NABARD

DEAR
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Global Economic Outlook

- **US PMI fell to 46.2 in Dec 2022-** US manufacturing PMI fell to 46.2 in December 2022, from 47.7 in November 2022. This downturn stemmed from weak client demand which drove faster contractions in output and new orders.
- **US non-farm payrolls increased in Dec 2022-** Non-farm payrolls increased by 2,23,000 for the month of December 2022, above the Dow Jones estimate of 2,00,000, while the unemployment rate fell to 3.5%, 0.2 percentage point below the expectation.
- Wage growth was less than expected indicating that inflation pressures could be weakening.
- **UK S&P Global manufacturing PMI fell** to a 31-month low of 45.3 in December 2022, from 46.5 in November 2022. PMI remained below the neutral 50 mark for five successive months.
- Manufacturing production contracted for the sixth successive month in December 2022. Companies reported that output had been scaled back due to declining intakes of new work order. The decline in new work received reflected weaker domestic and overseas demand, economic uncertainty, client destocking and customers postponing orders.
- **Euro-zone core inflation flared to a record high in Dec 2022-** Core inflation rose to an all-time high of 5.2% in December 2022, slower growth in energy costs was the only reason for the moderation in the overall annual figure, which fell below 10% for the first time in four months to 9.2% in December 2022.

Domestic Outlook

- **India's GDP to grow by 7% in FY 2022-23 NSO-** India's real gross domestic product (GDP) has been projected to grow by 7% in 2022-23, as per the first advance estimates released by the National Statistical Office (NSO).
- Real GDP or GDP at constant (2011-12) prices in the year 2022-23 is estimated at ₹157.60 lakh crore, as against the provisional estimate of GDP for the year 2021-22 of ₹147.36 lakh crore.
- Gross fixed capital formation (GFCF) is projected to drive the GDP growth with an 11.5% expansion. Private final consumption expenditure (PFCE) has been projected to grow by 7.7%, while government final consumption expenditure (GFCE) has been projected to grow by a much lower 3.1%.
- **India in relative bright spot: IMF official-** International Monetary Fund (IMF) deputy managing director is of the view that India is relatively better placed in the world economy because of its strong macroeconomic policies, supportive fiscal policy measures and monetary policy addressing persistently high inflation.
- **State capital expenditure** – As per the report published by Financial Express, capital expenditure (capex) of as many as 18 states improved by 7.5% during April-November 2022 as compared to 70% year-on-year (y-o-y) increase in the corresponding period a year ago.
- Budgetary capital expenditure (capex) by the central government is also expected to rise to Rs.9 trillion in 2023-24 from the ₹7.4 trillion capex outlay for 2022-23, a growth of 25%.
- **Services PMI saw an increase in December 2022-** Services PMI rose to 58.5 in December 2022 from 56.4 in November 2022. This is the highest reading of the index since October 2020.
- New business inflow for the service providers increased for the 17th consecutive month in December 2022 with rate of expansion being the fastest since August 2022.
- **Bank Credit expected to expand 15.2% in 2022-23-** According to analysis done by CMIE, credit is expected to increase by 15.2% during 2022-23. With this growth, outstanding credit is expected to increase by ₹17.7 trillion during 2022-23 from ₹9.5 trillion in the 2020-21.
- The previous high was in 2018-19 when credit had increased by ₹11.5 trillion. It would be after a gap of 3 years that non-food bank credit will be rising in double-digits. The rapid pace of expansion in bank credit indicates that neither the high inflation nor the rising interest rates were able to dent demand for bank credit.
- **India set to post BoP deficit in FY23, FY24: Standard Chartered Bank-** Standard Chartered Bank expects India to post a balance of payment (BoP) deficit of USD 24 billion in 2022-23 and USD 5.5 billion in 2023-24. This would be the first such instance in two decades when the country would log a BoP deficit for two years in a row.
- Higher commodity prices, better growth in India compared to the rest of the world and higher global interest rates amid cautious risk appetite could keep the current account deficit wide and contain

capital inflows in the next fiscal, it added. The foreign bank expects current account deficit (CAD) to widen to 3 % of GDP in 2022-23 from a surplus of 0.9% last year, before narrowing to 2.6% in 2023-24.

