

## 1. Global Economic Outlook

**US Economic growth slowed**, consumer sentiments dampen, and jobless claims affirm rate hike bets.

U.S. economic growth slowed more than expected in the first quarter as acceleration in consumer spending (3.7% Q-o-Q) was offset by businesses cutting back on inventory investment in anticipation of weaker demand this year amid higher borrowing costs. As per the first advance estimate released by Bureau of Economic Analysis (BEA), GDP increased at a 1.1% (Q-o-Q) annualised rate in Q1 of 2023. The economy grew at a 2.6% pace in the Q4 2022.

Consumer sentiment in the US weakened modestly in April 2023 with the Conference Board's Consumer Confidence Index edging lower to 101.3 from 104.0 in March 2023.

Core personal consumption expenditure prices rose 4.9% in the first three months of 2023, higher than the 4.7% consensus and up from the fourth quarter figure of 4.4%.

A separate report from the Labour Department released during the week ending 28 April 2023, showed initial claims for state unemployment benefits decreased 16,000 to a seasonally adjusted 230,000 for the week ending 22 April 2023. Economists had expected 248,000 claims in the latest week. The data released suggests a still-tight labour market and underpins the rate increase expectations.

Meanwhile, the International Monetary Fund in its Regional Economic Outlook released on 01 April 2023 predicts Asia-Pacific's GDP to expand at 4.6% in 2023, after growing at 3.8% in 2022. It expects China and India to contribute around half of global growth this year, with the rest of Asia and Pacific contributing an additional fifth. The region's growth will be primarily driven by China's recovery and "resilient" growth in India, it added. This comes at the time when rest of the world braces for slower growth from tightened monetary policy and Russia's invasion of Ukraine.

## 2. Domestic Economy Outlook

**Sentiments Improved, High Frequency Indicators hit record.**

According to the National Council of Applied Economic Research (NCAER), business sentiment in India turned positive in the Q4 of 2022-23. The Business Confidence Index (BCI) rose to 149.7 in March 2023 quarter from 126.6 in the December 2022 quarter, indicating optimism in the business sector about the performance of the economy. While sentiments for the upcoming six months in production, domestic sales, pre-tax profits, and new orders, improved in the fourth quarter of the previous fiscal, expectations about exports, imports of raw materials and ex-factory prices remained muted.

The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) rose to 57.2 in April 2023 from 56.4 in March 2023. This was the 22<sup>nd</sup> consecutive month of expansion in manufacturing

activity. Manufacturers saw production and new orders grow at the fastest pace in four months in April 2023.

A clutch of high frequency indicators for March-April 2023 have shown resilience of Indian economy to the environment of uncertainty and adversities. GST collection for the month of April 2023, stood at Rs.1.9 trillion, higher than the Rs.1.6 trillion collections made in March 2023. Rail freight posted a sharp sequential rise to touch all time high level of 144.57 mt in March 2023. UPI transactions hit new records in terms of volume (8.9 billion) and value (Rs.14.1 trillion) in April 2023.

### El-Nino may impact Agri production this year

Private weather forecaster Skymet expects the upcoming June-September 2023 monsoon to be 'below normal' to the extent of 94% of the long-period average (LPA), which raises concerns about the country's food grain production.

In terms of geographic coverage, Skymet anticipates that the northern and central portions of the nation are at risk of experiencing a rainfall deficit. During the primary monsoon months of July and August, Gujarat, Madhya Pradesh, and Maharashtra are expected to receive insufficient rainfall. Skymet predicts that Punjab, Haryana, Rajasthan, and Uttar Pradesh, the agricultural heartland of North India, will experience below-average rainfall in the second half of the season.

### Turnover on eNAM increased

The turnover of the electronic National Agriculture Market (eNAM) platform increased by 32% to Rs.746.6 billion in 2022-23 as compared to the previous fiscal. The increase in eNAM trade volume is expected to cross Rs.1 trillion in the current fiscal year. In FY23, 18.6 million tonnes of agricultural and allied sector commodities were traded on e-NAM, a 41 % increase from the previous fiscal year. Last fiscal year also saw inter-state trade on eNAM, with farmers from Uttar Pradesh, Kashmir, Maharashtra, and Rajasthan selling commodities to buyers in Kerala, Odisha, Jharkhand, Madhya Pradesh, and Tamil Nadu.

## 3. Inflation Outlook

### Food Inflation expected to ease in April 2023

Inflation for industrial workers, measured by CPI-IW, declined to 5.8% in March 2023 from 6.2% in February 2023. The fall was primarily driven by softening of food inflation, which fell to 5% from 6.1% during this period. On the other hand, inflation in fuel & light rose by 134 basis points to 13.5% in March 2023.

