

1. Global Economic Outlook

US Inflation cooled to 4% in May 2023. As per the report released by Bureau of Labour Statistics on 13 June 2023, the US Consumer price growth cooled in May 2023 to the lowest level since March 2021. On an annual basis, price growth fell to 4%. Price growth climbed just 0.1% month-over-month in May, decelerating from 0.4% in April. The reading was slightly better than economists' forecast of 4.1% – and down significantly from 4.9% rate in April 2023. Excluding the volatile food and energy components, consumer inflation was up 5.3% over the last 12 months.

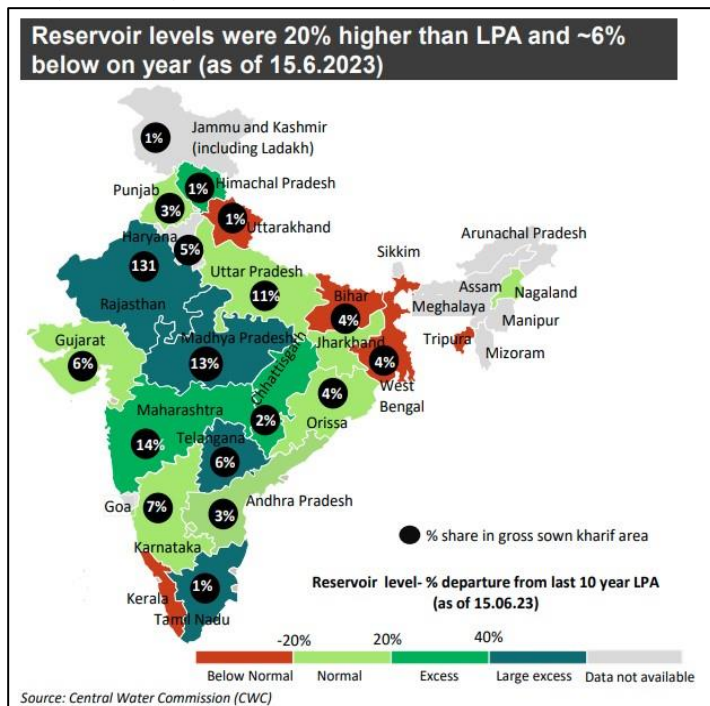
UK inflation steady at 8.7% in May 2023 in the 12 months, unchanged from April. On a monthly basis, CPI rose by 0.7% in May 2023, compared with a rise of 0.7% in May 2022. Core CPI (excluding energy, food, alcohol, and tobacco) rose by 7.1% in the 12 months to May 2023, up from 6.8% in April, the highest rate since March 1992. According to the Office for National Statistics, rising prices for air travel, recreational and cultural goods and services, and second-hand cars contributed to the inflation, while falling prices for motor fuel provided the biggest downward pressure.

2. Domestic Economic Outlook

India to be fastest growing economy for next three years (S&P Global Ratings). India is likely to grow at 6.7% for the next three years, retaining its tag as the fastest-growing major economy. The agency kept India's growth forecast unchanged at 6% for this fiscal, projecting a sharp bounce back to 6.9% in FY25 and FY26. India could be the worst affected economy in Asia, where a severe El Nino could shave off 0.4 percentage points of growth and add 0.3 percentage points to its inflation for FY24 (Nomura). Indian growth is expected to dip in FY24 due to the global economic slowdown. Growth to fall to 5.9% in FY24, compared with 7.2% the previous year.

Rice acreage down; pulses, coarse cereals acreage up as per the data released by MoA-Area under paddy in the ongoing Kharif (summer-sown) season is down nearly 35% to 10.77 lakh ha. compared to 16.46 lakh ha. in the corresponding period of last year. Area under coverage for pulses is higher at 6.54 lakh ha. so far from 6.30 lakh ha. in the same period last year, Shri Anna-cum-Coarse Cereals acreage stood higher at 18.95 lakh ha. so far as against 13.38 lakh ha. in the corresponding period last year.

According to IMD, major agricultural states such as Maharashtra, Chhattisgarh, Madhya Pradesh, Uttar Pradesh and West Bengal stare at a rainfall deficiency of 88%, 94%, 77%, 66% and 31%, respectively, this month. Further, as per Central Water Commission (CWC), reservoir levels were 20% higher than Long Period Average (LPA) and 6% below on year (as on 15.06.2023).



