

## 1. Global Economic Outlook

**UK Economy:** The UK economy is undergoing a steep investment crisis. Public expenditure is due to fall, while business spending is also at a low ebb. Between 2010 and 2023, the output of the UK economy expanded by an average of 1.6% a year, well below the 2.2% pace between 1979 and 2010. As per the International Monetary Fund forecasts, UK GDP will grow by just 0.5% this year, compared to 2.7% in the United States. The primary cause behind this stagnation is a collapse in productivity. The London School of Economics (LSE) found that the productivity of the UK economy now is 26% lower than if it had followed its trend between 1979 and 2007. It's also below the U.S., Germany and France. The LSE research shows that Britain's workers didn't receive enough capital- technology, training and machinery. Hence, underinvestment is holding back the UK economy.

**US Economy:** The U.S. business activity crept up to a 26-month high in June amid a rebound in employment, but price pressures subsided considerably, offering hope that a recent slowdown in inflation was likely to be sustained. The U.S. Composite PMI Output Index of S&P Global, which tracks the manufacturing and services sectors, rose up to 54.6 this month. That was the highest level since April 2022. A reading above 50 indicates expansion in the private sector. Both the services and manufacturing sectors contributed to the gain in activity. The U.S. central bank has maintained its benchmark overnight interest rate in the current 5.25%-5.50% range since last July.

**Chinese Economy:** A deterioration in the value of yuan and extensive outflows of cash from the mainland into Hong Kong show that Chinese domestic investors are shelving expectations for any immediate recovery in their home markets and fleeing to the closest better-yielding assets. The yuan has dropped to a seven-month low this week, alongside a reversal in equity investment flows into China. Investor patience has worn thin after months of waiting for authorities to roll out more stimulus, mainly to support a sinking property sector. The Shanghai benchmark stock index rose by 20%

between early February and mid-May but is down 6% since.

## 2. Domestic Economic Outlook

**India moving towards sustainable 8% GDP growth:** RBI governor Shaktikanta Das said at an event that India is moving towards achieving 8% annual GDP growth on a sustainable basis. He stated that India is at the threshold of a major structural shift in its growth trajectory and was confident of India achieving 7.2% GDP growth in FY25. During the last three years, India's GDP has been rising by an average of 8.3% on the back of critical reforms. As per Das, the biggest growth driver was the introduction of the Goods and Services Tax (GST), and introduction of the Insolvency and Bankruptcy Code (IBC) and launch of flexible inflation targeting model. As per RBI, India's current account balance recorded a surplus of \$5.7 billion or 0.6% of the gross domestic product (GDP) in Q4FY24 as against deficits of \$8.7 billion (1%) in the previous quarter, and \$1.3 billion (0.2%) in the year-ago period. Relatively lower goods trade deficit and robust net services trade boosted the current account in the latest quarter under review.

**Retail inflation recedes marginally:** Retail inflation, as measured by consumer price index, receded marginally to 4.75% in May 2024 from 4.83% in the preceding month. Retail inflation has now eased to a 1-year low. A Reuters poll of 50 economists had estimated retail inflation to have risen to 4.89% in May. Though it has been inching down for around five months now, it is still higher than the 4% inflation target fixed by the parliament. On a month-on-month basis, retail prices increased by 0.5% in May, similar to the rise recorded in the preceding month. Headline inflation eased owing to a slight fall in inflation in the miscellaneous group. Inflation in clothing & footwear and housing also eased. Food inflation remained unchanged whereas deflation in fuel & light reduced.