Food inflation, as measured by the CPI, is likely to fall rather substantially in April 2023. Based on commodity prices available till the week ended 22 April 2023, CMIE expects food inflation to close at 2.4% this month. Most food groups are likely to experience a fall in prices compared to their year-ago levels. The table gives the forecasted value of inflation for the month of April 2023

classified as per the subgroup included in the component "Food".

Commodity	Jan 23	Feb 23	Mar 23	Apr 23 (F)
Food	6.00	5.95	4.79	2.42
Cereals and products	16.25	16.73	15.27	13.47
Eggs, fish and meat	6.30	3.43	-0.92	-1.35
Milk and products	8.79	9.65	9.31	8.60
Oils and fats	1.35	-0.49	-7.86	-12.78
Fruits	2.99	6.38	7.55	-2.09
Vegetables	-11.70	-11.55	-8.51	-9.75
Pulses and products	4.27	4.09	4.33	5.34
Sugar and condiments	0.92	1.26	1.01	1.26
Spices	21.09	20.20	18.21	13.07

F= forecast

#### 4. Interest Rate Outlook

##### Bond yield slides during the week

Indian government bond yields plunged at the start of the week, with the benchmark 10-year bond yield dropping to its lowest level in more than seven months, as global and domestic monetary policy pivots support sentiment. Yields were up after dropping in the early part of the session on 25 April, with traders booking profit as the benchmark yield hits its lowest level in a year on persistent bullish sentiment. Bond yields ended marginally lower on 26 April 2023, tracking a sharp fall in the U.S. Treasury yields as bets of a quicker policy pivot by the Federal Reserve gained steam. Bond yields ended marginally lower on 27<sup>th</sup> as traders awaited fresh supply via the debt auction at the end of the week. Bond yields ended higher on 28<sup>th</sup> as weekly debt auction added to overall supply, while the broader focus remained on the outcome of the U.S. Federal Reserve's policy next week.

Most bankers believe that the rally in Indian government bond prices witnessed in April 2023 due to pent-up investor demand is likely to be over and that the impending weekly debt supplies will cause a reversal in demand in the coming months. In April, the benchmark bond yield fell 20 basis points, its largest monthly decline since March 2020. The yield on the benchmark 7.26% 2033 bond was 7.12%, after momentarily touching 7.07% in April 2023, its lowest level in a year.

**For the week ending 05 May 2023, traders anticipate the benchmark yield to be in the range between 7.05% and 7.15%.** Indian government bond yields and the rupee will eye this week's Federal Reserve policy decision.

##### Treasury yield movement during the week

Yields on U.S. Treasuries fell during the last week of April 2023, as traders digested crucial economic data that could influence the Fed's policy decision in early May. The 10-year U.S. Treasury yield decreased 13 basis points week-over-week, from 3.57% (on 21 April 2023) to 3.44%. The yield on the 2-year Treasury closed at 4% after falling by nearly 18 basis points. This week, the Federal Reserve is anticipated to raise interest rates by an additional 25 basis points at the conclusion of its two-day policy meeting. It would be the tenth consecutive increase, putting the benchmark Fed funds target between 5.00% and 5.25%.

##### Fed Rate hike roadmap for near future

Recent economic data portray a mix picture of inflation. The Fed's preferred inflation gauge fell to 4.2% in March 2023 from a 40-year high of 7% in June 2022. However, the "core" gauge, which excludes volatile food and energy items, remained higher than anticipated at 4.6%. In addition, a barometer of wage growth revealed that the pay and benefits of U.S. employees increased by 1.2% in Q1 of 2023, outpacing the Q4 rate and economists' expectations. Companies frequently pass on increased labour costs to consumers through price increases.

Barclays anticipates a June 2023 rate hike, if inflation progress stalls and May employment gains continue to be robust. According to its March 2023 forecast, the Fed expects core annual inflation to decline to 3.6% by the end of the year. This would necessitate average monthly price increases of less than 0.3%, according to Barclays. If data in the coming weeks indicate that inflation has exceeded the target pace, "that could be grounds for another increase," the research firm says. Likewise, the monthly increase in employment has slowed from 472,000 in January 2023 to 236,000 in March 2023. Barclays predicts that the Fed may raise interest rates in the future months if May's payroll growth exceeds 200,000.

However, such developments "would have to be weighed against information on bank lending and its economic effects.". In other words, if the banking crisis restrains borrowing and the economy to a greater extent than anticipated, the Fed would need to balance the opposing forces (Morgan Stanley).

Weekly Benchmark Bond Yield Movement (%)					
Date	24 April	25 April	26 April	27 April	28 April
USA 10 yr	3.50	3.39	3.44	3.53	3.44
Ind 10 yr	7.14	7.16	7.11	7.10	7.12
Ind 5 yr	7.01	7.02	6.99	6.99	7.00
Ind 3 months	6.74	6.79	6.77	6.80	6.76

Source: CMIE, worldgovernmentbonds.com