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Global Briefs

- **Global economy posted its first quarter of negative growth in Q2, 2022 since the Covid pandemic started two years ago.** Mounting headwinds ranging from surging inflation across the globe to China's zero-Covid restrictions weighed on economic activity. The worldwide economy contracted in April-June, according to the IMF, with Yoshimasa Maruyama at SMBC Nikko Securities estimating that global GDP fell by 2.7%.
- **The US, Germany, the UK and China saw negative growth.** The US is now in a recession according to a narrow technical definition after its GDP fell for a second quarter in a row. The UK will enter into a recession in October-December and experience a contraction through 2023, the Bank of England predicted earlier this month.
- **To combat multi-decade high inflation, major developed and emerging market central banks around the world raised interest rates by nearly 1,200 basis points in July alone, as per the Reuters' report.** Canada emerged as the chief hawk, stunning markets by delivering the first 100 basis points rate increase among the world's advanced economies in the current cycle, lifting its key policy rate to 1.5%.
- **The minutes of the US Federal Reserve policy meeting released on August 17 showed more rate hikes in the pipeline, but pace of increase could slow.** Many traders judged the minutes as generally "dovish" and revised the bets for a 50 bps hike at the September meeting instead of a 75 bps hike expected earlier.
- **Consumer price inflation in Britain jumped to 10.1% in July – the highest since Feb, 1982, making it the first major developed country to see price growth hit double digits as surging food costs intensified a squeeze on household budgets.**
- **On the other hand, on August 15th, the People's Bank of China cut its rate on a one-year loan to 2.75% from 2.85% and injected an extra 400 billion Yuan (\$60 billion) in lending markets after government data showed a significant weakening in July factory output and retail sales.** Crude oil prices declined by 5% as disappointing Chinese economic data renewed global recession concerns.
- **In its recent report on the APAC region, the Moody's Analytics expected global oil prices to fall to almost \$70 per barrel by the end of 2024.**
- **Western sanctions have had "limited impact" on Russian oil output since the start of the war in Ukraine, the International Energy Agency (IEA) said on August 11th, as it raised its forecast for Russian crude production into 2023.** Moscow's exports of crude and oil products to Europe, the US, Japan and Korea had fallen by nearly 2.2 million barrels a day since its full-scale invasion of Ukraine, the IEA said. But the rerouting of flows to countries including India, China and Turkey had mitigated financial losses for the Kremlin.

Indian Agricultural & Rural Scene

- **Cumulative Southwest rainfall in India until August 15th was 9% in surplus and 30 out of 36 meteoric subdivisions received normal or above-normal rainfall.** The states that are still reporting deficient rainfall are Manipur (-40%), Tripura (-29%), West Bengal (-20%), Jharkhand (-36%) and Bihar (-39%).
- **During the ongoing kharif season, the area under paddy cultivation is more than 13% lower on year, as major rice producing states including West Bengal, Uttar Pradesh, Bihar, Odisha, etc. have seen reduced sowing.** Overall, the area under major kharif crops tracked by the agriculture ministry lags behind last year's levels by 0.3% until August 12th. The area under three key summer crops (pulses, coarse cereals & oilseeds) stood at 46.90 million hectares, compared to last year's 47.04 million hectares.
- **Currently, the Indian Government has enough stocks of rice.** On July 1, stocks held by the Union government stood at 31.5 million tonnes, about 133% more than the buffer requirement of 13.5 million tonnes. However, traders are worried that the government could impose curbs on rice exports depending on the shortfall of output.
- **Rural employment and wage scenario is steadily improving.** Work generated under the National Rural Employment Guarantee Scheme fell to nearly half in July from the prior month, on the back of a pick-up in agricultural and non-agricultural activities in rural belts that kept labourers engaged and due to weakening of reverse migration.
- **The Fast-moving consumer goods industry has recently reported a surge in the demand in rural areas, which is being hailed as a revival in rural consumption.** Daily essential consumption saw more than 10% increase for certain major brands in the rural areas. An example to observe the same would be of the 10-12% sequential surge recorded by Adani Wilmar, in July over June. A steady

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sequential increase in motorcycle sales during May-July, 2022 and improved sequential growth momentum in consumer nondurable in June, 2022 reflect early signs of rural consumption revival in India.

