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Global Economic Outlook

- **IMF sees further global economic slowdown in third quarter:** Global economic outlook is dominated by the downside risks and some countries are expected to slip into recession in 2023.
- High-frequency data pointed to a further loss of momentum in the third quarter, given continued high inflation, supply chain problems and tighter financial market conditions.
- IMF in July revised down global growth to 3.2% in 2022 and 2.9% in 2023.
- Economists predicts that even if some countries were technically not in recession, it would feel like a recession for many people around the world.
- **Stubbornly high rents and food prices boost U.S. inflation:** U.S. consumer prices unexpectedly rose in August and underlying inflation accelerated amid rising costs for rents and healthcare, giving the Federal Reserve ammunition to deliver a third 75 basis points interest rate hike.
- The consumer price index edged up 0.1% last month after being unchanged in July. Though consumers got some relief from a 10.6% decline in gasoline prices, they had to dig deeper to pay for food, rent, healthcare, electricity and natural gas.
- Food prices rose 0.8%, with the cost of food consumed at home increasing 0.7%. Food prices surged 11.4% over the last year, the largest 12-month increase since May 1979.
- Excluding the volatile food and energy components, the CPI rose 0.6% in August after advancing 0.3% in July. Economists had forecast the so-called core CPI increasing 0.3%.
- **Eurozone inflation confirmed at 9.1% as energy, and food prices surge:** Eurozone inflation hit another record high of 9.1% in August, driven by sharply higher energy and food prices, and was likely headed towards double figures.
- Consumer price inflation in the 19 countries using the euro rose 0.6% month-on-month and by 9.1% year-on-year, the highest rate since the euro was created in 1999.
- The ECB, whose headline inflation target is 2%, last week raised its key interest rates by an unprecedented 75 basis points and promised further hikes, prioritising the fight against inflation even as the bloc is heading towards a winter recession and gas rationing.
- **Russian central bank trims key rate to 7.5%, says easing could be over soon:** Russia's central bank lowered its key interest rate by 50 basis points to 7.5%, suggesting that its rate-cutting cycle may be close to an end as inflationary expectations rise and omitting guidance about studying the need for future cuts.
- The bank now expects consumer prices to rise by 11-13% in 2022, compared with the previous forecast of 12-15%, supporting the decision to cut and with the economy needing cheaper lending to limit a slump.
- The central bank reiterated its hope that inflation would slow to 5-7% in 2023 and said tighter monetary policy may be needed to bring inflation to its 4% target in 2024 if Russia's budget deficit expands.

Domestic Outlook

- **September 2022 Review of Indian Economy - Domestic demand drives Q1 GDP growth:** India's real GDP grew by 13.5% during the April-June 2022 quarter as compared to the same quarter a year ago. The growth was driven by domestic demand, both consumption, and investment.
- Private final consumption expenditure (PFCE) increased by a robust 25.9%. The growth in gross fixed capital formation (GFCF) was also strong at 20.1%. But, government final consumption expenditure (GFCE) grew by a marginal 1.3%.
- Foreign trade was a big dampener. Imports grew by 37.2%, much faster than the 14.7% growth clocked by exports. Consequently, trade deficit swelled to 8.1% of GDP. This is the largest pie of GDP eaten away by trade deficit in the last 38 quarters.
- **Inflation rises again:** Retail price inflation in India rose to 7.0% in August 2022 from 6.7% in July 2022, reversing its three-month falling trajectory. While an upward movement in inflation was anticipated, the magnitude of the rise was a shade higher than the consensus expectations.
- The rise in headline inflation was primarily driven by food prices and therefore was felt more in rural India. Foods & beverages account for 54.2% of the consumption basket of rural India. Rural inflation increased to 7.2% in August 2022 from 6.8% in July 2022, while urban inflation increased a tad slower, to 6.7% from 6.5%.
- Core inflation remained sticky. In fact, it rose by 6 basis points to 6.01% in August 2022 compared to July 2022. This is the 16th consecutive month when core inflation has remained at or above the 6% mark.
- **CAD to touch 5.6% of GDP in Q2 FY23:** India's current account deficit (CAD) is set to climb to 5.6% of GDP in the quarter ending September 2022. This would be the highest CAD-to-GDP ratio in a decade. CAD as a proportion of GDP was last seen higher than this in the quarter ended December 2012. The widening of CAD is solely led by an expansion in merchandise trade deficit.
- India's merchandise trade deficit is estimated to narrow from its peak of $83 billion in the September 2022 quarter to $74 billion in the December 2022 quarter

