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Global Briefs

- **On June 15, the US Federal reserve raised its benchmark interest rates three-quarters of a percentage point in its most aggressive hike since 1994.** Fed officials also significantly cut their outlook for 2022 economic growth, now anticipating just a 1.7% gain in GDP, down from 2.8% from March. FOMC members indicated a much stronger path of rate increases ahead to arrest inflation moving at its fastest pace going back to December 1981.
- Brazil & Saudi Arabia were among other countries that announced rate policy changes within hours of the Fed's move.
- **On June 16, the Swiss National Bank raised its policy interest rate for the first time in 15 years in a surprise move, with the Bank of England also hiking the key rate.** So far in 2022, 44 countries have lifted rates, according to the data from FactSet, with more moves to come.
- **Fuelled initially by soaring oil prices in the wake of Russia's invasion of Ukraine, inflation has broadened out globally to everything from food to services.** The kind of aggressive monetary tightening undertaken by major central banks is a big departure from their policy approach following the global financial crisis, when they often made increases in fits & starts.
- **While inflation is accelerating, US retail sales declined in May for the first time in five months,** restrained by a plunge in auto purchases and other big-ticket items, suggesting moderating demand for goods amid decades-high inflation.
- **The ECB announced on June 15 that it plans to create a new tool to tackle the risk of euro zone fragmentation.** The pandemic has left lasting vulnerabilities in the euro area economy which are contributing to the uneven transmission of the normalisation of ECB's monetary policy across jurisdictions. This decision is triggered by the recent surge in bond yields over the past week or so. After a regular policy meeting last week, the ECB suggested a more aggressive policy tightening but failed to deliver any new measures to support highly indebted nations in the bloc.
- **Elon Musk, Nouriel Roubini & Goldman Sachs Group have warned of a growing likelihood that the US economy will fall into recession as the Federal Reserve jacks up interest rates to counter the fastest pace of inflation in decades.** Their outlook is likely to stoke fears of a hard landing for the world's biggest economy.
- **China's economic data were better than expected in May. Industrial production has shown greater resilience as it returned to expansion but retail sales contracted for the third straight month.** Fixed asset investment slowed but is expected to benefit from accelerated infrastructure investment rollout in the later part of the year."

Indian Agricultural & Rural Scene

- **After a slow start, the southwest monsoon has picked up pace in the past ten days. The cumulative rainfall deficit at the national level declined to 2% by 23rd June, 2022.** Yet the concerns over rainfall distribution continue. Major agrarian states like Uttar Pradesh, Odisha, Gujarat, Maharashtra, Karnataka & Kerala remain highly deficient in rainfall until June 23rd, 2022.
- **Area sown under kharif crops was reported at nearly 10 million hectares as of 17 June 2022. This is eight per cent lower than the area covered during the corresponding period last year.**
- **However, as the monsoon moves in, the sowing of kharif crops including soyabean, paddy and cotton has increased across the country.** Rainfall over the next two weeks will be critical. Farmers in Haryana have been able to plant paddy crop amid sporadic pre-monsoon rains. Meanwhile, there is a rush among farmers in Gujarat for sowing cotton in anticipation of good returns. It is likely to increase by at least 15%, as compared to the previous season.
- **As per official reports, India has tied up adequate supplies of urea and diammonium phosphate (DAP) until December to meet its kharif and rabi demand this year.** This may keep prices in check in the months to come in the domestic and international markets.
- **India's agricultural and processed food product exports will continue to surge in the current fiscal after a record shipment valued at \$25.6 billion in FY22 because of global demand for the agricultural commodities.**

India's Economic & Policy Briefs

- **Investment firm Nomura has cautioned that a mild recession in the US economy may spill over into India's economy causing growth levels to take a hit in the medium term.** Nomura expects India's GDP growth to average 7.2% on an annual basis in 2022 and moderate to 5.4% in 2023, with downside risks.
- **It is clear from the minutes of the MPC's June policy meeting that MPC (RBI) is expected to go for a fewer rate hikes than what is priced in by market participants.** The statements by a few members like "the withdrawal of accommodation would be non-disruptive" or "aim is not to have over-tightening" or "the endeavour of the Committee should be to bring down inflation into the tolerance band by Q4, FY23 or Q1, FY24" suggest that MPC members see need to support economic recovery.
- India's CPI inflation print for May was at 7.04% (our projection: 7.27%) and WPI print was at 15.88% (our projection: 15.95%), while Rupee/USD exchange rate has depreciated by 2.71% bet May 5 & June 24. **As we have been saying, RBI's actions currently are more driven by global central banks' actions (to control heightened volatility in currency markets) than by the considerations of rupee management.**
- **India's current account deficit (CAD) recorded a deficit of 1.2% of GDP (\$38.7 billion) in FY22 against a surplus of 0.9% (\$24 billion) in FY21.** This came as the trade deficit widened to \$189.5 billion in FY22 from \$102.2 billion a year ago. For Balance of Payments (BOP), there was a drawdown of \$16 billion in the foreign exchange reserves (FER) in Q4, FY22 versus an accretion of \$3.4 billion in Q4, FY21. For FY22 as a whole, there was an accretion of \$47.5 billion to FER, which is much lower than the accretion of \$87 billion in FY21.
- **Growth of bank credit in India improved to 13.1% (y-o-y) as on June 17 versus at just 5.7% a year ago.** Improving utilisation of working capital requirements, relatively higher cost of borrowing from the markets (bonds, NCDs, etc.) and pent-up retail demand are the main reasons behind the bank credit growth.
- **Unemployment rate in urban India declined to 8.2% in Q4, FY22 from 8.7% in Q3, FY22, according to the Periodic Labour Force Survey.** The employment scene marginally improved for both men and women sequentially. However, the labour force participation rate remained unchanged at 47.3% cent in Q4, FY22 compared to the preceding quarter.
- **The Goods and Services Tax (GST) Council is likely to discuss adjusting and rectifying the inverted duty structure for certain items during its upcoming two-day meeting.** A group of ministers reviewing GST rates has proposed removal of exemptions on a host of services.

