

## 1. Global Economic Outlook

**US Economy:** Consumer price growth reaccelerated, with the figures rising at a faster pace than economists forecast. CPI rose 0.3% from the prior month, ticking up from December 2023, while climbing 3.1% on an annual basis, down slightly from 3.4% rate of December 2023. The increase was led by categories that economists and markets were expecting would start to ease, namely shelter costs and other services. Shelter was the single largest contributor to January inflation and items including medical care and transportation services also picked up. Excluding volatile food and energy prices, the so-called core CPI accelerated 0.4% in January 2024 and was up 3.9% from a year ago, unchanged from December 2023. The forecast had been for 0.3% and 3.7%, respectively. The gains were broad across services. This report chills market expectations for a rate cut in May 2024.

**UK Economy:** Inflation in the U.K. held steady at 4% in January 2024 as lower food prices helped offset an increase in energy costs, as per official figures. The reading was better than expected as most economists expected inflation to rise modestly to around 4.2%. The Office for National Statistics said the monthly drop in food prices of 0.4% was the first since September 2021. Still, inflation remains double the Bank of England's target rate of 2%. The Bank of England has managed to get inflation down from a four-decade high of more than 11%, by raising its main interest rate aggressively from near zero to 5.25%. It has held the rate there since August 2023 and there are hopes that cuts may soon be on the agenda. Inflation was first stoked by supply chain issues during the coronavirus pandemic and then Russia's full-scale invasion of Ukraine, which pushed up food and energy costs.

**Chinese Economy:** China's consumer prices continued its decline, while producer prices also dropped, underscoring deflationary risks faced by the world's second-biggest economy as it struggles to mount a solid recovery. The consumer price index (CPI) fell 0.8% in January 2024 from a year earlier, after a 0.3% drop in December 2023, data from the National Bureau of Statistics (NBS) reported. The CPI rose 0.3% month-on-month from a 0.1% uptick the previous month.

## 2. Domestic Economic Outlook

**Govt hikes FCI capital by 110% to ₹21,000-crore; move to reduce borrowings, help contain food subsidy:** The government has increased the authorised capital of the Food Corporation of India (FCI) by 110% to ₹21,000 crore from ₹10,000 crore. The move is in sync with the policy of minimising borrowings by the corporation, through which close to 70% of the food subsidy budget is routed. While the food subsidy is essentially the difference between the economic costs of the National Food Security Act grains for the government and the issue (retail) prices to the beneficiary consumers, the loss-making operations are undertaken by FCI and other government agencies. These operations are funded out of Budget, but sometimes, delays in release of budgetary funds necessitate FCI to borrow from market/NSSF to continue the operations without any disruptions. The interest on these loans adds to the food subsidy expenditure. The move would infuse additional equity capital to fund the foodgrains stocks held by FCI, which is entirely owned by the government. The additional capital infusion will reduce the borrowings of FCI, save interest cost and reduce food subsidy in consequence, according to an official note.

**Trade gap shrinks to 9-month low in January:** Exports registered a 3.12% year-on-year growth in January 2024, lifting hopes for the coming months. Merchandise exports have grown for the fourth month in January in the first 10 months of FY24. Shipments in January 2024 stood at \$36.92 billion while imports rose 3% on year to \$54.41 billion. The trade deficit stood at \$17.49 billion – the lowest since April last year. Under merchandise exports, 18 of the 30 key sectors exhibited positive growth in January 2024. Electronics exports grew 9.3% to \$2.3 billion. Engineering products exports were up 4.2% to \$8.7 billion. Petroleum product exports went up by 6.5% to \$8.2 billion while drug and pharma exports were up 6.8% to \$2.1 billion. Under imports, 17 out of 30 key sectors exhibited negative growth in January. Services exports were up 17.1% on year at \$32.8 billion. Services imports were up 8.2% at \$16.5 billion. Overall exports were up 9.2% on year to \$69.72 billion while imports were up 4.1% to \$70.46 billion.

