

1. Global Economic Outlook

The US Federal Reserve kept interest rates steady in the 5.25%-5.50% range in its policy meeting, Federal Open Market Committee (FOMC) meeting held on 20 September 2023. It decided to continue hawkish monetary policy stance as the economy gained momentum. The industrial production expanded by 0.4% month-on-month in August 2023 as per Fed data. The US dollar index leaped to a six-month high of 105.43 on 14 September 2023, as macroeconomic indicators were stronger than expected and the European Central Bank (ECB) signalled its unlikeliness to raise interest rate. US retail sales also increased by 0.6% in August 2023 aided by higher fuel prices. According to the Fed, the monetary policy is expected to remain slightly restrictive till 2026 as the economy continues to grow at its estimated trend level of around 1.8%.

The UK economy contracted by 0.5% in July due to strikes in schools and hospitals and impact of extremely wet weather on total output. The British pound sterling weakened against the dollar on 13 September 2023 after the economy shrank at its sharpest rate in seven months in July 2023. Sterling pound was down as much as 0.4% against the dollar at \$1.2442, which is its lowest level since June 8, 2023. All the important sectors of the economy – manufacturing, services and construction displayed reduced production for the first time since summer of 2022. However, wage growth rate remains high. Average weekly wage growth rose to 8.5% in July 2023 in annual terms marking a new high. The unemployment rate also rose, and the number of vacancies plummeted below 1 million for the first time in two years. The rate of inflation in UK fell to 6.7% in August 2023, from 6.8% in July 2023. However, prices continue to rise faster in the UK than in several other big economies. Core inflation - which excludes energy, food, alcohol and tobacco - also fell down to 6.2%.

Chinese currency showed signs of slowing growth. The onshore Yuan opened at 7.34 per dollar on 15 September 2023 and touched its weakest level since December 2007 at 7.35 per dollar. At the same time, its offshore counterpart sank to a 10-month low of 7.36 per dollar. China's currency has depreciated steadily since February 2023 due to faltering post-pandemic economic recovery and widening yield gap with other economies, particularly the United States, which affected capital flows and trade adversely. The onshore Yuan has fallen by as much as 6% against the

dollar so far in 2023 and has become one of the worst-performing Asian currencies alongside its offshore counterpart.

2. Domestic Economic Outlook

India's exports have surged to \$776 billion, registering a strong post-COVID growth of 36% from \$500 billion two years ago. The country's goods exports grew by 53% from a four-year low of \$292 billion in FY 2020-21 and services exports grew by 56.4% from \$206 billion in FY 2020-21, respectively. While the IT services category is contributing close to 45% of the total services exports, business services, which includes digital and artificial intelligence (AI) capabilities account for 25% of the services exports. Government led schemes on merchandise export, duty exemption, export promotion capital goods, and transport and marketing assistance have greatly helped boost exports in a climate of global slowdown. Additionally, government investments in infrastructure, logistics, and transportation have assisted with streamlining the supply chain, and upskilling programs have helped improve the competitiveness of Indian goods.

Unemployment rate in India climbed to 8.1% in August 2023 from 7.9% in July 2023. This is in part due to the remarkable increase in labour participation. Labour participation rate (LPR) among people aged 15 years and above increased to 41.2% in August 2023, compared to 39.3% in the preceding month. India's employment rate also increased marginally to 37.8% in August 2023 compared to 36.2% in July 2023. Over 87% of the people who entered the labour force were able to find jobs which translated into about 19.3 million people gaining employment in August 2023. The phenomenon of high labour participation in the month of August is mainly a reflection of the seasonal nature of activities in the agricultural sector of India. The months of June, July and August witness robust kharif crop sowings, which pull in a lot of labour into this sector. This is indicated in the employment data which shows a substantial 12.2 million addition to the workforce engaged in agriculture in August 2023.

