

1. Global Economic Outlook

US Economy- US industrial production contracted 0.43% y-o-y in June 2023. It declined 0.5 % (m-o-m) in June 2023 for a second consecutive month but advanced 0.7 % at an annual rate for the second quarter as a whole. Meanwhile, the capacity utilisation rate dropped to 78.9% in June 2023, from 79.4% in May 2023.

U.S. retail sales rose less than expected in June 2023, as receipts at service stations and building material stores declined. Retail sales increased 0.2% (m-o-m) in June month. Data for May 2023 was revised higher to show sales gaining 0.5% instead of 0.3% as previously reported. Sales rose 1.5% y-o-y in June 2023, from 1.96% in May 2023, pointing to subdued consumer spending. Economists polled by Reuters had forecast retail sales gaining 0.5% on month-on-month basis.

UK CPI inflation softened to 7.9% y-o-y in June- The Consumer Prices Index (CPI) rose by 7.9% in the 12 months to June 2023, down from 8.7% in May 2023. On a monthly basis, CPI rose by 0.1% in June 2023, compared to a rise of 0.8% in June 2022. Falling prices for motor fuel led to the largest downward contribution to the monthly change in CPI annual rates, while food prices rose in June 2023 but by less than in June 2022, also leading to an easing in the rates. Core CPI (excluding energy, food, alcohol and tobacco) rose by 6.9% in the 12 months to June 2023, down from 7.1% in May 2023, which was the highest rate since March 1992; the CPI goods annual rate slowed from 9.7% to 8.5%, while the CPI services annual rate eased from 7.4% to 7.2%.

2. Domestic Economic Outlook

Reuters' poll predicts 6.1% GDP growth for FY24- India's real GDP is likely to grow by 6.1 % in 2023-24, as per a poll of 53 economists conducted by Reuters during 1-21 July 2023. Forecast for 2024-25 is pegged at 6.5%. For the September 2023 quarter, economists expect a growth rate of 6.2%, followed by 6% and 5.5% for the subsequent two quarters. Regarding the employment situation in the upcoming year, 17 out of 25 economists expressed that it would improve slightly.

Multidimensional poverty declines in aspirational districts to 26%- As per the latest Multidimensional Poverty Index by NITI Aayog, aspirational districts have shown significant progress

in poverty alleviation between National Family Health Survey (NFHS)-4 conducted during 2015-16 and NFHS-5 conducted during 2019-21. The multidimensional poverty rate in these districts declined from 41% to 26% during this period. However, aspirational districts still trail the national average in poverty ratio, which measures the proportion of people lacking access to basic facilities. The overall multidimensional poverty rate for India declined to 15% in 2019-21 from 24.9 % in 2015-16.

Inflation for agricultural and rural labourers rises in June 2023: Rural India witnessed higher inflation in June 2023 compared to the preceding month. Retail price inflation for agricultural labourers, measured by the CPI-AL, rose to 6.3% in June 2023 from 6% in May 2023. The food group, which accounts for 69.15% of the consumption basket of agricultural labourers, saw inflation rise to 7% from 6.3%. Inflation for rural labourers, measured by the CPI-RL, rose to 6.2 % in June 2023 from 5.8 % in May 2023. Food inflation for rural labourers rose to 6.7% in June 2023 from 6.1%. As per Nomura, Retail inflation is expected to surpass the Reserve Bank of India (RBI)'s upper tolerance limit of 6% in July-August 2023, driven by a surge in vegetable prices.

Sowing of Kharif crops up by 1.2% as of 21 July 2023: Area sown under kharif crops was reported at 73.3 million hectares as of 21 July 2023. This is 1.2% higher than 72.5 million hectares covered during the corresponding period last year. Acreage under rice increased by 2.7% to 18 million hectares, while that under coarse cereals increased by 4.8% to 13.5 million hectares. Area sown under pulses was down y-o-y by 9.8% at 8.6 million hectares. Oilseeds were sown on 16 million hectares, 3.3 % higher than a year ago. Area sown under cotton decreased by 0.3% to 11 million hectares and that under sugarcane increased by 5% to 5.6 million hectares as of 21 July 2023.