**Forex reserves at all-time high:** India's Forex reserves rose to an all-time high of USD 651.5 billion by end-May 2024. Reserves had increased by a whopping USD 22.4 billion during the March 2024 quarter supported by large inflows under foreign portfolio investments (FPI). The exchange rate of the

Indian Rupee (INR) slid against the US dollar. It averaged at ₹83.4 per USD during April-May 2024. This was a depreciation of 0.4% when compared to the average exchange rate of ₹83 per USD in the March 2024 quarter. Foreign portfolio investors (FPI) were not very bullish on India during the first two months of the current fiscal year. FPIs pulled out USD 3.3 billion from the Indian capital markets

### IIP grows 5% in April

Industrial output, as measured by index of industrial production (IIP), grew by five per cent in April 2024 compared to the year ago month. Electricity generation increased at a robust rate of 10.2 per cent whereas mining output recorded a strong growth of 6.7 per cent. Manufacturing output grew by 3.9 per cent, the lowest pace amongst the three components. Growth in mining output was supported by coal production, which was higher by 7.5 per cent in April and natural gas production that expanded by 7.8 per cent, over a year ago. Crude oil production, however, increased by a mere 1.7 per cent in the month. Amongst the major components of the manufacturing sector, manufacture of beverages, wearing apparel, basic metals, metal products, motor vehicles and other transport equipment grew at around 8-17 per cent. Manufacture of food products, tobacco products, leather & leather products declined in the range of 8-13 per cent. In case of use-based classification, output of primary goods and infrastructure goods increased by seven and eight percent respectively. Capital goods and intermediate goods grew by around 3% each. Consumer durables output grew by a robust 9.8% but consumer non-durables output declined by 2.4%.

### 3. Interest Rate Outlook

**Indian Government Bonds in JP Morgan Index from 28 June 2024:** The inclusion of Indian Government Bonds (IGBs) in JP Morgan's emerging markets bond indices will begin from June 28, 2024. The inclusion, which will be spread over 10 months until March 31, 2025, is likely to bring nearly \$20-25 billion into the country, according to various estimates. While these higher inflows will help India manage its external finances and boost foreign exchange reserves and the rupee, the Reserve Bank of India (RBI) will have to use the instruments in its

armoury to check the resultant inflationary pressures. India is expected to reach the maximum weight of 10 per cent in the GBI-EM Global Diversified Index (GBI-EM GD). A higher weightage will prompt global investors to allocate more funds for investment in Indian debt. Analysts expect \$ 2-3 billion flows to India every month.

### Indian Bond Yields expected to climb alongside US Rates:

Indian bond yields are set to climb as the country's financial markets adapt to rising US yields and burgeoning foreign investments following a landmark index inclusion. Indian government bond yields, especially the benchmark 10-year yield, are projected to slightly increase, trading between 6.97%-7.03% from its current 7.00%, as noted by a trader with a primary dealership. This shift mirrors the dynamics in US yields, which have risen due to global inflationary pressures and potential Bank of Japan interventions after the yen's historic low against the dollar.

### G-sec yields slip below 7%:

Yields on government securities (G-secs) have dipped below seven per cent across the maturity spectrum in the week ended June 21. This is likely a result of expected foreign inflows post the inclusion of Indian bonds in JP Morgan's emerging market debt index. 1-year G-sec yields averaged at 6.99 per cent, dipping by one basis point (bps) from the preceding week. 3-year and 5-year yields each fell by four bps. 3-year G-sec yields fell to 6.97 per cent while 5-year yields fell to 6.98 per cent during the week. 10-year yields also slipped two bps, averaging at 6.98 per cent in the week ended June 21.

| Date      | 19 Jun | 21 Jun | 24 Jun | 25 Jun | 26 Jun |
|-----------|--------|--------|--------|--------|--------|
| USA 10 yr | 4.23   | 4.25   | 4.23   | 4.24   | 4.32   |
| Ind 10 yr | 6.97   | 6.98   | 6.96   | 6.98   | 6.99   |
| Ind 5 yr  | 7.00   | 6.98   | 6.97   | 7.00   | 6.99   |
| Ind 3 yr  | 6.98   | 6.96   | 6.99   | 6.97   | 6.98   |

Source: worldgovernmentbonds.com