Area Coverage Under Kharif Crops (As On June 23, 2023 compared to one year ago)

Crops	Diff in Area coverage (Lakh ha.)	% of increase/decrease
Rice	-5.7	-34.6
Total pulses	0.3	3.9
Coarse cereals	5.1	37.9
Oilseeds	0.3	-3.3
Sugarcane	0.0	0.0
Jute and mesta	-0.8	-12.1
Cotton	-4.7	-14.2
Total	-6.1	-4.5

Source: National Food Security Mission

Trade Deficit hits 5-month high. India's merchandise exports fell 10.3% to \$34.98 billion in May 2023, while imports contracted at a slower 6.6% rate to \$57.1 billion, lifting the trade deficit to a five-month high of \$22.1 billion. This is the sixth time in the last eight months that goods exports have declined year-on-year, although May's decline was lower than the 12.6% fall recorded in April 2023. The Commerce Ministry attributed the moderation in exports' growth through 2023 so far to "persisting geopolitical tensions

and monetary tightening induced recessionary fears” that have triggered a decline in consumer spending across advanced nations.

WPI inflation came down to -3.48 % in May 2023 compared to -0.98 % in April. Decline in rate of inflation can be attributed to a fall in prices of mineral oils, basic metals, food products, textiles, non-food articles, crude petroleum and natural gas, and chemical and chemical products. WPI food inflation fell from 0.17 % in April to -1.59 % in May. Moreover, fuel and power inflation fell massively from 0.93% in April to -9.17 % in May.

Retail inflation for agri labourers and rural labourers eased to 5.99% and 5.84%, respectively, in May 2023. The major contribution towards the rise in general index of Agricultural Labourers and Rural Labourers came from food group to the extent of 5.29 & 4.72 points, respectively mainly due to increase in prices of rice, pulses, milk, meat goat, chillies dry, garlic, ginger, vegetables & fruits, etc.

3. Interest Rate Outlook

Fed announced a pause in interest-rate hikes, leaving rates at 5% to 5.25% after more than a year of consecutive rate increases. (The Fed has raised interest rates 10 consecutive times since March 2022). The FOMC said in a statement: “Holding the target range steady at this meeting allows the committee to assess additional information and its implications for monetary policy ... In assessing the appropriate stance of monetary policy, the committee will continue to monitor the implications of incoming information for the economic outlook”. However, officials indicated that they see rate increases totalling 0.5-percentage point through the end of 2023 indicating two additional hikes, assuming quarter-point moves.

The ECB announced increase of 25 basis points, taking its main rate to 3.5%. This is for the eighth successive time since July 2022 that ECB have raised interest rate in an attempt to bring down record-high inflation across the region. "The Governing Council's future decisions will ensure that the key ECB interest rates will be brought to levels sufficiently restrictive to achieve a timely return of inflation to the 2% medium-term target," the ECB said.

Minutes of the MPC Meeting held on 6-8 June 2023 were made public. The MPC, kept the repo rate steady at 6.50% in an unanimous decision, at its

latest meeting. However, all three internal members of the RBI continued to focus on the upside risks to inflation and reiterated that the pause in June was only for the specific policy and future rate actions would depend on evolving macroeconomic data. Five out of the six members voted to remain focused on the withdrawal of accommodation to ensure that inflation progressively aligns with the target while supporting growth, with one member expressing reservation on the stance. While keeping the interest rate intact, RBI governor noted that headline inflation in India remains above the central bank’s target of 4 % and is expected to remain so during the rest of the year. He further stressed that the Southwest monsoon in the backdrop of a likely El Nino weather pattern needs to be watched carefully, especially for its impact on food prices in India.

Benchmark Bond Yield Movement (%)						
Date	12 June	14 June	16 June	19 June	21 June	23 June
USA 10 yr	3.74	3.79	3.77	3.82	3.73	3.74
Ind 10 yr	7.02	7.01	7.03	7.05	7.07	7.07
Ind 5 yr	6.95	6.96	6.97	6.99	7.00	7.03
Ind 3 M	6.77	6.77	6.76	6.78	6.76	6.74

Source: worldgovernmentbonds.com

Indian government bond yields closed at 7.04% as on June 16, having remained unchanged from the yields as on June 9, yield dropped at the start of the week ending June 16 as domestic inflation numbers for April eased. However, the fall in the yield was halted after the Fed hinted at further rate hikes by the end of the year. Yield closed at 7.07% on June 23, compared to 7.04% as on June 16, 2023. The yields rose tracking the rally in the US treasury yields amid hawkish comments from the US Fed Chairman Powell indicated that rates could go higher. Yield for the period (26 June-7 July) is expected to remain range bound (7.00%-7.08%), supply from states on 27 June and central government on 30 June 2023 may provide an insight into investors' comfort at prevailing yield levels.