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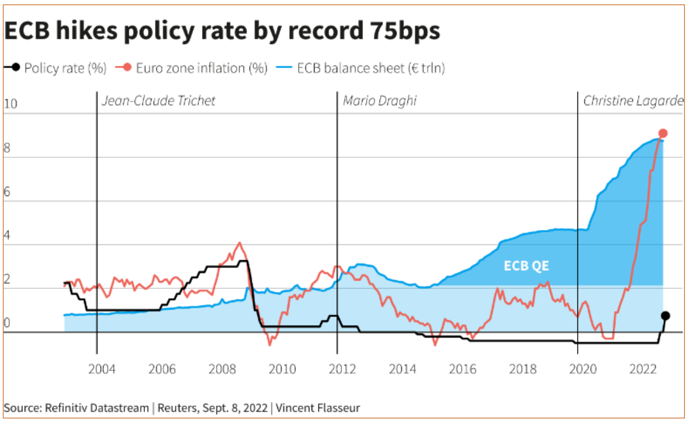
DEAR
ECO WATCH
Issue No.68/ 05 Sep–09 Sep 2022

Global Economic Outlook

- **European inflation accelerates: ECB tighten further:** Inflation continued to accelerate in the 19-member Eurozone in August. The EU reports that, in August, consumer prices were up 9.1% from a year earlier, a record increase, and up 0.5% from the previous month. Once again, energy played the biggest role.

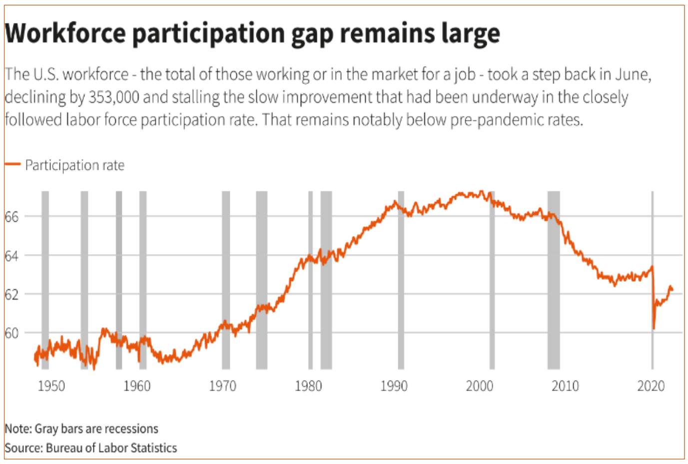
Country	M/M(%)	Yr/Yr (%)
Germany	0.4	8.8
France	0.4	6.5
Italy	0.8	9.0
Spain	0.1	10.3
Netherland	2.3	13.6
Belgium	1.8	10.5
Portugal	-0.2	9.4
Ireland	0.1	8.9
Austria	-0.2	9.2
Finland	-0.4	7.6
Greece	-0.3	11.1

- Energy prices were up 38.3% from a year earlier and were unchanged from the previous month. Oil prices continued to fall globally while European natural gas prices fell due to the ability of Germany to boost reserves of gas more than anticipated. Still, there remains a considerable likelihood that gas prices will rise yet again, depending in part on what Russia does. Food prices were up 10.6% from a year earlier and up 1% from the previous month.



US job growth decelerates but remains strong:

- Job growth in the United States decelerated in August but remained strong. Participation in the labour force increased significantly faster than employment, resulting in a small increase in the unemployment rate.
- The US government releases two reports on the job market: One based on a survey of establishments; the other based on a survey of households. The survey of establishments indicated that there were 315,000 new jobs created in August, a robust number but lower than the 526,000 jobs created in July.
- The report also indicated that wages remained tame in August. Average hourly earnings of workers were up 5.2% from a year earlier, the same as in the last three months and lower than in the previous three months. Thus, wages are not accelerated, merely rising. In addition, earnings were up 0.3% from the previous month, the lowest monthly rate since April.
- **Tectonic plates of global economy shift:** Much of the world economy from the 1990s enjoyed three decades of solid, low-inflation growth due to benign tailwinds including stable geopolitics, technological advances, a spurt in globalisation and an ample pool of labour.
- Instead of seizing the moment to make investments and reforms for the future, governments took on debt to chase yet more growth. Moreover, while globalisation made a few people very rich, it was leaving millions more feeling worse-off.
- The 2008/09 financial crisis, pandemic and Ukraine war have revealed how fragile this growth fuelled by cheap debt and just-in-time supply chains was. Now, the greater fear is that those tailwinds keeping it all up in the air are turning to headwinds.



- The link between demographics and inflation ultimately takes care of itself. The Bank of Korea, whose country is bracing for the fastest pace of ageing in any major economy, believes that an older population in the end cools down demand in an economy and so pushes down wages and prices.

Domestic Outlook

- **CPI-Inflation in India at 7% in August:** India's retail inflation rose marginally to 7% in August (year-on-year basis), led by inflation in food basket. Inflation in July had been 6.8%.
- The uptick in CPI was due to the higher inflation in the food & beverages category which constitutes 46% of the CPI basket. The food inflation jumped to 7.57% in August against 6.7% in the previous month. Within food, vegetables and cereals rose by 13.2% and 9.6% respectively as a result of low base and soaring prices

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of onions and potatoes in vegetables and rice and wheat in cereals.

