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DEAR
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1. Global Economic Outlook

IMF's World Economic Outlook

The IMF projects a rocky recovery and reported that outlook is uncertain amid financial sector turmoil, high inflation, ongoing effects of Russia's invasion of Ukraine, and three years of COVID. The baseline forecast is for growth to fall from 3.4%in 2022 to 2.8% in 2023, before settling at 3.0% in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7% in 2022 to 1.3% in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5% in 2023 with advanced economy growth falling below 1%. Global headline inflation in the baseline is set to fall from 8.7% in 2022 to 7.0% in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases.

In the meanwhile, U.S. retail sales fell more than expected reflecting economic slowdown in March 2023 as consumers cut back on purchases of motor vehicles and other big-ticket items, suggesting that the economy was losing steam at the end of the first quarter because of higher interest rates. Retail sales are mostly goods, which are typically bought on credit, and are not adjusted for inflation. This was a second straight monthly decrease followed a sharp surge in January 2023.

With the labour market cooling, retail sales are likely to remain weak. Ebbing demand for goods is undercutting production at factories, with other data on Friday showing manufacturing production declining last month. Still, the Federal Reserve is poised to raise rates one more time in May 2023, before an anticipated pause in June 2023 in the U.S. central bank's fastest monetary policy tightening cycle since the 1980s.

2. Domestic Economy Outlook

Industrial activity remains buoyant

Industrial activity as measured by the Index of Industrial Production (IIP) grew 5.6% in February 2023 compared to its year-ago level. This was the fourth consecutive month to post year-on-year growth in the IIP. The growth was almost the same as in the month prior when it was 5.5%. The year-on-year growth in IIP was broad-based in February 2023. In year-on-year terms, the manufacturing index expanded by 5.3% and mining and quarrying grew 4.6%. The index for electricity advanced the most at 8.2%. Production of primary goods mining, electricity, fuels and fertilisers was up 6.8% over its year-ago level. Production of consumer goods was 5.6% higher over last year in February. Industrial production has now recorded healthy levels of year-on-year growth in four consecutive months. IIP advanced 7.6% in November, 4.7% in December, 5.5% in January, and 5.6% in February, over the corresponding periods last year.

Imports to contract in 2023-24

The likely decline in global commodity prices is expected to shrink India's merchandise imports. As CMIE estimates, the country's import bill is expected to contract by 6.9% to USD 660 billion during 2023-24. In the preceding year, imports are estimated to have increased by 15.7%. Imports of almost all items are expected to decline.

As per CMIE's estimates, India's petroleum, oils and lubricants (POL) imports are expected to decline by 7.8% to USD 193.9 billion in 2023-24. In the preceding year, imports are estimated to have reached an all-time high level of USD 210.3 billion. Price of the Indian basket of crude oil is expected to decline by around 8% during 2023-24 against the 18.5% rise in the preceding year. Continuous monetary tightening, rising interest rates and persistently high inflation is expected to slow growth across most major economies. This is expected to dampen crude oil prices. As a result, India's POL import bill is expected to decline in the current year.

The recent production cuts led by OPEC+ and consequent price spikes, for now, is not likely to change the forecast significantly as this is a unilateral decision that needs to be tested against the markets.

3. Inflation Outlook

WPI inflation eases to 29-month low

India's annual Wholesale Price Index (WPI)-based inflation declined to a 29-month low of 1.34% in March 2023 as input prices continued to moderate. This is the 10th straight month of decline in WPI-based inflation. The WPI- inflation was 3.85% in February 2023, 4.73% in January 2023, and 14.63% in March 2022. The food index inflation eased to 2.32% in March 2023 from 2.76% in February 2023. For the primary articles segment, the inflation rate cooled to 2.40% in March 2023 versus 3.28% in February 2023.

Most components of the WPI inflation rate have eased across manufactured, primary, and fuel and power groups. The fall in wholesale inflation is a positive development. On expected lines, the data has been softening for the past few months and falling in sync with retail inflation.

March retail inflation eases to 15-month low on easing input prices

Retail inflation, measured by the Consumer Price Index (CPI), fell to a 15-month low in March 2023 and below the 6% upper tolerance limit of the RBI after remaining above it for two months, as prices of most items, particularly in

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the food basket, moderated and a base effect came into play. Retail inflation was at 5.66% in March 2023 against 6.95% a year ago.

