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1. Global Economic Outlook

Indicators shows US Economy slowing down: The US Economy in last few months revealed a core inflation reading that was too high for comfort and a jobs report signifying still-tight labour markets. Market participants are now near certain that the FOMC will raise interest rates by another 25 bps at the May 2023 meeting.

Early signs of labour market softening are one reason to believe that May's rate hike will be the last. Jobless claims ticked up to 245K in the week ending 16 April 2023. Although still lower than pre-COVID norms, this upside surprise cements a clear upward trend in layoffs since the start of the year. A 12-month slide in the Leading Economic Index (LEI) also supports the expectation that the economy will slip into recession in the second half of the year. The LEI dropped 1.2% in March 2023 to 108.4 (2016=100), following a decline of 0.5 percent in February 2023, its sharpest monthly decline since the trough of the pandemic recession (April 2020). March's decline was widespread, reflecting a weakening manufacturing sector, souring consumer sentiment and a downshift in building permits.

As against this, **Chinese economy grew 4.5% in the first quarter of 2023**, whereas the growth in global peers slowed as central banks raised interest rates to combat inflation. China's National Bureau of Statistics announced that the economy grew by 4.5% in the first quarter of 2023. This is the highest growth since the first quarter of last year, when China's economy expanded by 4.8%, the growth in the first quarter exceeds the 4% growth predicted by a Reuter's poll. The economy in the first quarter grew 2.2% quarter-over-quarter.

China's economic development has been in the spotlight since the country reopened after nearly three years of strict COVID restrictions. Economic growth was 2.9% in the fourth quarter of 2022. However, retail sales, investment and industrial output data released on 18 April 2023, showed that the recovery remains uneven, while employment pressure remains.

2. Domestic Economy Outlook

It is reported that the growth outlook would be positive and exports do well in the current fiscal.

India's real GDP growth for 2023-24 to be 6.2%, citing full reopening of the economy, cyclical recovery in consumption, increased private sector capital expenditures, and acceleration in government spending (Morgan Stanley). In addition, it is stated that the RBI is likely to keep the repo rate on hold in 2023 as retail inflation is anticipated to remain significantly below the 6% threshold.

During the current fiscal year, the Federation of Indian Export Organisations (FIEO) targets to take the export shipments to USD 500 billion- USD 510 billion. According to exporters, the country's merchandise exports will likely surpass USD 500 billion this fiscal year due to robust demand for domestic products in key global markets, including the United States, and the benefits from other trade agreements. In 2023-24, services exports are projected to reach approximately USD 390 billion, up from USD 322.72 billion in 2022-23. Together with goods and services, FIEO is targeting exports of USD 900 billion this fiscal.

Demographic dividend: A dividend or a damper? According to the United Nations data, India has surpassed China to become the world's most populous nation with 142.86 crore people. China has a population of 142.57 crore, according to the UN world population dashboard.

According to a new report by United Nations Population Fund, 25 percent of India's population is in the age group of 0-14 years, 18 per cent in the 10 to 19 age group, 26 per cent in the age bracket of 10 to 24 years, **68 per cent in 15 to 64 years age group,** and 7 per cent above 65 years. With as much as 68 percent of the working or able-to-work population certainly looks like a demographic dividend when a lot of advanced countries in the world struggle due to their population growing old thus reducing the number of those who could work. The country's relatively young population could provide a demographic dividend for economic growth, experts have cautioned that the government must address structural issues, accelerate investment in health and education, and increase manufacturing activity to improve the employability of its workforce.

3. Inflation Outlook

Inflation still on cards: RBI MPC Minutes

In its April Monetary Policy Committee meeting, the RBI projected CPI inflation at 5.2% for 2023-24, with Q1 at 5.1%, Q2 at 5.4%, Q3 at 5.4%, and Q4 at 5.2%. The majority of the WPI's manufactured, primary, and fuel and power components have decreased over the months. The decrease in wholesale price inflation is in accordance with expectations and is in tandem with that of retail inflation. The most recent CPI inflation figure (March 2023), 5.66%, is the lowest in the past 15 months; it was 5.66% in December 2021.

RBI governor in the MPC meeting stated that both domestic and international factors are expected to contribute to this deflation. Despite recent unseasonable rainfall, there is greater optimism regarding the rabi harvest, and this could substantially ease the price pressures on rabi crops, especially wheat. In addition, he noted that prices for edible oils have decreased.

The softening of global commodity prices from their peak levels a year ago is translating into lower input cost pressures for manufactured goods and services and this may result in some moderation of core inflation in the future, he said.