India's Industrial & Services Sectors

- **The crisis in Sri Lanka has boosted the India orthodox tea segment as Indian planters and exporters are receiving inquiries from foreign buyers of Sri Lankan orthodox tea.** Countries like Iran, Turkey, Iraq and Russia that import tea from Sri Lanka are showing interest in Indian orthodox teas.
- **The double whammy of increased freight expenses & higher inflation has seen cotton prices in India rising over 30% to Rs 46,700 per bale in calendar year 2022.** This is slowly eating into the margin and volume growth of the home-grown textile industry.
- **The World Bank has approved a loan of US\$ 245 million to support India's efforts to modernise rail freight and logistics infrastructure.**
- According to a report by Mordor Intelligence, **Indian government's initiatives like regarding rural development & farm mechanisation and scarcity of farm labour are likely to increase the tractor volumes over the long term.** Indian tractor market is projected to witness a CAGR of 8.9% during the period 2022-2027.
- **Stressed assets of microfinance institutions, comprising loans overdue by more than 30 days, and loans under restructuring, are estimated to have declined 800 basis points to 14% as of March 2022, after peaking to 22% in September 2021, as per the report by Crisil Ratings.**
- **The Indian two-wheeler market grew by 197.66% (y-o-y) in May, 2022** as a total of 12,22,994 two-wheelers found new homes in the fifth month of 2022. The massive growth in sales number can be attributed to a recovery from the Covid pandemic.
- **Prolonged coal shortage since August, 2021 has been hitting non-power sectors like steel, aluminium, iron, paper, cement, etc.** As per the sector executives, despite an increase in coal production, the situation of these sectors has hardly improved.

Indian Financial Markets

- Liquidity in the Indian banking system is currently estimated to be in a surplus of over Rs 1.98 trillion. **Surplus liquidity has fallen below Rs 2 trillion for the first time since March 2020.**
- According to some fixed income expert, **a supply glut is set to hit India's government bond market, and drive benchmark yields towards 8.0% by the end of FY23.** The G-Sec market is already struggling to cope with rising policy rates and dwindling surplus liquidity. Today also government bond prices fell as traders made space for fresh supply at the Rs 330 billion auction of government bonds. In the short run, government bond prices will remain sensitive to the movement in global Brent crude prices and the US treasury yields.
- **A sharp increase in corporate bond yields following the hardening of G-Sec yields has made many companies turn to commercial banks for their borrowing requirements.** As per the Informist data-base, yields on AAA rated corporate bonds have hardened by 140 bps for 3-Yr bonds, 122 bps for 5-Yr bonds and 60 bps from 10-Yr bonds in the primary market between March 31 and June 24.
- **Indian rupee has depreciated by 3.4% until June 24 during FY23 so far amid elevated global commodity (esp crude oil) prices, sustained widening of trade deficit and FPI outflows.** The RBI has intervened in the currency market via two legs. While select banks were seen selling dollars in the spot, they were backing up such action via buy-sell swaps. This move has helped protect forex reserves and maintain rupee liquidity in the system.
- **Surging inflation and the end of global easy money policies have sent Indian stocks spiraling down from all-time highs.** Indian stock market's value is down by nearly 13-14% in FY23 so far on the back of unsupportive economic conditions combined with an unprecedented exodus of foreign investors and earnings estimates. While the markets will further correct from here, expectation is that by Q2, FY23 most negative news, the outcome of the Fed's actions will get priced in, say equity experts.
- **Price of India's crude oil basket rose 6 cents to \$109.10 per barrel on June 23, according to data from India's Petroleum Planning and Analysis Cell.** While oil prices rose marginally because of tight global supply, the upside was capped after Federal Reserve Chairman Jerome Powell's remarks fanned worries that the US interest rate hikes would potentially slow economic growth, hurting energy demand.

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