

1. Global Economic Outlook

US Inflation up, consumer spending surge in April

As per the data released by Bureau of Economic Analysis (BEA), the personal consumption expenditures (PCE) price index, one of the Fed's preferred inflation gauges, rose faster than expected at 0.4% (M-o-M) in April 2023. From a year ago period, the index climbed 4.4%. Excluding food and energy, the so-called core PCE index increased 0.4% from the prior month and 4.7% from April 2022.

Consumer spending jumped 0.8% in April 2023. Data for March 2023 was revised up to show spending gaining 0.1% instead of being unchanged as previously reported. Economists polled by Reuters had forecast consumer spending, which accounts for more than two-thirds of U.S. economic activity, would rise 0.4%.

The more than expected increase in U.S. consumer spending in April has boosted the economy's growth prospects for the second quarter, and the inflation picked up for April, could prompt the Federal Reserve to raise interest rates in the upcoming June 13-14 Fed meeting.

Inflation moderated in UK, still on higher side

The Consumer Prices Index (CPI) rose by 8.7% in the 12 months to April 2023, down from 10.1% in March 2023; CPI rose by 1.2% (M-o-M) in April 2023, compared to a rise of 2.5% in April 2022.

Core CPI (excluding energy, food, alcohol and tobacco) rose by 6.8% in 12 months to April 2023, up from 6.2% in March 2023, which is the highest rate since March 1992.

2. Domestic Economic Outlook

GDP growth at 4.9% for Q4FY23 (ICRA), at 6.5% for FY-23 (CEA) and at 7.6% for Q1 FY 24 (RBI)

ICRA expects GDP growth for the fourth quarter of 2022-23 to be around 4.9%, driven by the services sector. Services GVA is estimated to have grown by 6.4% year-on-year in the March 2023 quarter, reflecting improved performance in 9 out of the 14 high-frequency indicators. Industrial GVA is estimated to have improved to 3.6%, supported by manufacturing and mining sectors. However, unseasonal rains may have affected crop yields, leading to a slight decline in the agriculture GVA growth to 3.5% during January-March 2023.

For the FY23, Chief Economic Adviser (CEA), projects a 6.5% GDP growth for India, citing strong credit demand and softening crude oil prices as key drivers. CEA anticipates that these factors, coupled with increased construction activity, would provide a buffer against slower global growth and weather-related risks.

The nowcasting model of RBI has forecast real GDP growth at 7.6% for the first quarter of 2023-24. The now cast GDP growth is based on partial data available for April 2023 and assumes an implied GDP growth of 5.1% for the March 2023 quarter.

In its monthly bulletin, RBI stated that domestic economic conditions so far have sustained the quickening of

momentum seen in Q4 of 2022-23. India's growth in the first quarter of 2023-24 is expected to be primarily driven by private consumption, with rural demand picking up and manufacturing showing signs of recovery.

Foodgrain output at 330.5 million tonnes (3rd advance estimates); IMD forecast normal monsoon

The Ministry of Agriculture and Farmers Welfare has released the third advance estimates of production of major kharif crops for 2022-23. The data shows that the country's foodgrain production is likely to rise by 4.7% to an all-time high of 330.5 million tonnes in the current crop year ending June 2023 as against 315.6 million tonnes in the previous year.

Crops	2021-22(MT)	2022-23 (MT)	% change
Foodgrains	315.6	330.5	4.7
Rice	129.5	135.5	4.6
Wheat	107.7	112.7	4.6
Coarse Cereals	51.1	54.7	7.0
Pulses	27.3	27.5	0.7
Oilseeds	38.0	41.0	7.9
Cotton*	31.1	34.4	10.6
Jute & Mesta**	10.1	9.5	-5.9
Sugarcane	439.4	494.2	12.5

Note: *million bales of 170 kg each

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The India Meteorological Department (IMD) has predicted normal rainfall during the southwest monsoon season, which spans from June to September. Rainfall is expected to be within the range of 96% to 104% of the Long Period Average (LPA). However, rainfall in June is likely to be below normal or less than 92% of the LPA of 165.4 mm, over the country. Spatially, monsoon rainfall is likely to be normal to above normal over most parts of south peninsular India, with above normal rainfall on the IMD long-range forecast for parts of Karnataka and Kerala.

3. Inflation Outlook

Inflation for Agri and Rural Labourers falls in April; May CPI Inflation tracking sub-4.5% levels

Rural India witnessed lower inflation in April 2023 compared to the preceding month. Retail price inflation for agricultural labourers, measured by the CPI-AL, fell to 6.5% in April 2023 from 7% in March 2023. The food group, saw inflation fall to 6.7% from 7.1%. Inflation for rural labourers, measured by the CPI-RL, fell to 6.5% in April from 6.9% in March 2023. Food inflation for rural labourers fell to 6.5% in April from 7.1% in March 2023.