India's Economic & Policy Briefs

- The Indian economy can handle some erosion of its foreign exchange reserves as its external position is "very strong", according to S&P Global Ratings (Aug 11). According to the rating agency, "India has built up ample buffers over the years. And while the level of foreign exchange reserves is lower than the immediately prior months, it is still really high historically and very sufficient as well".
- India's retail inflation steadily eased for the third consecutive month to 6.71% in July from 7.79% in April, led primarily by a sequential easing of inflation in food & beverages. Sequential momentum in core inflation was higher from the last month though eased year-on-year. Going ahead, food inflation (esp in cereals & pulses) alongside crude oil prices and demand pressures will define inflation in the remaining part of FY23.
- The wholesale price-based inflation too eased to a five-month low of 13.93% in July on easing prices of food articles and manufactured products. While the WPI inflation eased for the second month in July, it has remained in double-digits for the 16th consecutive month beginning April last year.
- The joblessness rate in India dropped from 7.8% in June to 6.8% in July 2022, as per the CMIE report. Interestingly, rural India provided much-needed jobs, thanks to increased agricultural activity, which dragged the unemployment rate down to 6.14% in July, from 8.03% in June. But, in urban India, the unemployment rate rose to 8.21% in July from 7.3% in June.
- India's merchandise trade deficit touched an all-time high of \$30 billion in July, 2022 as merchandise exports increased by 2% (y-o-y), while imports grew by 43.6% (y-o-y). India's net earnings from trade in services rose by 20% (y-o-y) to nearly \$9 billion in July.
- Indian banks' year on year growth in total credit stood at 14.5%, while in aggregate deposits at 9.1% as on July 29th, 2022 taking the Credit-Deposit ratio to 72.88%. Rising demand for credit has led banks to dip into their bond investments, potentially squeezing liquidity further and causing borrowing costs to harden.
- As global liquidity tightening and volatile currency made overseas borrowings expensive, Indian corporate are switching from external commercial borrowings (ECBs) to borrowing domestically. As per the media report, Indian companies' ECBs were down by 20% in June, 2022. ECBs are linked to 6 months or 1 year floating rates and short-term rates have increased more than the long term ones, according to India Ratings.

India's Industrial & Services Sectors

- India's industrial output, measured by the index of industrial production (IIP), rose by 12.3% (y-o-y) in June 2022. The manufacturing sector reported a 12.5% growth in production in June 2022. The growth was broad-based, with 21 of the 23 sub-groups of the manufacturing sector reporting a rise in production. Only two sub-groups (textiles & pharmaceuticals) reported a y-o-y fall during June.
- Retail businesses across India witnessed a 18% growth in sales in July 2022 as compared to pre-pandemic levels (July 2019), a survey by the Retailers Association of India showed. This is higher than the 13% sales growth seen in June in a similar comparison. With a healthy growth in sales across categories, retailers are hopeful of a good festive season.
- The seasonally adjusted S&P Global India Manufacturing Purchasing Managers' Index (PMI) rose from 53.9 in June to 56.4 in July, reflecting the strongest improvement in the health of manufacturing in eight months. However, services sector PMI declined from 59.2 in June to 55.5 in July, as demand was curtailed by competitive pressures, elevated inflation and unfavourable weather.
- Sales volume of passenger vehicles in India rose 9.8% (y-o-y) in July 2022 to 347,938 units. During April-July 2022, a total of 1.4 million units of passenger vehicles were sold, which was 30.1% higher compared to 1 million units of passenger vehicles sold during April-July 2021.
- As per the media reports, production is being ramped up by up to 50% by companies manufacturing cars, smartphones, televisions, refrigerators and washing machines for the upcoming festive season. They expect robust sales and buoyed consumer sentiment in the next three-four months. The auto industry expects record sales this festive season after two bad years - 2020 and 2021- on the back of components shortage.

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Indian Financial Markets

- **Liquidity in the Indian banking system is estimated in a surplus of Rs 1.01 trillion today (Aug 18).** The surplus has narrowed due to payments for government bonds. It is expected to narrow further in the coming days due to outflows on account of GST payments.
- Yield on GOI 10-Yr benchmark bond has declined from 7.62% level at mid-June, 2022 to 7.24% as of today (Aug 18). **Falling global oil prices and tempering inflation levels have been aiding the softening of long-term yields.** Indian fixed income experts expect Indian bond yields to stay in tighter ranges of 10-15 bps from its current levels compared to the 22-25 bps range in June & July.
- **While there is a hardening of short term rates (e.g., one-year CDs or CPs) between early June and mid August, the yields on AAA 3-Yr, 5-Yr and 10-Yr corporate bonds have declined by 12-15 bps during the same period.**
- Crude oil prices are trading below \$100 per barrel. Today, the level of Brent crude in global markets is ~ \$95.20 per barrel. Crude oil prices have eased on the back of mounting risks of a global recession and a potential boost in Iranian supply that has more than offset a larger-than-expected decline in US crude inventories. **Low crude oil prices have boosted the rupee and bonds in India.** Indian rupee that had crossed 80 against the US dollar as on July 21st has now appreciated to 79.44-79.67 levels. Moreover, FPIs invested Rs 224.52 billion in the first two weeks of August. This was significantly higher than a net investment of nearly Rs 50 billion by them in the entire month of July, according to PTI, citing depositories data.
- **While FPIs have turned net buyers of Indian stocks for the time being and benchmark indices may well be staging a smart rally, there is still some nervousness in the market related to inflation and rising interest rate regime.** Market experts are still holding on to their cautious stance or a 'wait and watch' approach to see how these concerns play out in the months to come.

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