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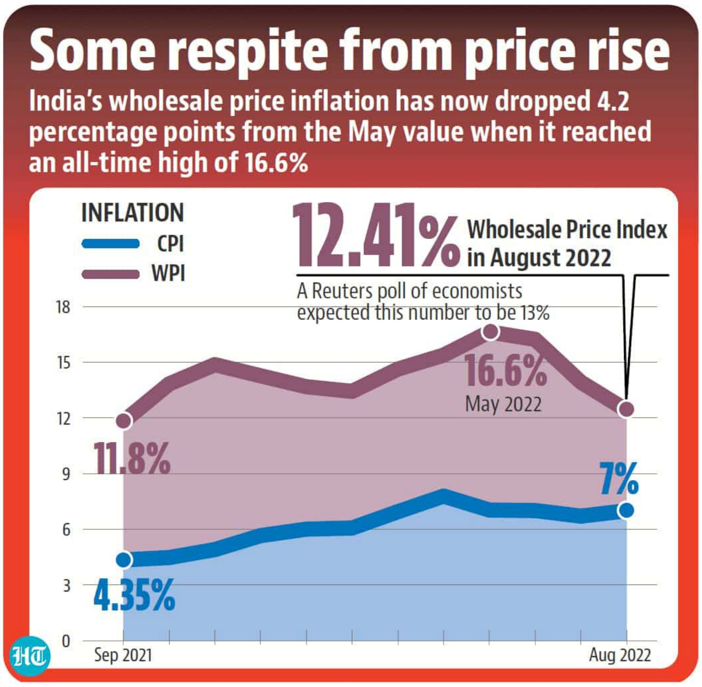
and further down to $66 billion in the March 2023 quarter.

- A sharp depreciation of the rupee against the US dollar is likely to have encouraged Indians staying abroad to remit more dollars to India. Going forward, remittances from the US and UK may weaken, but those from the Gulf countries are likely to strengthen.
- According to the RBI, remittances from the Gulf countries had slowed down last year due to strong presence of Indian diaspora in informal sector, which was hit the most during the pandemic. These are likely to recover in the current fiscal.
- CAD as a proportion of GDP is projected to ease to 4.1% in the December 2022 quarter and 3% in the March 2023 quarter. The CAD-to-GDP ratio for the full fiscal 2022-23 is expected to widen to a decadal high of 4.1% from 1.2% in 2021-22.
- **WPI inflation:** Inflation based on the wholesale price index (WPI) dropped to an 11-month low of 12.41% in August, as a decline in price pressure in manufactured products and fuel offset a rise in food inflation.
- With global commodity prices easing – especially of oil and a favourable base setting in – WPI inflation will likely drop progressively to a single digit by October after a gap of 18 months. This will ease pressure on retail inflation as well, albeit with a time lag, offering some much-needed leeway to both the government and the central bank to focus on growth.
- WPI inflation in vegetable oils turned negative (-0.74%) in August, against 4.2% in the previous month. This segment witnessed high double-digit inflation until June. Similarly, inflation in basic metals dropped to 9.35% from 11.12%.



Source: Hindustan Times

- **Employment fell in August 2022:** Indian unemployment rate shot up to 8.3%, which was the highest compared to the rates in the past 12 months.
- India's labour force grew by 4 million to reach 430 million in August. This reflects an increase in the demand for employment. The labour force participation rate increased from 38.95% in July to 39.24% in August and the labour force increased from 426 million to 430 million.

Interest Rate Outlook

- RBI bulletin says that the frontloading of monetary policy actions can keep inflation expectations firmly anchored and reduce the medium-term growth sacrifice. At this critical juncture, monetary policy has to perform the role of nominal anchor for the economy as it charts a new growth trajectory.
- Bond sentiment has turned cautious to bearish, and the central bank's commentary further points out to a larger quantum of rate hike.
- Last week, bond yields had jumped, as traders turned cautious with rate hike fears gripping the market in the absence of any development on the much-anticipated inclusion of local bonds in global indexes.
- **Indian bond yields dip as strong tax collections aid sentiment:** Indian government bond yields were marginally lower in early trades, as improvement in government tax collections aided sentiment that a stronger fiscal position would deter additional supplies of bonds into the markets.
- India's advance tax collection for the first half of the financial year stood at ₹2.95 trillion ($37.03 billion), up 17% on-year, while the net direct tax collections were up 23% on-year to ₹7.01 trillion as on September 17, 2022.
- The higher tax collections give some confidence that fiscal position is strong, and the government may not resort to any additional borrowing for this fiscal year.
- India aims to borrow a record ₹14.31 trillion on a gross basis through sale of bonds in this financial year, out of which ₹5.86 trillion is set for October-March.

Weekly Benchmark Bond Yield Movement (%)					
Date	12-Sep	13-Sep	14-Sep	15-Sep	16-Sep
USA 10 years	3.36	3.42	3.40	3.45	3.46
India 10 years	7.18	7.12	7.16	7.24	7.27
India 5 years	6.99	6.97	7.04	7.14	7.13
India 3 months	5.65	5.65	5.69	5.70	5.83

Source: CMIE, worldgovernmentbonds.com

- The yield on the government benchmark 10-year bond for the period (19-23 Sep 2022) is expected to be in the range 7.2% to 7.3%.