Global Economic Outlook

- U.S. manufacturing activity grew at its slowest pace in nearly 2-1/2 years in September amid aggressive interest rate increases from the Federal Reserve to cool demand and tame inflation.
- U.S. job growth strong in September as labour market forges ahead.
- Dollar rises as case for U.S. rate hikes firms backed by strong labour market data.
- Europe Inc's wage hikes alarm investors as worries about recession grow.
- Euro zone bond yields rise after strong U.S. jobs data.
- Fitch cuts outlook for UK rating to 'negative' from 'stable'.
- French central bank trims economic growth estimate.
- Morgan Stanley predicts slowdown in China next year.
- World trade is expected to lose momentum in the second half of 2022 and remain subdued in 2023 as multiple shocks weigh on the global economy.

Domestic Outlook

- World Bank slashes India's economic growth forecast: The World Bank slashed its growth estimate for India by one percentage point to 6.5 per cent for FY23, citing the blowback of the Russia-Ukraine war and ongoing global monetary policy tightening. This is the lowest growth estimate by any multilateral agency for FY23.

Services PMI Cools To 6-Month Low in Sept: India's services activity fell to a six-month low in September as new business inflows and output increased at the slowest rates since March, amid inflationary pressures and competitive conditions, which, in turn, dampened job creation. The Purchasing Managers' Index (PMI) for the services sector released by S&P Global dipped to 54.3 in September from 57.2 in August.

- Non-food bank credit growth skids: Growth in outstanding non-food credit disbursed by scheduled commercial banks (SCBs) slowed to 0.8 per cent in August on a month-on-month basis. It had increased by 1.1 per cent in June and 1.9 per cent in July. In absolute terms, Rs.0.9 trillion was disbursed (net of repayments) as non-food credit in August. This was lower than the Rs.1.3-2.3 trillion credit disbursed in the preceding two months. High inflation combined with rising interest rates is likely to have acted as a dampener on demand for bank credit.

Labour markets rebound in September: Labour market conditions improved substantially in India in September 2022. The unemployment rate dropped from 8.3 per cent in August to 6.4 per cent. This is the lowest unemployment rate recorded by India in the past four years since August 2018. Labour market conditions improved across rural and urban regions. But, it was rural India that made the bigger contribution to the turnaround in labour conditions.

Steady improvement in consumer sentiments: Consumer goods companies were greeted with buoyant consumer sentiments at the beginning of the festive season of 2022. CMIE's Index of Consumer Sentiments (ICS) comprises two components the Index of Current Economic Conditions (ICC) and the Index of Consumer Expectations (ICE). Both recorded handsome gains during September. The ICC rose by 7.9 per cent and the ICE was up by 6.5 per cent.

Fueled by erratic rainfall and supply shocks from Russia's invasion of Ukraine, prices of daily consumables like cereals and vegetables which form the largest category in the inflation basket have climbed over the past two years. According to a similar Mint poll of 24 economists, retail inflation is likely to have soared in September to a five-month high due to rising food prices and a low base. The survey's median estimate showed inflation is expected to rise to 7.3% in September from 7% in August.

India inflation likely hit five month high in Sept on food prices: India's retail inflation accelerated to a five month high of 7.30% in September due to surging food prices, staying well above the Reserve Bank of India's (RBI) upper tolerance band for a ninth month, a Reuters poll found.

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- **Indian economy still on course for 7% GDP growth** - Chief Economic Advisor: Despite downside risks dominating upside risk, chief economic adviser (CEA) V Anantha Nageswaran believes that India is still on course for seven per cent GDP growth in 2022-23. Stating that India is better placed than other countries, the CEA explained that monetary policy did not expand the balance sheet as much as in other countries, nor was there a leverage build-up. Also, fiscal policy was not overly expansionary during the pandemic. He asserted that all these are working in favour of the Indian economy, adding that the private sector has also started to spend.

- **Amid high inflation and exchange rate pressures, rate hikes and tight liquidity are the best bet.** At a time when we face double whammy of high inflation and spillovers of exchange rate pressures, even marginal deficit liquidity conditions will be justified as it will ameliorate both these pressures—Mridul Saggar, formerly RBI's Executive Director and an MPC member.

- **India's Edelweiss Asset Management says repo rate may hit 6.75% on inflation woes:** As per analysts from Edelweiss AM, Reserve Bank of India may have to hike the repo rate to as much as 6.75% as inflation remains a threat, lingering above the central bank's target range for the remainder of the year. The possibility of steeper rate hikes means that investors may be better served by investing in shorter term bonds.

- **Amid growing headwinds primarily driven by inflation and growth concerns around the world many are seeing India as better positioned.** India may have to navigate various challenges. As interest rates are rising another 70-100 basis points rate hike may see demand getting impacted—Shanti Ekambaram, Kotak Mahindra Bank Group President.

- **Rupee Slide may continue:** India's depleting foreign exchange reserves in the face of rupee's rapid depreciation were becoming a point of concern, as they fell 16% at September-end compared to the beginning of the year. This was the biggest percentage drop among emerging Asian markets, said Goldman Sachs analysts.

- **Economists from HDFC and Elara Capital** also expressed concerns over U.S. Federal Reserve's expected rate hikes, rising oil prices and widening trade deficit further weighing on the currency. Elara's Garima Kapoor warned that the rupee could fall to 83.50 per dollar by December and slip even further to 84-85 by March.

**Interest Rate Outlook**

- **Rise in Global Oil Prices hurt sentiments:** The constant rise in global oil prices is also hurting sentiment as India is one of the largest importers of the commodity and higher prices have a direct impact on inflation. Oil prices edged up after the Organization of Petroleum Exporting Countries and its allies, including Russia, agreed to slash oil production by about 2 million barrel per day, which would squeeze supplies in an already tight market.

- **Spreads converge further:** India's 10 Years vs 2 Years Spread converged further during the week. The spread came down by 8.2 bp during the week (from 38.8 bp to 30.6 bp)

- **Sharp Spike in Yields:** The yield on the benchmark Indian government bond hit its highest level in nearly four months, tracking the relentless spike in the U.S. yields as well as oil prices.

- **The benchmark Indian government bond yield ended at 7.46% on Friday (07 Oct), and had risen by almost 10 basis points from week’s low of 7.39%.** However as per analysts, the selling for the time being is done, and we should see bonds in thin range till inflation data, especially of the U.S. (due to come in on 13 Oct) which would provide more clarity on their rate hike cycle, while India's reading is more or less priced in.

- Analysts expect foreign funds to continue to trim their holdings in India's government debt after J. P. Morgan delayed the inclusion of the country's bonds in its global index, which has sparked a further rise in yields.

### Weekly Benchmark Bond Yield Movement (%)

<table>
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<th>Date</th>
<th>03-Oct</th>
<th>04-Oct</th>
<th>05-Oct</th>
<th>06-Oct</th>
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<tr>
<td>USA 10 years</td>
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<td>-</td>
<td>6.06</td>
<td>6.18</td>
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Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (10-14 October 2022) is expected to be in the range 7.50% to 7.60%.