Inflation eases but remains high. Retail inflation, measured by the Consumer Price Index (CPI), eased to 6.83% in August 2023, as compared to 7.44% in July 2023. In July 2023, inflation was a by-product of rising food prices, specifically, that of vegetables. The fall in

inflation in August 2023 was due to fall in prices of vegetables led by tomatoes. According to data released by the Department of Consumer Affairs (DCA), retail prices of tomatoes fell by only 8% in August 2023. However, based on data released by Ministry of Statistics and Programme Implementation (MoSPI), tomato prices fell by 22% during the month. In August 2023, inflation in vegetables eased by 1,126 basis points to 26.14%. Inflation in cereals & products has also reduced from 13.04% in July 2023 to 11.85% in August 2023. Rice prices increased by 1.82% from July 2023 to August 2023 while wheat inflation registered a 17-month low of 9.33% in August 2023. Inflation in milk & products also saw reduction due to the base effect as it hit a 11-month low of 7.73%. Core inflation, which captures the year-on-year rise in prices of commodities outside of food and fuel & light, also inched down in August 2023 to 4.82% from 4.97% in July 2023. Despite vegetable prices coming down in the near-term, prices of cereals and pulses may continue to remain high. Thus, it is expected that while inflation may fall, it may continue to remain above the RBI's upper tolerance band of 6%.

India is included in JP Morgan's Emerging Markets Bond Index because of its resilient economic growth and relatively stable inflation despite global headwinds. The inclusion in bond index is expected to boost foreign inflow of money. Currently, foreign investors own 2% of Indian debt, which could more than double after the inclusion. Indian bonds are expected to account for 10% of the index, once it is included. The JP Morgan push to include India could nudge other indices like FTSE-Russel and Bloomberg-Barclays to include India in their indices.

Kharif sowing is up by 0.3% as of 15 September 2023. Area sown under kharif crops was reported at 109.5 million hectares (mha) as of 15 September 2023. This is a marginal increase of 0.3% than the area covered during the corresponding period last year. Acreage under rice increased by 2.7% to 40.9 mha, while that under coarse cereals rose by 0.9% to 18.3 mha. Area sown under pulses was down year-on-year by 5.2% at 12.1 mha. Oilseeds were sown on 19.2 mha which is 1.1% less than a year ago. Area sown under cotton decreased by 3.2% to 12.3 mha but that under sugarcane increased by 7.7% to nearly 6 mha as of 15 September 2023.

As per the India Meteorological Department, monsoon started to withdraw from India on 25 September 2023, eight days after the normal date of 17 September 2023. The late retreat of the monsoon this year is the 13th consecutive delayed withdrawal. Delay in monsoon's retreat leads to longer rainy season, which can significantly impact agricultural production of Rabi crops, particularly for northwest India.

Centre cuts wheat stock limit to 2,000 tonnes from 3,000 tonnes for traders, wholesalers, and big-chain retailers to ensure availability of enough stocks of rice and sugar to meet the festival demand. Despite sufficient stock available, wheat prices rose 4% to ₹2,550 per quintal in the last one month on the National Commodity & Derivatives Exchange Limited (NCDEX). All-India average prices of the grain shot up 1.3% on month and 10.4% on year to nearly ₹30 a kg in the retail market on 14 September 2023.

3. Interest Rate Outlook

U.S. yields remain elevated, with the 10-year yield staying above 4.44% on 22 September 2023. This rise in the United States 10 years government bond represents a return to normalcy making it beneficial for long term investors in Treasuries. The 10-year Indian government bond yield rose to 7.23% on 22 September 2023, registering gains from a fall triggered by the inclusion of Indian bonds in JPMorgan's widely tracked emerging market debt index. Traders do not expect the benchmark yield to break the 7.10% level this week and will focus on demand-supply dynamics, U.S. yields and oil prices.

Weekly Benchmark Bond Yield Movement (%)						
Date	11 Sep	13 Sep	15 Sep	18 Sep	20 Sep	22 Sep
USA 10 yr	4.29	4.25	4.34	4.31	4.43	4.44
Ind 10 yr	7.14	7.18	7.19	7.16	7.20	7.23
Ind 5 yr	7.24	7.17	7.13	7.17	7.16	7.16
Ind 3 M	6.59	6.68	6.77	6.72	6.83	6.77

Source: worldgovernmentbonds.com, CMIE