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Global Economic Outlook

US Consumer Sentiments Deteriorates

Consumer sentiment indicator that measures how optimistic consumers feel about their finances and the state of the economy, fell to its lowest level in nearly 11 years. The consumer sentiment index dropped to 59.7 *(from 62.8 in February 2022)* in the first half of this month *(lowest since Sept 2011)*, as gasoline prices surged to a record high in the aftermath of Russia's war against Ukraine, boosting one-year inflation expectations to the highest level since 1981. Based on the present situation, it is anticipated that the consumer sentiment index may further fall. *(Source: Reuters)*

Given the current geopolitical situation in Ukraine and Russia, crude oil prices jumped more than 30% and ban of imports of Russian oil in the US has also impacted the US gasoline prices. US consumer price has accelerated in February to a fresh 40-year high on rising gasoline, food and housing costs. Fed officials to take more cautious approach if sinking consumer sentiment and declining real wages begin to weigh on growth. (*The survey by University of Michigan expects jump in one-year inflation to 5.4%, the highest since 1981, from 4.9% in February with five-year inflation expectation steady at 3.0%).*

Domestic Outlook

India's Growth Rate in FY23

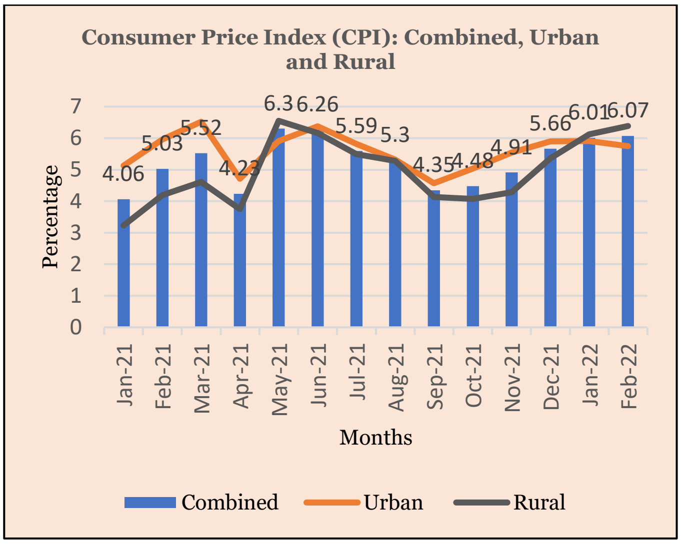
As per the American brokerage firm Morgan Stanley India's FY23 real GDP growth is estimated at 7.9% indicating stagflation *(stagflation involves a stagnancy in output or growth, coupled with high inflation)*, mainly due to the impact of the Russia-Ukraine conflict on oil prices.

On the other hand, CRISIL's report suggests Indian economy to grow by 7.8% in 2022-23, mainly driven by the government's drive to push infrastructure spending and likely increase in private capital expenditure.

The report suggests, the higher price of crude oil will widen India's current account deficit to 2.2% in fiscal 2023. The near-term impact of high oil prices on inflation, assuming a significant pass through, will be more pronounced than on growth if oil stays around or above USD 100/barrel for a prolonged period. *(Source: FE)*

CPI Inflation Rises to 6.07%

Due to higher food prices, inflation as measured by the Consumer Price Index (CPI), stood at 6.07% in February 2022 *(from 6.01% in January 2022)*. Food inflation stood at 5.85% in February 2022 *(5.43% in January)*. Russia's invasion of Ukraine has affected the crude oil prices *(prices surcharged about 35% in March 2022)* and is expected to push inflation in the coming months. *(Source: Mint, ET)*



Source: CMIE, Economic Outlook

The rise in rural inflation was more than in urban and across all income segments. As per CRISIL Research Report, the average inflation for all the rural income segments was 6.4% *(based on NSSO data, average expenditure on 03 broad income groups- bottom 20%, middle 60%, and upper 20% of population were estimated and mapped with inflation trends).* Rural population bore more burden because of higher inflation in food and core.

Recently, data revealed by the government showed Wholesale Price Index (WPI) rose to 13.11% as on February 2022 *(12.96% in Jan 2022 and 13.56% in Dec 2021)* primarily due to rise in prices of mineral oils, basic metals, chemicals and chemical products, crude petroleum & natural gas, food articles and non-food articles. A higher WPI inflation reading may be seen as a precursor to higher consumer prices.