According to IMD, major agricultural states such as Maharashtra, Chhattisgarh, Madhya Pradesh, Uttar Pradesh and Punjab witnessed normal (-19% to 19% of normal) to excess rainfall (20% to 59% of normal) for the month of July (till 25 July 2023). States such as Bihar, Jharkhand, West Bengal, etc witnessed deficient (-59% to -20% of normal) rainfall for the same period. Further, as per Central Water Commission (CWC), the live storage available in 146 reservoirs, as on 20 July 2023 is 74% of the live

storage of corresponding period of last year and 106% of storage of average of last ten years.

Cereal shortages may further add to Inflation- The inadequate sowing in northwest India and insufficient rains in the south and east regions could adversely affect the rice crop and disrupt shipments from India. Consequently, there may be global price implications for wheat, which serves as a partial substitute for rice (HSBC Holdings Plc). Furthermore, the recent warning from Russia, to vessels heading to Ukraine ports, has driven wheat futures higher. Pulses inflation jumped from 6.62% in May to 10.5% in June 2023, driven by prices of *arhar*, *moong* and *urad*. Cereals also showed a double-digit inflation at 12.7% y-o-y in June 2023. The recent spike in cereal inflation is driven by rice. After grappling with a year of rise in wheat prices, the jump in rice prices with wheat prices remaining firm could pose a fresh set of challenges.

3. Interest Rate Outlook

IMF projects CAD to shrink to 1.8% of GDP in FY24- The International Monetary Fund (IMF) has projected India's current account deficit (CAD) to narrow in 2023-24 to 1.8 % of GDP from 2% in 2022-23 owing to strong services exports and an anticipated lower cost on oil imports. Over the medium term, the CAD is expected to converge to 2.4% of GDP. The IMF further stated that India's inclusion in international bond indices could significantly increase foreign participation in the country's bond market and support portfolio inflows to finance the current account deficit over the medium term. To achieve external rebalancing, the IMF has suggested fiscal consolidation, development of export, negotiating free trade agreements with key trading partners and further liberalising the investment regime.

The recent surge in inflation has led traders to predict that the Reserve Bank of India (RBI) would maintain status quo until at least mid-2024 (Economic Times). Retail inflation rose to 4.8% in June 2023, surpassing expectations and prompting a re-evaluation of rate cut possibilities. Consequently, the anticipated timeline for a rate cut has been pushed back, with investors now speculating a potential rate cut around mid-2024. Traders expect the central bank to closely monitor inflation trends before considering any changes to its monetary policy. Moreover, the stable growth in the economy provides further support for

the RBI's approach of keeping rates unchanged for the foreseeable future.

Date	17 July	18 July	19 July	20 July	21 July
USA 10 yr	3.81	3.79	3.75	3.86	3.84
Ind 10 yr	7.08	7.06	7.08	7.08	7.08
Ind 5 yr	7.05	7.02	7.03	7.06	7.07
Ind 3 M	6.71	6.71	6.69	6.69	6.72

Source: worldgovernmentbonds.com, CMIE

The Federal Open Market Committee, in its upcoming meeting to be held between 25-26 July 2023 is widely expected, to raise its benchmark rate by another quarter of a percentage point following a reprieve in June 2023. This will increase the federal funds rate to a target range of between 5.25% and 5.5%. After 10 consecutive hikes in just over a year, the Fed halted its aggressive campaign of monetary tightening last month (June 2023). Economists are of the opinion that Fed in its upcoming meeting is unlikely to signal as much, as it would retain the flexibility to further tighten monetary policy should prices fail to ease as much as expected in the coming months. (Financial Times).

The Reserve Bank of India (RBI) on July 21 2023, conducted sale (issue/re-issue) of Government Securities 7.17% government security (GS) 2030, new GS 2037 and 7.25% GS 2063 for a total notified amount of Rs. 31,000 crore. The quarter (July-September 2023) is quite heavy on net supply as Indian states plan to raise Rs.2.37 trillion through bond sales between July and September, while the federal government aims to raise Rs. 4.47 trillion. Government bond prices rose marginally in the week ending 21 July, 2023. The 10-year benchmark 7.26% 2033 paper closed at 7.08%, down from 7.09% on July 14, 2023. Market participants, however, are awaiting Fed Chair post-policy commentary on 26 July to gauge the future rate trajectory. The yield on the benchmark 10 year bond is expected to remain range (7.05%-7.10%) as market has already factored in the expected rate hike by Fed Reserve.