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Global Briefs

- According to International Monetary Fund (IMF), **the global economic outlook has turned gloomier (particularly in Europe) than projected last month.** It has cited a steady worsening in purchasing manager surveys in recent months to substantiate this claim. It blamed the darker outlook on tightening monetary policy triggered by persistently high and broad-based inflation, weak growth momentum in China, and ongoing supply disruptions and food insecurity caused by Russia's invasion of Ukraine.
- Moody's Investors Service said on Nov 11th that **global economy is on the verge of a downturn amid extraordinarily high levels of uncertainty** due to persistent inflation, monetary policy tightening, fiscal challenges, geopolitical shifts and financial market volatility.
- **Retail inflation in the US cooled more than expected to 7.7% in Oct 2022** but is still above the Fed'd 2% target and it has been above target for more than 20 months now. **Even the wholesale price inflation slowed in the US during Oct 2022.** The number of Americans filing new claims for unemployment benefits unexpectedly fell last week, suggesting the labour market remains strong despite slowing domestic demand amid stiff interest rate hikes from the Fed to tame inflation.
- **The pressure on the US dollar has intensified over the past two weeks on speculation that the Fed will slow down the pace of policy tightening and that the maximum interest rate in this monetary cycle could be lower than previously feared.** Signals from Fed members and slower-than-forecast inflation supported this view, triggering a wave of demand for risky assets.
- The **Bank of Canada surprised markets with a smaller-than-expected 50-basis point increase two weeks ago**, lifting the policy rate to 3.75%. It also forecast the economy would stall over the next three quarters. Inflation, meanwhile, has eased to 6.9% from a peak of 8.1%, but it is still far above the central bank's 2% target and underlying price pressures remain broad-based.
- According to Morgan Stanley, **Britain & the Euro zone economies are likely to tip into recession next year but the US might escape narrowly thanks to its resilient job market.** At the same time, China's expected reopening after almost three years of Covid curbs is set to lead a recovery in its own economy and other emerging Asian markets.
- **Japan's economy shrank for the first time in a year in Jul-Sept, 2022** as a weak yen and higher import costs took a toll on consumption & businesses.
- According to the estimates by the United Nations (UN), **the world's population has reached 8 billion and a surge in births in lower income countries is likely to create risks.** The UN forecasts that much of the world's future population growth will be concentrated in sub-Saharan Africa like Nigeria & Ethiopia, as well as other emerging nations like India, Pakistan & the Philippines.

Indian Agricultural & Rural Scene

- **Area sown under India's Rabi (winter) crops was reported at 17.8 million hectares as of 11 Nov 2022, which is higher by 5.6% (y-o-y).** While acreage under wheat has increased 9.8% (y-o-y), that under coarse cereals (-9.9%) and pulses (-1.4%) has decreased on year so far. Area sown under oilseeds has increased healthily by 12.8% (y-o-y) primarily led by rapeseeds.
- **Paddy procurement in the Kharif (summer crop) harvesting season has crossed 231 LMT so far, benefiting over 13.5 lakh farmers with the MSP of about Rs 47,644 crore**, as per the government statement. It has been progressing smoothly in the States - Punjab, Chandigarh, Chhattisgarh, Uttarakhand, Himachal Pradesh, Bihar, UP, Gujarat, J&K, Kerala, Telangana, Haryana and Tamil Nadu.
- **While the Food Corporation of India's stocks of wheat & rice have plunged to a five-year low at the beginning of this month, there is no threat to food security as per the government sources.** On Nov 1st, the wheat stock was at 21 MT against the buffer requirement of 13.8 MT for the beginning of 2023. Similarly, the current stock of 16.6 MT of rice is more than double the buffer requirement of 7.6 MT for January 2023.
- A lot is being said about the weakness in rural demand due to relatively higher rural inflation, especially in transportation and other core services. However, **according to consumer goods companies, there is no uniform trend in slowdown in rural India and it is largely driven by the Hindi belt**, especially Uttar Pradesh & Bihar that has dragged the overall rural growth. The problem got exacerbated by the monsoon being a little patchy in these geographies.

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India's Economic & Policy Briefs