- Inflation for major indices is given below:

All-India Inflation Rates (in %) for August 2022 (Y-o-Y)			
	Rural	Urban	Combined
CPI (General)	7.15	6.72	7.00
CFPI	7.60	7.55	7.62

CFPI: Consumer Food Price Index

- As shown in Fig.2 below, in terms of sub-components, inflation in fuel & light was nearly 10.78%, while inflation in clothing & footwear was nearly 9.91%.

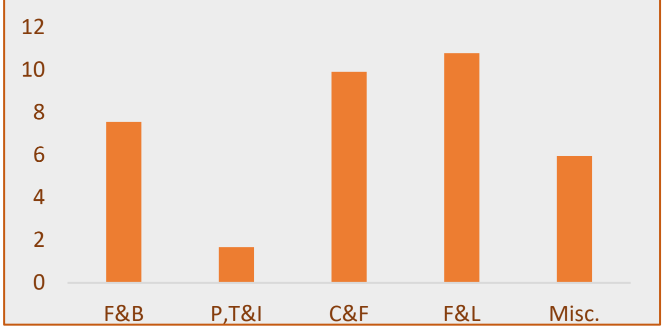
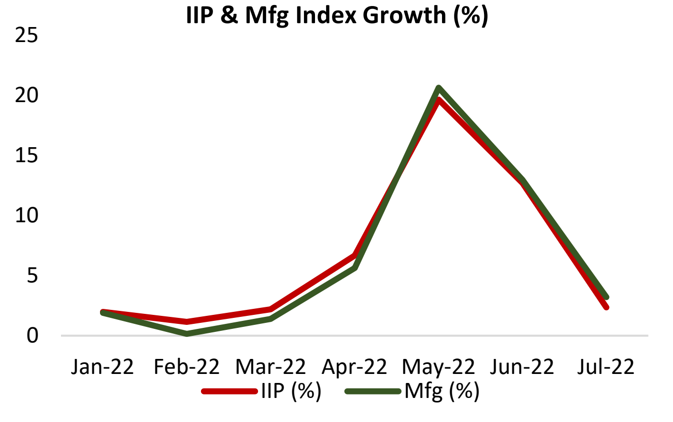


Fig.2: CPI Inflation Rate in August 2022 (in %) (YoY)

F&B: Food and beverages; P, T&I: Pan, Tobacco and Intoxicants; C&F: Clothing & Footwear; F&L: Fuel and Light; Misc.: Miscellaneous

- **Index of Industrial Production (IIP):** The IIP index rose by 2.4% on a year-on-year basis in July 2022, much slower than the 12.3% growth recorded in the preceding month. The slow growth in the index is mainly due to the waning of the base effect.
- The output of mined products declined by 3.3%, while electricity generation increased by a mere 2.3%. The manufacturing sector reported a 3.2% growth in production. Of the 23 sub-groups of the manufacturing sector, 14 reported a rise in production, while nine reported a fall.
- We expect industrial growth to remain robust backed by improvement in capacity utilization levels and a healthy order pipeline as indicated by the RBI's recent survey on the Industrial outlook of the manufacturing sector.

IIP & Mfg Index Growth (%)

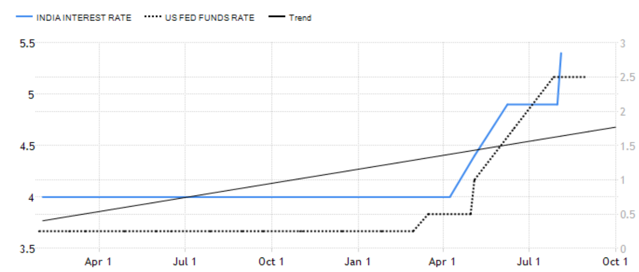


- **Stock markets continue to rise:** The Indian stock market rose for the second consecutive month in August 2022. The benchmark indices NIFTY 50 and S & P BSE Sensex rose by 3.5 and 3.4% respectively after rising by 8.7 and 8.6% in July 2022.
- The CMIE Total Returns Index (CTRI), an indicator of performance of the broader equity market, rose by 5.2% in August 2022, after rising by 9.5% in July 2022.
- **FPIs inflows ramped up: FPIs** had turned net buyers for the first time in July 2022 after dumping Indian equities for nine months in a row starting October last year. In August 2022, FPIs intensified their buying in the Indian capital market and infused $7,107 million. This was the highest investment made by foreign investors since December 2020, when they had infused $9,647 million

Interest Rate Outlook:

- The Reserve Bank of India raised its key repo rate by 50 bps to 5.4% during its August meeting, the third rate hike in a row, surprising markets had forecast a 35 bps rate hike, as policymakers stepped up efforts to bring down inflation which has stayed above the upper end of the central bank's target this year.
- August month inflation data indicates that RBI may further increase policy rate by 50 basis points in next MPC meeting.

Comparison of interest rate movement of India and US



Source: tradingeconomics.com

Weekly Benchmark Bond Yield Movement (%)					
Date	**05-Sep**	**06-Sep**	**07-Sep**	**08-Sep**	**09-Sep**
USA 10 years	3.23	3.34	3.27	3.32	3.32
India 10 years	7.2	7.18	7.18	7.14	7.17
India 5 years	7.04	7.01	7.04	6.98	6.95
India 3 months	5.61	5.63	5.63	5.63	5.63

Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (12 Sep-17 Sep 2022) is expected to be in the range 7.20% to 7.25%.