovery so they are better prepared for the next crisis.

US Industrial Production continues to rise in April 2022

- The US industrial production rose 1.1 percent points in April 2022, the fourth consecutive months of gains of 0.8 percent points or greater, according to the estimates released by Federal Reserve.
- The lift in industrial production was due to utilities (2.4 percent points rise), manufacturing output (0.8 percent points rise) combined with 1.6 percent points increase in mining. Production at mines is being boosted by higher crude oil prices, which has driven the cost of gasoline to record high.

UK Inflation surged to a 40-year high

- UK Consumer Prices Index (CPI) rose by 9.0% in April 2022, up from 7.0% in March 2022. This is the highest annualised CPI inflation rate since 1982.
- According to the Office for National Statistics (ONS), the surge in April 2022 came because of unprecedented rise in prices of electricity and gas bills driven by the Ukraine war.

China's Retail Sales and Industrial production dropped in April 2022

- China Retail sales and Industrial production dropped by 11.1% and 2.9%, respectively in April 2022 as compared to April 2021.
- Persistent spread of Covid and resulting stay home orders primarily in Shanghai forced factories to close and operate in limited capacity.

Domestic Economic Outlook

Indian Economy growth forecast

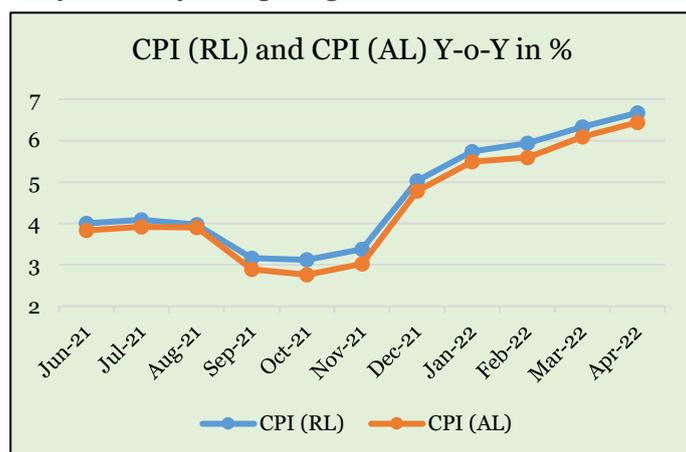
- S&P Global Ratings has revised India's real GDP growth projection for 2022-23 downwards to 7.3% from 7.8%. The revision was driven by rising inflation and longer-than-expected Russia-Ukraine conflict. For 2023-24, the GDP growth is

estimated at 6.5%. S&P has projected retail price inflation at 6.9 % for 2022-23.

- The IMF revised its forecast for India's USD 5 trillion target, indicating that it will be met by 2026-27, rather than the original estimate of 2028-29. The current forecast matches the government's goal of achieving the desired status by 2025-26, or a year later.

Rural Inflation continues to rise in April 2022

- The year-on-year inflation rate based on the CPI-AL rose to 6.44% in April 2022, from 6.09% in March 2022 and compared with the 2.66% pace in April 2021. In the case of the CPI-RL, the rate accelerated to 6.67% in April 2022, from 6.33% in the March 2022 and 2.94% in the year-earlier period (April 2021).
- The major contribution towards the rise in general index of Agricultural Labourers and Rural Labourers came from food group mainly due to increase in prices of rice, wheat-atta, jowar, bajra, ragi, vegetables & fruits, etc.



(Source: CMIE)

Merchandise export rose but trade deficit widened

- India's merchandise exports rose 30.7% to \$40.19 billion in April 2022 aided by growth in sectors like petroleum products, electronic goods and chemicals. However, the merchandise trade deficit widened to \$20.11 billion, as compared to \$15.29 in April 2021.
- Meanwhile, imports too saw a growth of 30.97 % to \$60.3 billion.