Daily price data for the period 1-21 May 2023 indicates that May CPI inflation is tracking below 4.5%, with a point estimate of 4.2% y-o-y compared to 4.7% in April 2023. Core CPI inflation is tracking 4.9% versus 5% (Nomura). It expects a pause in monetary policy decisions and foresees an easing cycle starting in Oct 2023.

RBI Governor in a conference held last week, said the war against inflation is not over yet and the central bank is watching how the El Nino factor is playing out as the situation is very dynamic, implying that this can have an impact on the course of inflation.

In its Financial Stability Report released in December 2022, RBI data demonstrated that agricultural loans comprised 8.6 % of the total bad loans of banks. Experts fear that major changes in the weather could lead to higher NPAs. India has encountered seven instances of El Nino, which have led to lower agri production and higher NPAs in the subsequent three-four quarters (Emkay Global Financial Services Report).

4. Interest Rate Outlook

RBI may continue with pause on rate hike: Economists

Economists are predicting that RBI would keep the policy rates unchanged in the June 2023 review. The potential impact of a heatwave and El Nino on food prices may pose a threat to the inflation trajectory (Deutsche Bank). A prolonged pause in interest rates, with a repo rate cut of 50 basis points anticipated in the second half of 2023-24 (UBS). However, risks such as higher Fed Funds rates and inflation related to El Nino persist.

With headline CPI coming down by 1.7 percentage points from February to April 2023 and Wholesale inflation entering negative territory in April 2023, many economists believe that the expected inflation for 2023-24 could turn out to be lower than the 5.2% mark (April MPC projection). However, they are also projecting that there is a good chance of GDP growth also ending up below the 6.5% projection by the MPC. Taking this into consideration, there is a good case for arguing that RBI must shift focus to growth (HT).

FDI inflow plummet by 16% in FY23

Foreign direct investment (FDI) inflows into India declined by 16% to USD 71 billion in 2022-23, marking the first drop in a decade, as per the data released by RBI. Net FDI decreased to USD 28 billion during the period. The decline is attributed to the weak global economic situation, high inflation and weak demand in the United States (US) and Europe. Sectors such as manufacturing, computer services, and communication services experienced the largest decline in FDI inflows.

Federal Reserve Chair in a monetary conference held on 19 May 2023, stated, “stresses in the banking sector could mean that “our policy rate may not need to rise as much as it would have otherwise to achieve our goals.” ECB President on 19 May 2023, said the central bank needs to keep interest rates ‘sustainably high’ to curb inflation in the medium term. While Governor, Bank of Japan reaffirmed the central bank’s stance of maintaining loose

monetary policy, even as global central banks continue to combat high inflation.

Fed Meeting Minutes (2-3 May), US economic data

According to minutes of the 2-3 May 2023 meeting released on 24 May 2023, Federal Reserve officials “generally agreed” last month that the need for further interest rate increases “had become less certain,” adding weight to expectations that Fed is likely to pause its aggressive rate-hike campaign at its 13-14 June 2023 meeting. However, Fed officials were divided at their last meeting over where to go with interest rates, with some members seeing the need for more increases.

The filing for new claims for unemployment benefits rose moderately for the week ending 20 May suggesting persistent labour market strength. Gross domestic product increased at 1.3% annualized rate last quarter, the government said in its second estimate of first-quarter GDP growth that was revised up from the 1.1% pace reported last month. Stronger-than-expected U.S. jobs figures and GDP data have highlighted a key risk to the U.S. Federal Reserve potentially taking its foot off the monetary brake.

Benchmark Bond Yield Movement (%)					
Date	17 May	19 May	22 May	24 May	26 May
USA 10 yr	3.57	3.69	3.72	3.74	3.79
Ind 10 yr	6.97	7.01	6.99	6.99	7.01
Ind 5 yr	6.89	6.95	6.87	6.92	6.93
Ind 3 M	6.86	6.76	6.68	6.72	6.73

Source: CMIE, worldgovernmentbonds.com

Bond Yield Movement

The spread between the Indian and U.S. 10-year bond yields dropped to its lowest level in nearly 14 years. India's benchmark bond yield has hovered around 7% for the last few days, and the U.S. yield rose to around 3.75% in the past two weeks, shrinking the spread to 325 bps, levels last seen in August 2009.

U.S. yields have risen sharply in the past few days as talks over debt ceiling persists, while hawkish commentary from Fed officials has led to a selloff in treasuries, while local fundamentals have been supportive for Indian government bonds, pushing the benchmark yield below 7%. Government bond yields last week ended largely unchanged, amid relentless spike in U.S. yields. The benchmark bond yield stayed around the key 7% mark for most of last week and ended at 7.01% on 26 May. **Traders expect the benchmark yield to move in the 6.96% to 7.06% range next week (29 May-2 June).** Amid a lack of major cues, traders will keenly eye India’s growth data for Jan-March and FY 23, which may provide crucial guidance to the RBI ahead of its monetary policy decision on June 8, 2023.