Given the current situation, with GDP growth in the year beginning April to slow to 7.8% from an 8.9%

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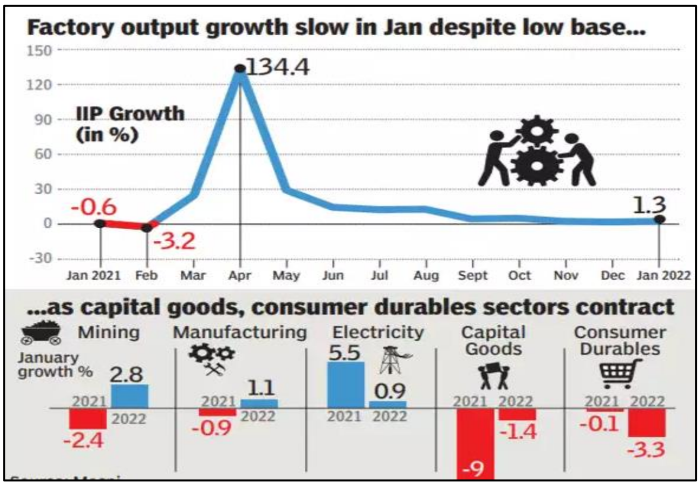
pace estimated by the government for this year, RBI is in a tricky situation where it would want to increase the rates to curb the spiking inflation but at the same time a war-like situation globally is likely to slow down real economic growth.

Industrial Growth Recovers to 1.3%

After hitting a 10-month low in December, India's industrial production growth recovered to 1.3% in the month of January 2022. (*The Index of Industrial Production (IIP) is a composite indicator that measures the short-term changes in the volume of production of a basket of industrial products during a given period with respect to that in a chosen base period).*

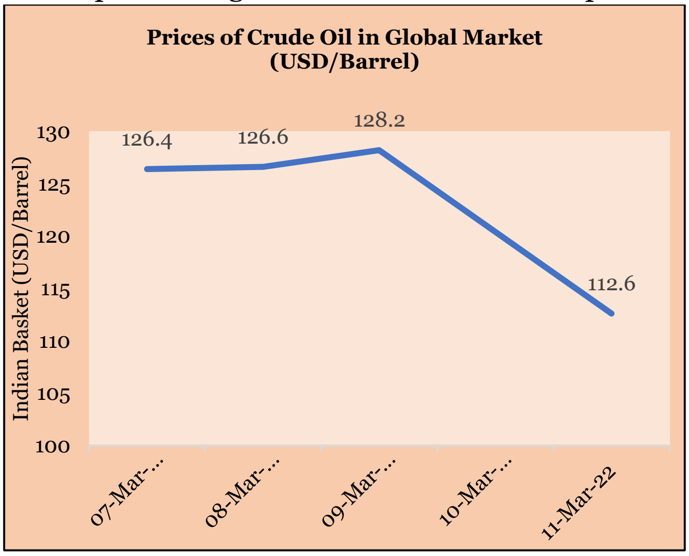


Though capital goods segment remained in contraction mode, factory production expanded on account of better performance by mining *(2.8% against a contraction of 2.4% in Jan 2021)* and manufacturing *(1.1% against a contraction of 0.9% in Jan 2021)* sectors. The IIP had contracted by 0.6 % in January 2021. *(Source: MoSPI, Times of India)*

Interest Rate Outlook

The ban on Russian oil and energy imports raised concerns over surging crude oil prices. U.S. bond funds posted large outflows on investor fears that surging oil prices would push up already-high U.S. inflation. U.S. investors pulled a net $7.8 billion out of bond funds, marking the biggest weekly outflow in three weeks.

Over a half of India's $7 billion imports from Russia until December this fiscal comprised petroleum products. The present war has weakened most emerging currencies leading to volatility in market. Since India imports 85% of its crude oil requirements, the GOI is taking initiatives to mitigate this impact through alternative sources of import.



Source: CMIE, Economic Outlook

Spike in yields on additional supply of T-Bills

T-Bill issued to tighten the excess liquidity from the banking system, have pulled up yields by 5-15 basis points during last two weeks *(cut-off yields on T-bills maturing in 91 days have risen 12 basis points, maturing in 182 days have risen 19 basis points and maturing in 364 days have risen 28 basis points).* Depending on the requirements, the Centre will raise ₹7,000 crore through the 91-day T-Bill and ₹15,000 crore each through 182-day T-Bill and 364-day T-Bills. *(Source: FE)*

Weekly Benchmark Bond Yield Movement (%)

Date	07-Mar	08-Mar	09-Mar	10-Mar	11-Mar
USA 10 years	1.784	1.849	1.943	1.992	1.993
India 10 years	6.888	6.895	6.845	6.809	6.855
India 5 years	6.208	6.216	6.169	6.131	6.172
India 3 months	3.830	3.840	3.780	3.840	3.830

Source: CMIE, Economic Outlook, worldgovernmentbonds.com

We expect the 10-year benchmark bond to trade within the range of 6.85 – 6.90 per cent in next week.