

Global Economic Outlook

USA unemployment rate at 3.5% in July

- As per the data released by the U.S. Bureau of Labor Statistics, the national unemployment rate reduced to 3.5% in July 2022, which is 1.9 percentage points lower than in July 2021. In July 2022, the unemployment rates declined in 14 states, rose in 3 states, and remained stable in 33 states.

USA President signs Inflation Reduction Act into a law

- The Inflation Reduction Act of 2022 (IRA) is a United States law which aims to curb inflation by reducing the budget deficit, lowering prescription drug prices, and investing into domestic energy production while promoting clean energy.
- The law intends to raise \$737 billion and among other things, spend \$369 billion on energy and climate change, \$300 billion on deficit reduction.

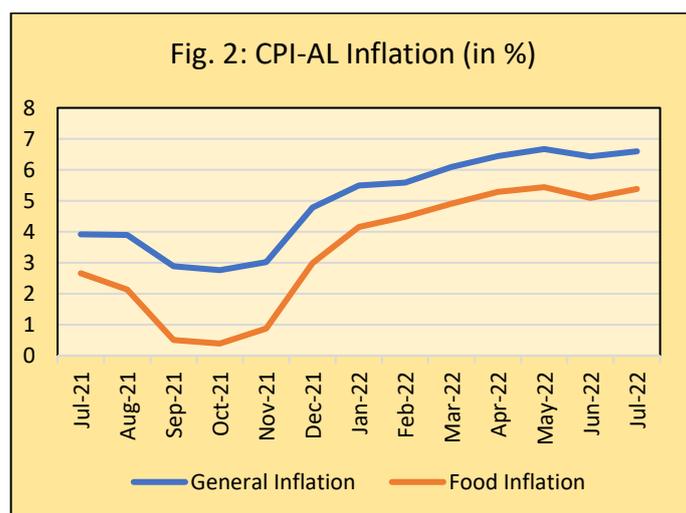
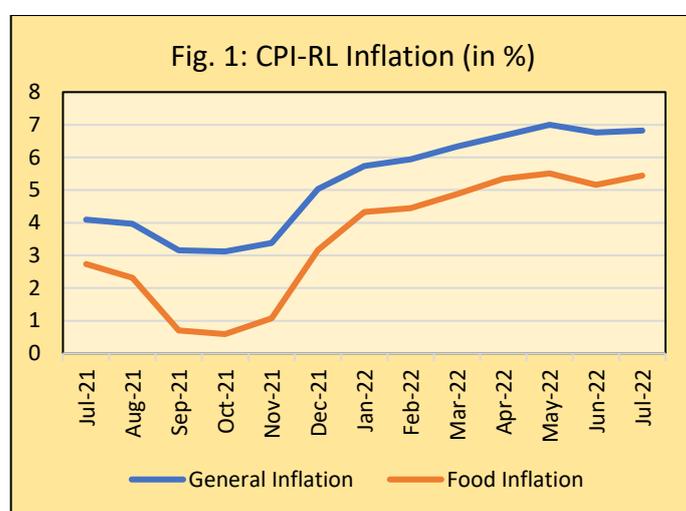
China cuts benchmark lending rates

- The People's Bank of China (PBOC), in an effort to revive Chinese economic growth, has cut its two key benchmark lending rates amid multiple challenges facing its slowing economy.
- The one-year loan prime rate (LPR) – on which most new and outstanding loans are based – was cut from 3.7% to 3.65%.
- The five-year LPR – which is a reference rate for mortgages – was also cut from 4.45% to 4.3%. It is noteworthy that China's consumer price index (CPI) inflation was 2.7% in July (Y-o-Y basis), much lower than that observed in other major economies.
- The People's Bank of China (PBOC) is walking a tight rope in its efforts to revive growth. On one hand, it realises that reducing the benchmark interest rates is crucial to stimulate the economy. On the other hand, offering too high a stimulus could add to inflationary pressures and risk capital outflow as the Federal Reserve and other economies raise interest rates aggressively.