- **Morgan Stanley sees 2023 as year of disinflation-** Morgan Stanley has stated that 2023 would be a year of rapid disinflation as global food and energy prices have come down to levels that are below where they were prior to the Russia-Ukraine conflict. It further stated that inflation would likely return to their respective central banks' comfort zone in 90 per cent of the economies in Asia by mid-2023. This would lead to pausing of monetary policy tightening by central banks in the March 2023 quarter.

Interest Rate Outlook

- **Taming inflation is the top priority for South Asian countries** as risks to growth and investment outlook could rise if price pressures persist at high levels, RBI Governor Shaktikanta Das said in an event of IMF.
- Apart from inflation, Das said reducing external debt vulnerabilities, moving focus to high productive sectors, strengthening energy security, cooperation on greener economy and increasing tourism were key areas of focus for the region.
- **Rupee falls steeply in Dec 2022-** The Indian rupee depreciated by 0.8% against the greenback in December 2022. The tumultuous calendar year ended with another sharp decline for the INR ending at ₹82.46 per dollar. The calendar year 2022 saw the INR weakening 10.8% against the dollar.
- RBI foreign exchange reserves rose by $44 million to $562.85 billion in the week ended 30 Dec 2022.
- **Fed minutes point to more rate hike-** The minutes of the Fed's 13-14 December 2022 meeting showed central bank seeing multiple interest-rate hikes on the horizon for this year even as price growth begins to slow and the economic outlook sours.
- The Federal Reserve in its December 2022 meeting shifted to a half point hike after four straight three-quarter-point increases.
- **FPIs remain net seller for 2022-** Foreign Portfolio Investors settled the last month of 2022 as net buyers. The capital flows from FPIs in 2022 reflect two distinct trends. While the first half of 2022 witnessed an aggressive selling, the other half of the year experienced more months of FPIs returning to the Indian capital market. Yet, the net withdrawal stood at USD 16,501 million for the calendar year 2022.
- **Treasury yield saw a decreasing trend this week-** The first trading day of 2023 in US (3 Jan 2023) came with a flight to safety in government bonds, as investors focused on an almost universal view that a recession is approaching.
- Yield tumbled on Friday after data showed domestic wages rose less than expected last month and new jobs increased more than expected, while service-sector activity shrank for the first time in more than 30 months. The 10-year U.S. yield fell 15 basis points to 3.56%.
- **Indian government 10-year bond yields rose on the first trading session of 2023 (2 Jan 2023) to 7.34**, with the benchmark bond yield jumping to its highest level in nearly two months after states announced a bigger-than-expected borrowing schedule for the March 2023 quarter.
- **Sale (reissue) of government securities-** RBI on 13 January 2023, will be conducting a sale (re-issue) of four dated securities (viz., New GS 2025, 7.10% GS 2029, 7.41% GS 2036 and 7.40% GS 2062.) for a notified amount of ₹30,000 crore.

Weekly Benchmark Bond Yield Movement (%)

Date	02-Jan	03-Jan	04-Jan	05-Jan	06-Jan
USA 10 years	3.88	3.77	3.68	3.71	3.56
India 10 years	7.34	7.32	7.32	7.33	7.37
India 5 years	7.28	7.28	7.27	7.32	7.30
India 3 months	6.33	6.35	6.36	6.36	6.35

Source: CMIE, worldgovernmentbonds.com

- The benchmark 10-year bond yield could rise to 7.45% in the upcoming fiscal year as increasing supply gives investors an opportunity to enter in the longer-duration market.
- We expect benchmark 10-year bond to trade in a range of 7.30%-7.34% during the week (9 Jan-13 Jan 2023). Inflation data (CPI) to be released on 12 Jan 2023 will heavily on the bond yield.