Highest annual FDI Inflow recorded in 2021-22

- India recorded its highest ever annual FDI inflow of \$83.57 billion in the FY 2022, overtaking last year's FDI by \$1.60 billion despite military operation in Ukraine and COVID-19

pandemic. India's FDI inflows have increased 20-fold since FY03-04, when the inflows were \$4.3 billion only.

- FDI Equity inflow in Manufacturing Sectors have increased by 76% in FY 2021-22 (\$21.34 billion) compared to previous FY 2020-21 (\$12.09 billion) making it emerge has a preferred country for foreign investments in manufacturing space
- It may be noted that FDI inflow has increased by 23% during March 2020 to March 2022: \$ 171.84 billion, in comparison to FDI inflow during February 2018 to February 2020: \$141.10 billion in India.

Interest Rate Outlook

Minutes of the Monetary Policy Committee Meeting, May 2 and 4, 2022

- According to the MPC's minutes released on 18th May 2022, various global factors striking together forced RBI to hike the key interest rate in an off-cycle review.
- RBI governor said "Waiting for one month till the June MPC would mean losing that much time while war related inflationary pressures accentuated" Further, it may necessitate a much stronger action in the June MPC which is avoidable, he added.

Rupee slipped to record low, reaches 77.73

- On May 17, 2022, the rupee hit a record low of 77.73 against the US dollar. The rupee has fallen in value as the dollar has strengthened and global market sentiment has weakened. In this situation, the RBI is intervening to defend the rupee by burning its foreign exchange reserves.
- On 23rd May 2022, rupee recovered from record lows and settled at 77.55 against the US dollar following a weak dollar in overseas markets and the RBI governor hinting at another rate hike in June 2022 to arrest rising inflation.

Forex Reserve down by \$2.67 billion: RBI data:

- India's foreign exchange reserves fell by \$2.68 billion to \$ 593.3 billion during the week ended 13 May 2022. Foreign currency assets, the largest component of India's foreign exchange reserves, decreased by \$1.3 billion to \$ 529.6 billion. Both, gold reserves and special drawing rights (SDRs) shrank by \$1.2 billion and \$165 million, respectively. India's reserves position in International Monetary Fund (IMF) deteriorated by \$ 39 million to \$5 billion during the same week.

US Treasury yield showed a decreasing trend this week

- Treasury yield dropped on 20th May 2022, to 2.78%, continuing a trend of falling rates this week in the face of rising recession fears.
- For some time, inflation has weighed heavily on investor views, but this week's retailer's earnings data have generated fears that pricing pressures are beginning to impact consumer spending and economic growth.

RBI sells \$20 billion in March 2022, turns into net seller to defend rupee.

- According to RBI's monthly bulletin for May 2022, RBI turned net seller of the US currency in March 2022 after it sold \$ 20.101 billion on a net basis in the spot market. In March 2021, RBI had net purchased \$5.699 billion of the greenback.
- In February 2022, RBI had net bought \$ 771 million of the US currency after it purchased \$ 5.946 billion and sold \$ 5.175 billion in the spot market

Market Operations

- RBI, during the week conducted variable-rate reverse repo (VRRR) auction for a total notified amount of Rs 4.5 lakh crore, against which it received offers amounting to Rs 3.05 lakh crore.
- RBI on 20th May 2022, auctioned 5.74% GS 2026, GOI FRB (floating rate bonds) 2034, GS 2036 and 6.99% GS 2051, totalling a notified amount of Rs 32,000 crore.

Table 1: Weekly Benchmark Bond Yield Movement (%)

Date	16 May	17 May	18 May	19 May	20 May
USA 10 year	2.89	2.99	2.88	2.84	2.79
India 10 year	-	7.37	7.36	7.32	7.36
India 5 Year	-	7.08	7.09	7.18	7.33
India 3 Month	-	4.88	4.85	4.88	4.88

Source: worldgovernmentbonds.com, CMIE

Weekly Expectation

- Government benchmark 10-year bond may trade in the range of 7.30%-7.40% (23th -29th May 2022).