Domestic Economic Outlook

CPI-AL and CPI-RL Inflation in India at 6.60% and 6.82% in July

- The All-India Consumer Price Index (CPI) for Agricultural Labourers (AL) and Rural Labourers (RL) (Base: 1986-87:100) for the month of July 2022 was 6.60% and 6.82%, respectively (Fig.1 and Fig.2), mainly due to higher prices of certain food items. In June, retail inflation for farm and rural workers stood at 6.43% and 6.76%, respectively.



Less than a third of Indian districts got normal monsoon rainfall so far

- According to the latest data released by the India Meteorological Department (IMD), almost a third of the our 700-plus districts have witnessed

deficient monsoon rainfall this season, while another 37% have received excess showers, which could possibly affect the kharif harvest. Only 31% of the districts have received normal showers.

- Paddy planting may have been adversely impacted due to deficiency in the rainfall in Uttar Pradesh (-47%), West Bengal (-21%), Bihar (-42%) and Jharkhand (-38%) against the benchmark.
- West Bengal, the biggest rice producing state, has received deficient rainfall in 15 of its 23 districts.

India's growth outlook for 2022-23 looks positive: FinMin Report

- As per a monthly report released by the Finance Ministry, India is now better placed on the growth-inflation-external balance triangle for 2022-23 than it was two months ago, on the back of government policy response and the Reserve Bank's monetary policy actions.
- Softening of inflationary pressures in India is further on the anvil as the prices of important raw materials such as iron ore, copper and tin that feed into the domestic manufacturing process, globally trended downwards in July 2022.

Foreign Exchange Reserves fall to USD 570 bn

- As per the data released by RBI, India's foreign exchange reserves fell by USD 2.238 billion to USD 570.74 billion in the week ended August 12.
- The fall in the reserves was on account of a decline in the Foreign Currency Assets (FCA), a major component of the overall reserves. Expressed in dollar terms, FCA includes the effect of appreciation or depreciation of non-US units like the euro, pound and yen held in the foreign exchange reserves. FCA declined by USD 2.652 billion to USD 506.994 billion. Among other components of the Forex reserves, gold reserves surged USD 305 million to USD 40.618 billion. India's reserve position with IMF also rose by USD 7 million to USD 4.994 billion.

Interest Rate Outlook

Minutes of Meeting of MPC indicates more rate hikes in future

- The minutes of the recent monetary policy committee (MPC) meeting released on 19 August 2022 indicate towards possible interest rate hikes in the coming months as the retail inflation remained elevated, even though panel members noted that inflation may have peaked.
- For instance, RBI Governor Shri Shaktikanta Das said, **'though inflation has moderated and plateaued since its recent peak of April 2022, it remains unacceptably and uncomfortably high'**.
- Indicating towards further rate hikes, RBI Deputy Governor Dr. Michael Patra said that frontloading of monetary policy actions can keep inflation expectations firmly anchored, re-align inflation with the target, and reduce the medium-term growth sacrifice as it is timed into the recovery underway.

Higher expected growth may provide a confidence to MPC to undertake rate hikes in future

- India is expected to continue growing fast in 2022-23. For instance, economists from banks and rating agencies surveyed by Business Standard opine that India's real GDP must have grown year-on-year in the range of 14.5% to 16% in the first quarter of 2022-23.
- Considering this, the MPC may continue on the path of rate hikes to control inflation.

Weekly Benchmark Bond Yield Movement (%)					
Date	15-Aug	16-Aug	17-Aug	18-Aug	19-Aug
USA 10 years	2.79	2.80	2.88	2.87	2.97
India 10 years	--	--	7.18	7.24	7.26
India 5 years	--	--	6.87	6.93	6.97
India 3 months	--	--	5.40	5.56	5.52

Source: CME, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (22-26 August 2022) is expected to be in the range 7.24% to 7.34%.