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Global Briefs

- In the 12 months through Feb 2023, the US CPI increased 6.0%, marking the smallest year-on-year gain since Sept 2021. Still, inflation is proving too sticky for the Fed's liking and at the moment 78% expect a 25 bps rate hike in March. Another 25 bps rate hike is expected in May, taking the benchmark short-term rate to a 5.0% peak.
- The drop in oil and natural gas prices this year will limit the global economic downturn, especially in Europe where fears of recession and galloping inflation have subsided. Oil prices are currently trading in a tight range around the low \$80s per barrel, down from over \$100, and at one point \$120 per barrel, in the spring of last year. Natural gas prices in Europe are at an 18-month low thanks to energy savings, demand destruction, well-above-average inventories, and milder weather for most of this winter.
- Silicon Valley Bank (SVB) – a California based bank in the US, failed last week after a rush of customer withdrawals (mostly technology firms), sparked by the bank's disclosure that it needed to raise money and had been forced to sell a portfolio of assets, mostly government bonds, at a loss. The US regulators took over the bank and said they would guarantee deposits beyond the \$250,000 level typically insured by the government. They took similar steps at smaller Signature Bank. The US bank stocks made sharp gains on March 14 (Tuesday), recovering ground from lows triggered by the collapses of these two banks.
- Ratings giant Moody's has warned of more pain ahead for the US banking system after a run on deposits led to the collapse of Silicon Valley Bank. Moody's cut its outlook for the sector to "negative" from stable, warning of "a rapid deterioration in the operating environment".
- A wave of customers have applied to shift their accounts to large US banks such as JPMorgan Chase & Co and Citigroup from smaller lenders after the collapse of SVB, as per the report in Financial Times. Even the US government's emergency measures to stop the collapse of more banks have not stopped depositors from trying to move their accounts to larger banks or even shift to money market funds.
- The long-brewing troubles at Credit Suisse Group AG exploded into a full-blown crisis on March 15th as its stock and bonds cratered and some of the world's biggest banks raced to shield their finances from the potential fallout.
- Vietnam's central bank unexpectedly cut its discount rate to 3.5% from 4.5% in an attempt to boost economic growth amid global uncertainties. The central bank, which raised rates twice in 2022, said that while inflation is under control, the nation's economy faces many difficulties.
- The latest DHL Global Connectedness Index sees the resilience of global flows as a strong foundation for 're-globalisation', in which globalisation is reformed to make it work better for everyone. While there are threats to globalisation, the report says, there is limited evidence of a fracturing of the world economy into rival blocs.

Indian Agricultural & Rural Scene

- The Indian Meteorological Department (IMD) has said that there is a possibility of "heat-waves" in India, leading to hotter summers in 2023. The IMD has also issued a warning that temperatures may rise to 2-3 degrees Celsius above normal in certain parts of the Indo-Gangetic plains and eastern India during the final week of March.
- In response to the IMD's warning, water levels in the country's reservoirs & food grain storage are being closely monitored to ensure that irrigation, power generation and most critically grain supplies do not wilt in the heat. This is all the more vital given the grim projections of El Nino and its likely impact on India's southwest monsoon this year.
- So far, not much can be said with certainty about El Nino and its possible impact, except that it is expected to appear during the second half of the four-month southwest monsoon season starting June.
- As on March 9, water levels in the reservoirs are less than the corresponding period of last year. However, water levels are higher than the average of the last 10 years during the corresponding period.
- There is ample storage space available with India's government even before the wheat procurement gathers full steam. This is largely on account of the huge offtake of wheat and rice in the last three to four years due to Pradhan Mantri Gareeb Kalyan Anna Yojana alongside the usual public distribution system.
- The IMD has warned that over the next five to six days, nearly all parts of the country – except the West coast of India – are expected to experience fairly widespread light to moderate rain, hailstorm, and thunderstorm. For crops that are about to be harvested, sudden rain and hailstorms could be damaging. For crops already harvested, proper storage needs to be

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India's Economic & Policy Briefs

