

1. Global Economic Outlook

US Economy: In its Federal Open Market Committee (FOMC) meeting that concluded on 12 June 2024 the Fed kept its key interest rate unchanged and signalled that just one cut is expected before the end of the year. The committee also indicated slight optimism that inflation remains on track to head back to the Fed's 2% goal, allowing for some policy loosening later this year. The federal funds rate, which sets overnight borrowing costs for banks but feeds into many consumer debt products, is targeted in a range between 5.25%-5.50%. The Labor Department's Bureau of Labor Statistics reported that the U.S. economy added more jobs than expected in May 2024 with nonfarm payrolls expanding well ahead of the Dow Jones consensus estimate for 190,000, countering fears of a slowdown in the labour market. The increase came even though the labour force participation rate decreased to 62.5%, down by 0.2 percentage points. Job gains were concentrated in health care, government, and leisure and hospitality, consistent with recent trends which accounted for more than half of the job gains.

UK Economy: The UK Manufacturing PMI rose to 51.2 in May 2024 from 49.1 in April 2024, marking its highest reading since July 2022. Manufacturing production expanded at the fastest pace since April 2022, driven by increased new work, stronger market conditions, and efforts to complete existing contracts. New business for UK manufacturers grew for the second time in three months, reaching the highest level since April 2022. However, new export orders fell for the twenty-eighth consecutive month. Looking ahead, the outlook improved as positive sentiment among manufacturers reached its highest level since early 2022, with 63% of companies expecting output to expand over the coming year according to S&P Global.

China Economy: Chinese exports in May 2024 were up 7.6% in real dollar terms over May 2023 as per customs statistics. According to the Caixin Manufacturing Purchasing Managers Index, new export orders slowed increased for the fifth consecutive month, though at a slower pace since April 2024. Consumer prices fell on a year-over-year basis in the last three months of 2023 and in January

2024 but have risen albeit slightly and irregularly. In April 2024, the main components of CPI were all positive except food (alcohol and tobacco). Excluding food, China's CPI rose 0.9% in April 2024. Consumer goods were second weakest category. The sluggish growth in retail sales and the lack of price pressure in consumer goods also reflect China's industrial structure and the fierce competition in numerous sectors as local government support their local producer leading to excess capacity. Amid heightened trade tensions between China and the U.S. & European Union for flooding markets with heavily subsidized Chinese products, many countries have announced higher tariffs on the alloy imports from China.

2. Domestic Economic Outlook

CPI eased to 4.75% in May: India's retail inflation, measured by the Consumer Price Index (CPI), eased to 4.75% in May 2024 from 4.83% in April 2024, according to the latest MoSPI data. The CPI last hit the lowest at 4.25% in May 2023. The Wholesale Price Index (WPI), which calculates the overall prices of goods before selling them at retail prices, accelerated for the third consecutive month to 2.61% in May 2024, primarily due to increase in prices of food articles. The outlook for inflation is positive due to anticipation of a normal monsoon. Food inflation remained stagnant as compared to the previous month at 8.7% in May 2024. This was despite the fact that fruits, cereals and pulses turned costlier in the month. The deflationary trend seen in fuel & light in the last eight months continued in May 2024 as costs for fuel and light decreased by 3.83%.

Income from capital gains up 105% in AY23: According to the data released by the income tax department, income reported as long-term capital gains surged 132% year-on-year to ₹8.20 trillion and short-term capital gains 43.2% to ₹2.23 trillion in AY23. The aggregate income reported from capital gains skyrocketed 105.3%. In the previous assessment year (AY22), the year-on-year rise in aggregate income from capital gains was 89%. The sharp rise in income from capital gains during FY22 is in sync with the rise in household investments in physical assets, shares and debentures, and mutual funds.