**India's January CPI inflation eases to 5.10%, core inflation drops to 3.6%:** India's headline retail inflation rate decelerated to a three-month low of 5.10% in January 2024 due to easing food prices, according to data released by the Ministry of Statistics and Programme Implementation on February 12, 2024. The Consumer Price Index (CPI) inflation print in December 2023 was 5.69%. At 5.10%, the latest CPI inflation figure is as per expectations, with economists having predicted prices likely rose 5.09% year-on-year in the first month of 2024. While headline retail inflation cooled in January 2024, it has now spent 52 consecutive months above the Reserve Bank of India's (RBI) medium-term target of 4%. However, inflation has now been within the tolerance range of 2% to 6% for the fifth month in a row. Among the rises within food items were egg (3.5%) and cereals and products (0.8%). Overall, food inflation was down at 8.30% from 9.53% in December 2023.

**January WPI inflation eases to 0.27% :** India's wholesale price index (WPI)-based inflation came at 0.27% for the month of January 2024 as against 0.73% month-on-month. Positive rate of inflation in January 2024 is primarily due to increase in prices of food articles, machinery & equipment, other manufacturing, minerals, other transport equipment, etc. A Reuters poll had estimated the index would rise 0.53%. The WPI inflation was at a nine-month high of 0.73% in December 2023, and at 0.26% in November 2023. The average WPI inflation for 2023-24 had remained in the deflationary zone at -1.1%. Inflation for food articles stood at 6.85% in January. For the primary articles segment, the inflation rate declined to 3.84% as against 4.06% in January 2023. The fuel and power inflation contracted to -0.51% and manufactured products inflation was at -1.13% in January. Among food articles, wheat inflation was at -3.14 % in January while pulses were at 16.06% and vegetables inflation rose to 19.71%. January WPI inflation for milk was at 5.38%. Among non-food articles, wholesale inflation in crude petroleum and natural gas eased 0.20% and crude petroleum inflation stood at 4.13%.

**CLSA projects FPI flows to double to 1% of GDP during 2014-22:** Foreign brokerage CLSA Ltd. sees foreign flows into India doubling to 1% of the GDP, from the 0.4% during 2014-22. Not only has

INR depreciated just 0.4% in the last 12 months, but it has also held up against peers. This has pushed up FPI inflows to India. Notably, India's share in the MSCI Emerging Markets Index is rising. Listing of Indian G-secs in the JP Morgan's widely tracked Government Bond Index-Emerging Markets (GBI-EM) Diversified should increase FPI debt investments by \$21 billion by March 2025.

**Urban unemployment falls to record low in Q3:** India's unemployment rate in urban areas dropped to 6.5% in Q3FY24, the lowest since the start of the Periodic Labour Force Survey (PLFS) — urban series. In Q2FY24, the urban unemployment rate was 6.6% and in Q3FY23, it was 7.2%. During the pre-pandemic period, the urban unemployment rate ranged from 7.8-9.7%. The decline in the overall unemployment rate during Q3FY24 was due to a drop in the male unemployment rate, which fell from 6.0% in Q2FY24 to 5.8% in Q3FY24. The female unemployment rate stayed flat at 8.6% in Q3FY24.

### 3. Interest Rate Outlook

**India bond yields fall on demand from foreign investors:** Indian government bond yields closed lower on 21 February 2024, led by recent buying from foreign investors and as investors awaited minutes from the Reserve Bank of India (RBI) for further cues. The benchmark 10-year yield ended at 7.05%, following its previous close at 7.06%. Foreign investors have been on a buying spree ahead of the scheduled inclusion of Indian government bonds in JPMorgan's emerging market debt index from June 2024. They have bought around ₹350 billion of bonds on a net basis so far in 2024 after purchases in 2023 jumped to a 6 year high.

Date	6 Feb	9 Feb	13 Feb	16 Feb	20 Feb	21 Feb
USA 10 yr	4.09	4.18	4.29	4.29	4.27	4.32
Ind 10 yr	7.09	7.11	7.10	7.10	7.06	7.05
Ind 5 yr	7.06	7.07	7.07	7.09	7.06	7.04
Ind 3 M	7.05	7.00	7.03	7.02	7.02	6.99

Source: worldgovernmentbonds.com, CMIE