Moreover, the Governor stated that the overall situation remains dynamic and fast evolving. In the upcoming months, clarity on monsoon would be available. Because of a constrained demand-supply balance and high fodder

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prices, milk prices may remain high during the lean summer season. The growing unpredictability of international crude oil prices also necessitates close observation.

Rural India reported a mild increase in the already high inflation in March 2023. Retail price inflation for agricultural labourers, measured by the CPI-AL, inched up to 7.01% in March 2023 from 6.94% in February 2023. The food group, which accounts for 69.15% of the consumption basket of agricultural labourers, saw inflation rise to 7.12% from 6.82%. Inflation for rural labourers, measured by the CPI-RL, at 6.94% in March 2023 was also a shade higher than its February 2023 level of 6.87%. Food inflation for rural labourers rose to 7.07% in March 2023 from 6.68% in February 2023.

4. Interest Rate Outlook

Tightening cycle may not be over, RBI MPC meeting minutes

In the latest minutes of the MPC meeting, RBI alluded to the possibility of future rate increases. RBI Governor stated that the most recent pause in the repo rate was tactical and not a pivot or change in policy direction and the fight against inflation is far from over.

In a surprise move, the RBI maintained the policy repo rate under the liquidity adjustment facility (LAF) at 6.50% in the first bimonthly monetary policy of FY24. In addition, it maintained the standing deposit facility (SDF) rate at 6.25%, the marginal standing facility (MSF) rate and the Bank Rate at 6.75%. All MPC members voted for a pause in rate hike in April 2023.

The Governor stated that the cumulative impact of monetary policy actions over the past year is still unfolding and must be closely monitored. Inflation is projected to decline in 2023-24, but the disinflation towards the target is likely to be slow and protracted." Consequently, he added, "This is a tactical pause, not a pivot or change in policy direction." RBI will continue to monitor all incoming information, conduct a forward-looking analysis of the evolving economic outlook, and be prepared to act if the situation so warrants. Our efforts to bring inflation closer to the target over the medium term must continue.

As high interest rates impact on economic demand, economists, anticipate that the RBI will maintain an 'extended pause'. A policy pivot towards rate cut is expected by October 2023. It is also reported that policy rates could be reduced by 75 basis points (bps) by March 2024 (Nomura).

Bond yield slides during the week

On (21 April 2023), Indian government bond yields closed lower after a stronger-than-anticipated demand at the debt auction prompted short covering and increased trading activity. GOI conducted the auction for the sale (re-issue) of three dated securities (viz. 7.06% GS 2028, 7.26% GS 2033, 7.36% GS 2052) for a notified amount of ₹33,000 crore on 21 April 2023.

The benchmark 10-year 7.26% 2032 bond yield closed at 7.1856%, the lowest level since September 14, 2022, after concluding the previous session at 7.2206%. The yield ended four basis points lower on a weekly basis. According to traders, the 7.26% 2033 bond, which is expected to replace the current benchmark 7.26% 2032, was cornered largely by the foreign banks, resulting in a significant decline in yields on the secondary market.

"Most traders did not anticipate such demand at the auction and were caught off guard, leading to aggressive short covering," said a trader at a primary dealership. On 21 April 2023, market sentiment was cautious after the minutes of the RBI's most recent meeting revealed that India's current rate tightening cycle may not be over as more rate increases are likely.

Since there are no significant bond market triggers this week, traders will continue to focus on debt supply and the May 3 policy decision by the U.S. Federal Reserve. **Traders expect the benchmark yield to move in the 7.15%-7.24% range this week.** The 10-year U.S. yield remained above 3.55 %, with the probability of a 25-bps rise by the Fed exceeding 90%.

Fed rate hikes could curb oil consumption

Despite robust Chinese economic data and falling US inventories, crude oil prices decreased by 2% (on 19 April 2023), as the dollar strengthened on fears that looming Federal Reserve interest rate hikes could curb energy demand in the world's top consumer.

A stronger U.S. dollar can hurt global demand for oil by making it more expensive in other countries. Investors were also discouraged by still high inflation in Europe and uneven economic data in China, the world's biggest crude importer. Last week, US crude oil inventories decreased by 2.7 million barrels. According to Atlanta Fed President, the US Federal Reserve is likely to increase interest rates once more. The market anticipates an 86 percent chance that the US Federal Reserve will raise interest rates by 25 bps at its policy meeting in May 2023.

Weekly Benchmark Bond Yield Movement (%)

Date	17 April	18 April	19 April	20 April	21 April
USA 10 yr	3.60	3.58	3.60	3.53	3.57
Ind 10 yr	7.25	7.22	7.23	7.22	7.19
Ind 5 yr	7.08	7.05	7.05	7.04	7.02
Ind 3 months	6.73	6.71	6.76	6.79	6.78

Source: CMIE, worldgovernmentbonds.com