- **Moody's Investors Service has revised India's real GDP growth for 2022 downwards to 7.0% from 7.7%**, and attributed the downward revision to geopolitical impact of the Ukraine-Russia war, global tightening of countries' monetary policies and persistent high inflation rates. It expects India's GDP growth to decelerate to 4.8% in 2023 before rising to 6.4% in 2024.
- **While Nomura sees India's growth to slow down to 5.2% in FY24, UBI India expects it to moderate to 5.5%**. Both have attributed the expected slowdown in Indian growth during FY24 to the spillover effect of global slowdown.
- Thanks to the sequential easing of global commodity prices especially that of minerals, metals and energy products and a y-o-y decline in food articles' inflation, **India's WPI based inflation broke 18-month long double-digit streak in Oct 2022 and eased to 8.39%. Led by a favourable statistical base effect for food & fuel items and sequential easing of core inflation, India's CPI-based inflation too eased by 64 bps in Oct 2022 to 6.77%**.
- **India's merchandise exports contracted for the first time in two years in October on the back of slowing external demand**. While exports growth crashed from 9.2% in Sept 2022 to -16.7% in Oct 2022, the non-oil, non-precious metals' imports growth also slowed from 19.2% to 3.4% in the same period. India's trade deficit stood at \$26.9 billion in Oct 2022 - above the \$25 billion mark for a fourth straight month.
- As on Oct 21 2022, Indian commercial banks credit growth stood at 17.9% (y-o-y) while deposit growth was at 9.5%. **As deposit growth has trailed credit growth, banks in India are required to increase their dependence on borrowings**. As per the RBI data, banks' total borrowings were at Rs 5.49 trillion as on October 21st versus at Rs 2.74 trillion at end-March, 2022. According to the rating agencies, banks could be relying on short-term and overnight instruments, along with garnering funds through long-term deposits.
- **With interest rates on term deposits rising, the accretion of low-cost deposits (CASA) has been moderating at banks**. This may, in turn, impact their margins, going ahead.
- **India's Central Government is planning to lower its fiscal deficit target in FY24**, according to some government officials. The government is seeing less pressure on its "revenue expenditure" for FY24, as it may discontinue with the free ration scheme and relatively lower international commodity prices should also help.

India's Industrial & Services Sectors

- **India's factory output, measured through the Index of Industrial Production (IIP), witnessed a growth of 3.1% (y-o-y) in Sept 2022**, primarily due to a rise in manufacturing and mining outputs. The core or infrastructure industries' output too had grown by 7.9% (y-o-y) in Sept. **However, consumer goods growth (a proxy for demand) stayed negative at -6.0% (y-o-y) in Sept 2022**.
- **Rural consumption of fast-moving consumer goods (FMCG) during July-September 2022 saw a drop of 3.6% (y-o-y) in volume terms compared to 2.4% (y-o-y) in April-June 2022, according to NielsenIQ**. However, in value terms, the FMCG industry grew at 8.9% (y-o-y) during July-September 2022 compared to 10.9% (y-o-y) in the previous quarter.
- **India's information technology (IT) spending is projected to grow by 2.6% (y-o-y) in 2023**, according to Gartner. The country's IT spending will reach US \$ 112.4 billion for the calendar year 2023, up from US \$ 109.6 billion in 2022.
- According to the Business Standard study on Corporate Earnings for Q2, FY23 based on the results of 2,725 listed companies, **the post-Covid boom in corporate earnings ended in Q2, FY23 primarily due to the higher cost of raw materials & energy and a reversal in the interest rate cycle**. The combined net profit of 2,725 listed companies across all sectors was down 6.3% (y-o-y) in Q2 – the first contraction after eight consecutive quarters of y-o-y growth.

Indian Financial Markets

- **Liquidity in the banking system is currently estimated to be in a surplus of Rs 803.74 billion**. Liquidity has turned to a surplus in Nov 2022 as the demand for cash seen during the festive season tapers and also on likely increase in government spending.
- **While India's sovereign debt markets have remained relatively calm compared to other major sovereign debt markets, yields are still over 75 bps higher so far this year** – the biggest year-to-date rise since 2017. Thanks to the lower-than-expected US CPI inflation print, a steady decline in global commodity prices and improving trajectory of India's domestic inflation, the yield on 10-Yr GOI benchmark paper declined by 22 bps in the previous seven sessions until Nov 15th. However, due to profit booking as well as an increase in the US treasury yields, the benchmark yield marginally hardened today.

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- **Market participants expect inflation to gradually inch down hereon, providing room for the RBI to go slow on rate hikes**, starting from its next policy on Dec. 7. The RBI has raised the repo rate by 190 bps since May, to 5.90%.
- **Indian corporate bond yields too have eased around 10-15 bps in the last week**, in line with the fall in government yields, as softer inflation data in India and the US have raised bets of a policy pivot by central banks.
- **Indian rupee that has depreciated against the US dollar by 7.27% in FY23 till date to 81.30 may end the year higher than expected earlier**. Many Forex experts have revised their calls on rupee based on sliding US dollar & improving outlook on Asian currencies following the US inflation data. Bank of America strategists have cited significant repricing of Asian currencies due to an accumulation of better-than-expected news on US inflation and China re-opening.
- **Foreign investors have infused close to Rs 190 billion in Indian equities so far in November, primarily due to moderating trend in the US inflation and softening of the dollar**. This came following a net outflow of just Rs 80 million last month and Rs 76.24 billion in September. **Structurally more improved outlook for Indian economy amid macro stabilisation has improved the prospects for Indian equity markets**.
- **The price of India's crude oil basket fell by \$3.56 to \$88.54 a barrel on Nov 15th** following weak economic data from China and hence the poor demand outlook for crude oil.

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