India’s services PMI softens to 5-month low in May 2024:

India’s services activity recorded a slowdown in May 2024, with the final HSBC India Services Purchasing Managers’ Index, compiled by S&P Global, softening to 60.2 in May 2024 from 60.8 in April 2024. The growth, which was at its lowest mark since last December 2023, was slowed to a five-month low in May 2024 due to weakened domestic demand. Growth was reportedly supported by rising sales, productivity gains and demand strength. The survey report said that the May 2024 data showed robust increases in new business intakes which continued to underpin output growth across India’s service economy.

Wheat stocks fall to lowest since 2008:

Wheat stocks in the central pool held by the Food Corporation of India (FCI) and state agencies dipped to 30.09 million tonnes (MT) at the beginning of June 2024, the lowest level since 2008, causing fears about another spurt in wheat prices. However, the stocks may still be sufficient to meet the requirement of grains under Pradhan Mantri Garib Kalyana Anna Yojana (PMGKAY). The current wheat stock is above the buffer of 27.58 MT for 1 July 2024. In 2008, wheat stocks were only 24.12 MT on 1 June. In FY2024, the FCI had sold a record 10 MT of wheat to bulk buyers. Inflation in wheat has been relatively stable with inflation in April 2024 reported to be 6.02% on year.

GST collection moderates to Rs 1.73 lakh crore in May 2024:

Goods & Services Tax (GST) collections during the month of May 2024 came in at ₹1.73 lakh crore, recording a growth of 10% on-year, according to the latest data released by the Ministry of Finance. The Ministry of Finance further added that the growth was driven by a strong increase in domestic transactions (up 15.3%) and slowing of imports (down 4.3%). After accounting for refunds, the net GST revenue for May 2024 stood at ₹1.44 lakh crore, reflecting a growth of 6.9% as compared to the same period last year.

3. Interest Rate Outlook

Policy repo rate unchanged at 6.50% in MPC:

After deliberations on macroeconomic outlook and financial developments, RBI focused on withdrawal of accommodation to ensure that inflation standing

progressively aligns to the target, while supporting growth in the latest Monetary Policy Committee (MPC) meeting. The policy repo rate unchanged at 6.50%. Consequently, the standing deposit facility (SDF) rate remains at 6.25% and the marginal facility (MSF) rate and the Bank Rate at 6.75%. Following the higher-than-expected growth prints for FY2024, the MPC has slightly tweaked its GDP growth projections for FY2025. It has raised its quarterly growth projections for FY2025 by 20-30 bps vis-à-vis the last policy, with the new projections centred in a very narrow range around the annual estimate of 7.2%. The RBI has highlighted that investment activity is likely to remain on track, with high-capacity utilisation (CU), healthy balance sheets of banks and corporates, government’s continued thrust on infrastructure spending, and optimism in business sentiments.

Indian government bond yields seen steady as traders await fresh triggers:

US 10 Year Bond Yield lowered slightly from 4.39% on 03 June to 4.22% on 14 June 2024, according to over-the-counter interbank yield quotes for the government bond maturity. The yield on the Indian 10-year G-Sec held at 6.98%, slightly above 2-year low of 6.95% from 4 June 2024 after NDA formed a coalition to secure office and markets assessed the RBI’s rate decision. Recent data showed that GDP grew by 8.2% in FY2024, consolidating India as the fastest-growing major economy. Additionally, markets see a stronger opposition as a risk for the strong fiscal position that India built in recent years, adding to credit risk on Indian bonds.

| Date | 03 Jun | 05 Jun | 07 Jun | 11 Jun | 14 Jun |
|-----------|--------|--------|--------|--------|--------|
| USA 10 yr | 4.39 | 4.28 | 4.44 | 4.41 | 4.22 |
| Ind 10 yr | 6.95 | 7.03 | 7.02 | 7.02 | 6.98 |
| Ind 5 yr | 7.02 | 7.07 | 7.02 | 7.02 | 7.00 |
| Ind 3 yr | 7.02 | 7.08 | 7.02 | 7.02 | 7.01 |

Source: worldgovernmentbonds.com