

## Global Economic Outlook

### Global growth projected to slow by 2.7 percentage points between 2021 and 2024

According to the World Bank's latest forecast, global growth is projected to slow by 2.7 percentage points between 2021 and 2024 – more than twice the deceleration between 1976 and 1979.

### US inflation hit 40-year high in May

- The consumer price index in US increased 8.6% from a year earlier as per Labor Department data. The widely followed inflation gauge rose 1% from a month earlier, topping all estimates. Shelter, food and gas were the largest contributors.
- The US Federal Reserve will hike its key interest rate by 50 basis points in June and July, with rising chances of a similar move in September, according to a Reuters poll of economists who see no pause in rate rises until next year.

### Yen tumbled to its lowest in 24 years

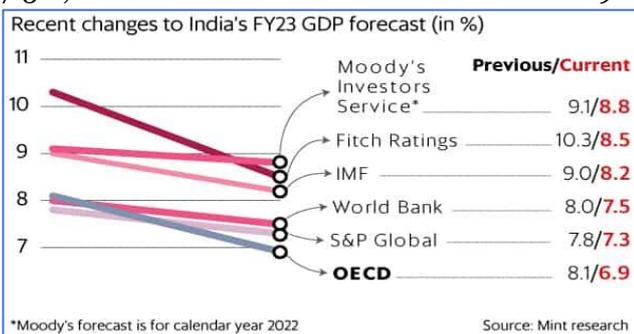
- The dollar rose as high as 135.22 yen, its highest since October 1998, having gained for each of the past seven sessions, as the policy divergence between hawkish central banks overseas and the dovish Bank of Japan (BOJ) becomes ever more apparent.

### UK economy contracts in April as inflation weighs

- British economic output declined for a second month in a row in April, weighed down by decades-high inflation. Gross domestic product fell 0.3% in April after a drop of 0.1% in March as per the Office for National Statistics.
- Output in the services, production and construction sectors fell -- "the first time that all main sectors have contributed negatively to a monthly GDP estimate since January 2021.

### Domestic Economic Outlook

- Rampant inflation and geopolitical tensions have prompted most global agencies to downgrade India's economic growth forecast for this fiscal year. The World Bank cut its forecast from 8% to 7.5%, and OECD from 8.1% to 6.9%.



## Rapidly depreciating exchange rate



Source-CMIE

- The Indian rupee touched a lifetime low of ₹78.28/\$ on 13 June 2022 after US inflation data raised the prospects of aggressive Fed tightening later this week. On the domestic front, persistent FII selling (May being eighth consecutive month of net selling) continues to dampen sentiment.
- From ₹ 74.51 per US \$ in November 2021, average INR/USD exchange rate dropped to ₹77.32 in May 2022. This is a depreciation of 3.6 per cent.
- A rapidly depreciating rupee further increases the prospects of imported inflation at a time when global commodity prices, including energy prices, are not showing any signs of easing.

### Employment gains

- India's employment data for May 2022 shows stability at the macro level and simultaneously a positive movement of labour at the sectoral level.
- Even though a small fall in the labour participation rate was seen, a larger fall was seen in the unemployment rate.
- While 7.83% of those who were seeking employment in April were left unemployed, only 7.12% were left unemployed in May 2022. Employment increased from 402.9 million in April 2022 to 404 million in May 2022. This is the second consecutive month of an increase in employment. The increase in April was much bigger at nearly 7 million.
- As India moves into its kharif sowing season in June, the demand for labour from agriculture is expected to increase. This could help lead to an increase in the labour participation rate and also the employment rate.

### Interest Rate Outlook

### Withdrawal of the RBI's accommodative stance

- The June round of monetary policy committee meeting (MPC) was held from June 6-8, 2022.

### Monetary Policy Committee Meeting Outcomes

Reserve Bank of India's Monetary Policy Committee (MPC) decided to hike the Policy Repo Rate by 50 basis points to 4.9% in its June meeting. Consequently, the standing deposit facility (SDF) rate and marginal standing facility (MSF) rate stood adjusted to 4.65% and 5.15% respectively. MPC noted that inflation is likely to remain elevated for the first three quarters of the current financial year and sees inflation for the year at 6.7%. Real GDP growth rate for the year has been retained at 7.2%. The policy statement clearly mentions a withdrawal of the RBI's accommodative stance to pull back inflation within the target band.

