

1. Global Economic Outlook

Labour market in USA tightens

The number of Americans filing new claims for unemployment benefits surged to the highest level in more than 1-1/2 years during the week 29th May 2023 – 02 June 2023. *This raises alarm regarding the state of US economy and labour market situation in the light of importance attached to unemployment and GDP data for the decision of Federal Reserve's monetary policy.* This will be detrimental to the Federal Reserve's plans to tighten the monetary policy to tame inflation.

US economic growth to fall from 2.6% in 2022 to 0.7% in 2023 (World Economic Prospects, 2023, World Bank). This is in the backdrop of monetary policy tightening by Federal Reserve in the wake of runaway inflation in USA.

Key interest rate decisions from the US, Europe and Japan are scheduled during this week (12 June to 16 June 2023). Federal Reserve officials are expected to hold rates steady, allowing them more time to take stock of the economic and inflation outlook. This will help to assess the impact of a historically aggressive 500 basis points worth of tightening, having raised rates at every meeting since March of 2022. But the move is likely to be accompanied by a strong signal that they are prepared to keep hiking if needed. Bank of Japan is expected to take the lead from the US and hold rates, while the European Central Bank is projected to lift its benchmark rate given the high inflation rate (7% in April 2023, as compared to 6.9% in March 2023).

US Debt ceiling default averted with finalisation debt deal that lifts the government's \$31.4 trillion debt ceiling, averting what would have been a first-ever default. In the wake of the deal, crude prices and bond yields accelerated due to higher supply of US bonds in the market.

Global PMI expands for the fourth month in a row. The J.P.Morgan Global Composite PMI rose to 54.4 in May, up from 54.2 in April, to signal expansion for the fourth month in a row. The service sector outperformed manufacturing again during May, with growth of services activity accelerating to its best since November 2021. Although growth of manufacturing production was subdued in comparison, the rate of expansion still improved to an 11-months high.

GDP shrinks in Euro zone in the first quarter of 2023 by 0.1% in the euro area, compared with the previous quarter, according to an estimate published by Eurostat, the statistical office of the EU.

2. Domestic Economic Outlook

India's 'resilient GDP growth' with growth for FY23 at 7.2% and 6.1% for the fourth quarter (Q4) of the financial year, is despite interest rates at a two-decade high, the central bank withdrawing liquidity, and concerns around global economic and geopolitical uncertainties.

India's economic growth was primarily driven by strong domestic macroeconomic fundamentals. A pickup in services sector growth led by construction, and trade, hotels, transport sectors along with higher investment supported growth even as private final consumption expenditure registered a muted growth.

Private consumption expenditure which comprises 61% of the GDP estimates grew by 7.5%, higher than the pre-pandemic five-year average of 6.9%.

Importantly, this growth comes on a higher base – due to upward revision of fiscal 2022 data.

Moody's sees India's GDP expanding 6-6.3% in Q1, flags fiscal slippage risks arising from weaker-than-expected government revenues in the current fiscal. Moody's growth estimate is lower than the 8% projection for the first quarter made by the Reserve Bank.

While household demand is likely to see an improvement given the moderation in both headline and core inflation readings, lagged effects of higher interest rates pose some risks on gross fixed capital formation, in particular. Gross Fixed Capital Formation (GFCF) is an indicator of investment in the economy.

MSP hiked for Kharif season 2023-24 for 14 crops with paddy, the most popular one in terms of acreage and output, hiked by 7% (Rs 143 per quintal).

Among new MSP of 14 crops for 2023-24 approved by the Cabinet, green gram (moong) got the highest hike of 10.4% over 2022-23 followed by sesamum that saw an increase of 10.3%. Among cash crops, cotton MSP saw an increase of 8.9% in 2023-24 kharif marketing season over the previous year.

Kharif sowing off to slow start for four major Kharif crop categories – rice, pulses, oilseeds and coarse

cereals — the first three have shown a decline in sowing progress compared to last year as on 9th June 2023.

Area coverage of paddy was 28.22 % less compared to the corresponding period in 2022. Against 0.491 million hectares (ha) in 2022, only 0.352 million ha has been sown as of June 9, 2023. Similarly, there is sowing of pulses on almost 38 % less area when compared to 2022, when 0.175 million ha was covered under Kharif pulses till June 9.

May 2023 inflation inches towards the target, was 4.25% at a 25-month low which is less than the expectation of 4.4%. This has been on the back of base effect and lower food inflation.

The consumer food price index (CFPI) eased to 2.91 % in May from 3.84 % in April. Core inflation is at 5% in May 2023 against 5.2% in April 2023. Fears around monsoon, higher core inflation remains upward risk to the inflation.

Factory output grew at a higher-than-expected clip of 4.2 % in April, primarily driven by a low base effect and a pick-up in manufacturing and mining sectors.

Manufacturing growth in April firmed up from a five-month low in March due to base effect, and sectors such as capital goods (6.2%) and infrastructure/construction goods (12.8%) showed good growth on the back of a push for capital expenditure by the government.

Unemployment rate slides down in May

Unemployment rate in India among people aged 15 years and above fell to 7.7 per cent in May 2023, from 8.5 per cent in the previous month. This fall in unemployment rate breaks the upward trend in the metric recorded in the first four months of 2023.

3. Interest Rate Outlook

Price of the Indian basket of crude oil hit a 16-month low and averaged at USD 75.1 per barrel in May 2023. Fears of a debt default by the United States alongside a lack of demand from China due to a slow recovery from its zero-covid policy have been contributing factors to this 10.06%% fall in prices. After a surge in prices in April 2023 due to an announcement of a production cut by OPEC+, such a fall in crude oil prices comes as a relief.

Although US debt deal have led to an increase in crude prices.

Benchmark Bond Yield Movement (%)						
Date	29 May	31 May	2 June	5 June	7 June	9 June
USA 10 yr	3.77	3.64	3.69	3.68	3.79	3.74
Ind 10 yr	7.03	6.99	6.98	7.00	6.98	7.03
Ind 5 yr	6.97	6.91	6.89	6.91	6.92	6.97
Ind 3 M	6.74	6.77	6.73	6.75	6.78	6.80

Source: CMIE, worldgovernmentbond.com

US bond yield softens on the back of lacklustre US job claim and expectation of rate pause in the upcoming Federal Reserve meet on 14th June 2023. Although the increase in supply of US bonds due to increase in debt ceiling may increase the bond yields soon.

Indian government bond yields moved higher post RBI MPC meet on 8th June 2023, with the benchmark yield rising above 7%%, after the Reserve Bank of India maintained status quo on policy rates.

The central bank kept its key lending rate at 6.50% for a second straight time, but Governor said the RBI needed to move towards the primary target of inflation at 4%, and it will do "whatever is necessary to ensure that long-term inflation expectations remain firmly anchored." Given the system liquidity conditions, sticky core inflation and monsoon fears, there is low likelihood of rate cut in this year.

During the week (12-16 June 2023), India's CPI print for May will be released, and it is expected that it will be on a softer side. US FOMC outcome will also be delivered on 14 June 2023, where Fed is expected to not hike the Fed funds Rate. However, commentaries will be keenly eyed by the market participants regarding the future rate hike path. We expect these events coupled with CPI in USA will be dominating the market during the week under review, and we expect benchmark 10 year paper to trade in the range of 6.97%-7.07% during the 12 June -23 June 2023, with yield movement of sideways.