March CPI data revealed that both core and food inflation have eased to less than 6%. Core inflation in March 2023 eased to 5.8% from 6.1% in February 2023. CPI inflation in five of the baskets including clothing and footwear (8.18%), pan, tobacco and intoxicants (2.99%), fuel and light (8.91%) and miscellaneous (5.77%) dipped marginally in March 2023 from February 2023.

As many as 9 of the 22 states had CPI inflation of above 6% with the highest being in Telangana again at 7.6% and lowest in Himachal at 4%. Significantly, reversing the trend of previous months, rural inflation at 5.51% in March 2023, was lower than the headline number as well as urban inflation at 5.89%.

Inflation expected to cool off

CPI inflation remained elevated for much of last fiscal year, but it was expected to start cooling from March. The pace of decline has been faster than anticipated and analysts expect it to ease further in the coming months. The Reserve Bank of India, which chose to maintain the status quo on rates in the monetary policy last week as against the market expectation of another 25-basis points hike, also expects retail inflation to cool this fiscal. It has forecasted headline inflation at 5.2% for 2023-24 with first quarter inflation projected at 5.1%. Unless the feared heat wave leads to a rapid rise in prices of perishables, inflation may report a substantial base-effect led drop to around 5%-5.2% in the next two months, which will reinforce the MPC's decision to pause in April 2023.

4. Interest Rate Outlook

U.S. Bond yields rise amidst mixed economic data

U.S. yields rose, with the 10-year yield inching above the 3.50% mark, as data showed that the world's largest economy is not slowing quickly enough to deter the U.S. Federal Reserve from raising interest rates at its next policy meeting.

U.S. retail sales dropped 1.0% last month, while February numbers were revised to show sales falling 0.2% instead of the earlier 0.4%. The Fed is seen on track to increase its benchmark rate in May 2023 by another 25 basis points as Fed Governor said higher borrowing costs are needed to make better progress on the inflation fight.Odds of a rate hike on May 3 2023 have risen above 80%, against around 70% before the comments. The current target range is 4.75%-5.00%, up from near zero last March.

Retail sales data out on Friday was mixed, increasing bets of a 25 bps Fed hike at the May 2023 meeting, which, according to futures pricing, could be the final one. And that, analysts say, is expected to keep the long-term dollar weakness trend intact.

India's bond market trades sideways

India's benchmark bond yield IN072632G=CC ended at 7.2252% on Thursday (13 April 2023). It rose 1 basis point (bp) last week, compared with 11 bps in the first week of the current financial year. Bond prices have rallied since earlier this month when the RBI maintained status quo on policy rates against market expectations of a 25-bps hike. The minutes of that policy meeting are due on Thursday. Analysts remain bullish on government bonds and expect incoming data, global conditions and impending central banks' dovish tones to support the yields going forward.

Mild upward movement expected in bond yields

For the coming week, some mild upwards movement in local bond yields is expected, but this may see very range bound movement. Locally, bond movement will remain focused on the minutes of the Reserve Bank of India's latest monetary policy meeting, in which it had surprised the markets by maintaining status quo on policy rates, against wide expectations of 25 bps hike.

Indian government bond yields are expected to trade in a tight range this week, with the minutes of the Reserve Bank of India's (RBI) latest monetary policy meeting acting as major trigger, while a softer dollar has improved the rupee's outlook. Apart from the minutes, the focus will remain on the heavy debt supply scheduled for each week even as state-run banks have been selling heavily.

Meanwhile, the Indian rupee INR=IN finished marginally higher at 81.85 per U.S. dollar last week, after rising for three straight weeks. Most of its gains last week came on Thursday when the dollar index =USD fell past key support levels due to cooling U.S. headline inflation. With the most critical U.S. and India data releases out of the way, the rupee is expected to move between 81.80 and 82.50 this week.

Weekly Benchmark Bond Yield Movement (%)

Date	10 April	11 April	12 April	13 April	14 April
USA 10 years	3.41	3.42	3.40	3.44	3.51
India 10 years	7.22	7.22	7.21	7.22	--
India 5 years	7.05	7.05	7.04	7.06	--
India 3 months	6.76	6.76	6.77	6.71	--

Source: CMIE, worldgovernmentbonds.com

Traders expect the benchmark yield to move in the 7.20%-7.30% range this week.