### CAD may rise to a decade high in FY23

- India's current account deficit (CAD) could widen to a 10-year high of 3.3% during the current financial year due to continued geopolitical tensions and surging oil prices as per Morgan Stanley report

### Bearish forecasts for rupee

- Households' median inflation perception rose to 10.1% in May 2022 from 9.7% in March 2022, as per the Reserve Bank of India's (RBI) Inflation Expectations Survey of Households (IESH).
- The latest increase in repo rate will lead to another round of hike in lending rates by banks. The rate hike will get transmitted soon as the rates on almost 40% of floating rate linked outstanding rupee loans of SCBs are linked to external benchmark which is the repo rate. Banks have also started hiking lending rates based on marginal cost of funds-based lending rates (MCLR). On June 7, HDFC Bank hiked MCLR by 35 basis points.

### Market Operations

#### WACR on the rise

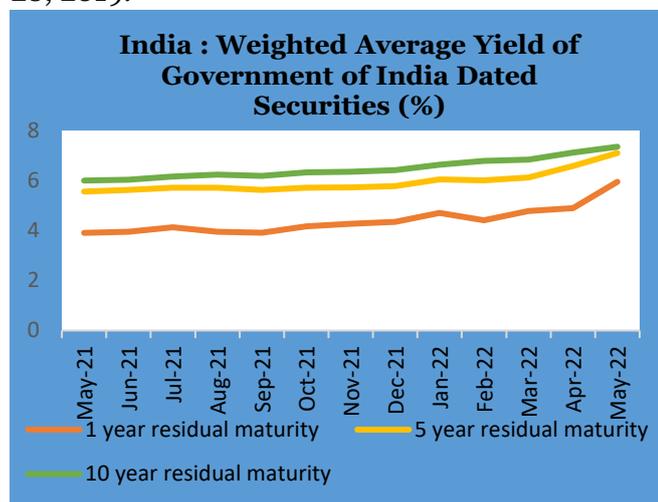
- From a low of 3.13% in the week ended February 4, weighted average call money rate (WACR), the operating target of monetary policy, rose to 3.38% in the week ended April 8. It has been rising ever since and has hit 4.28% in week ended June 10. But throughout the rising trajectory, it remained below the SDF rate, indicating the large surplus liquidity in the system. Call money rates will move higher as the RBI's withdrawal of accommodation further reduces surplus liquidity in the system.

#### Yield on government securities

- U.S. Treasury yields went up on June 10, 2022 led by short-term rates, after the release of higher than-expected inflation data raised concern over a possible recession. The 2-year rate jumped

more than 24 basis points to 3.065%, reaching its highest level since 2008. The benchmark 10-year Treasury yield also rose, trading at about 3.157%

- In India, yield on government securities with 10-year residual maturity is on a continuous northward journey. Each monetary policy announcement has led to a spike in G-Sec yields. From 6.91% on 7 April, G-Sec yield spiked to 7.16% on 11 April, after the SDF rate was introduced above the reverse repo rate in the first monetary policy announcement for 2022-23. The off-cycle repo rate hike of May 4, recorded a sharp reaction. From 7.12% on May 2, yield surged to 7.4% on May 5. On June 7, yield had gone up further to 7.52%. On June 13, the benchmark 10-year bond yield hit 7.60%, its highest since Feb. 28, 2019.



Source-CMIE

### Weekly Expectation

Date	06-Jun	07-Jun	08-Jun	09-Jun	10-Jun
USA 10 year	3.04	2.97	3.02	3.04	3.15
India 10 year	7.5	7.52	7.48	7.51	7.52
India 5 Year	7.29	7.36	7.27	7.29	7.29
India 3 Month	4.99	5.03	4.95	4.97	4.98

The India 10 Years Government Bond Yield is expected to trade in the range 7.50-7.65% in the current week (13-19 June 2022).