- India looks poised well to face the global economic headwinds, says International Monetary Fund's Senior Resident Representative to India Luis Breuer. According to him, India is facing challenges, most of which come from the international economy, but India is in a strong economic position and well poised to face these challenges. The IMF estimates India's economy to grow 6.8% this fiscal year and 6.1% in FY24.
- India's direct gross tax collection in FY23 is likely to exceed the Government's revised estimates, potentially helping narrow the fiscal deficit. Also, non-tax revenue receipts so far in FY23 have been broadly in line with the targets set in the revised estimates. The Centre is likely to contain the fiscal deficit at the budgeted level of 6.4% of GDP in the current fiscal year.
- According to India's ministry of commerce, India's goods and services exports are set to cross \$ 750 billion mark in the current fiscal year. The main engine behind this export growth is the services sector, which has been growing at historically high growth rate of about 30%. India is also betting on the free trade agreements to shore up exports. The government has inked trade pacts with the UAE and Australia recently, and is in talks with the UK, EU and Canada for similar agreements.
- India's retail (CPI) inflation rate declined marginally in Feb 2023 to 6.4% (y-o-y) from 6.5% in the previous month. Even sequentially, CPI inflation eased by 0.17% in February. Despite a sequential fall in overall food prices, the prices of "cereals & products" and "milk & products" and fruits inched up month on month. There is a concern that the retail inflation is a bit overstated due to some statistical adjustment for food grains distributed through PDS.
- India's producer price (WPI) inflation rate declined significantly to 3.85% in February from 4.73% in the previous month, pulled down by a higher base plus easing of month on month pricing pressures across many categories like food and non-food articles, minerals, crude petroleum & natural gas, etc.
- While we expect the MPC of RBI to undertake a rate hike of 25 bps in its April policy, the impact of the recent bank failure in the US and a fear of financial meltdown may ease pressure of a rate hike by the US Federal Reserve and subsequently by the RBI as well.
- The RBI's data shows that in the current financial year, so far, bank borrowings have averaged Rs 4.2 trillion versus Rs 2.6 trillion in the previous financial year. Given that liquidity conditions are seen tightening significantly in the latter half of March, bank borrowings in the remaining two fortnights of this financial year are likely to stay elevated.

India's Industrial & Services Sectors

- Against the backdrop of robust Rabi sowing and positive rural sentiment, sales volumes of tractors in India rose by 11.8% (y-o-y) in February 2023. In fact, tractors & commercial vehicles drove the sales of the Indian auto sector in February, even as passenger vehicle (PV) sales continued to remain resilient in what is otherwise a seasonally weak month for auto companies. Sale volumes of two & three wheelers declined by 3.6% (y-o-y) in February 2023.
- Growth in factory output, or index for industrial production, recovered to a two-month high of 5.2% in January, from 4.7% in December, on the back of a lower base and double-digit growth in the electricity output. While the exporting sectors like textiles, leather goods & apparels continued to witness contraction in output, expansion in the consumer nondurables for the third consecutive month is a positive development.
- The S&P PMI surveys showed that while India's manufacturing sector expanded at the slowest pace in four months in February amid rising borrowing costs & weak demand, the Services PMI was at a 12-year high, supported by favourable demand conditions and new business gains.

Indian Financial Markets

- Liquidity in India's banking system slipped into deficit today (Mar 16) due to outflows of advance tax payment, States' bond auction payments, and as banks have parked excess cash with the central bank.
- Post the SVB/Credit Suisse debacles, the yields on Indian government securities have been moving in tandem with the US treasury yields. Between Friday (Mar 10) and today (Mar 16), the yield on 10-Yr benchmark paper has eased by 10 bps from 7.43% to 7.33%. Going ahead, Federal Reserve is likely to move from aggressive to a much-smaller 25 bps hike, with some also expecting status quo. Similar expectations are also getting built in for Indian rates. As a base case, we see a fair chance for 25 bps rate hike in April and pausing thereafter.

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- There is a lot of confusion in Indian corporate bond market currently about Fed's future rate trajectory and hence, investors are avoiding large bets in the secondary market. However, the yield on 3-Yr AAA corporate paper has eased by 5 bps in the past five days. More easing has happened at the shorter end than at the longer end post the SVB crisis.
- Indian rupee like other EM currencies has come under further pressure because of the risk off sentiment in global markets due to the crisis in the US & European banking sectors. Between March 10 & 16, the rupee has depreciated by 0.84% against the US dollar. A significant and persistent deterioration in risk appetite on account of the banking worries will have an impact on the RBI's intervention strategy.
- Indian stock indices have continued with their losing streak since March 6 as worries over banking contagion in the developed world has been hurting sentiments. Indian stocks dropped 6% during the Jan 1 to Mar 16, most among the world's top ten markets by value amid continued selling by foreign investors. The sales by foreign investors in 2023 have amounted to nearly \$2.96 billion, on top of over \$17.94 billion in sales by them in the past year.
- Between Mar 10 & 16, Brent Crude price declined by 10.8% in global markets to \$73.86 per barrel as unease over banking crisis spooked world markets and offset hopes of a Chinese oil demand recovery.

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