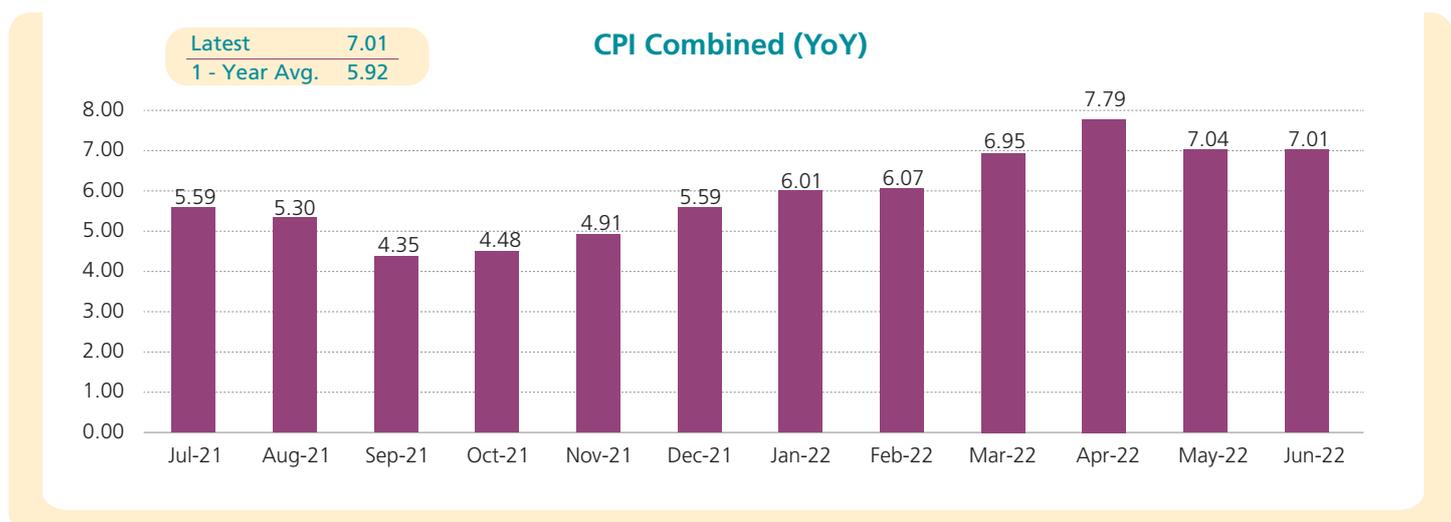




The FOMC in its July meeting hiked policy rates by 75 bps, taking the federal funds rate to 2.25%-2.50%. The step-up in the pace of Quantitative Tightening will continue on expected lines as communicated by the FOMC earlier. The Fed Chair indicated that future rate actions will remain data dependent and hinted that the pace of rate increases will slow down while assessing the impact of the cumulative policy adjustments. This policy announcement was against the backdrop of the June CPI print which came in at a high of 9.1% (vs 8.6% in May). Core CPI however remained broadly unchanged at 5.9%. The Fed is aiming at a soft landing, one that does not require a significant increase in unemployment. The ECB hiked policy rates by 50 bps, against market expectations of a 25 bps increase. This was their first rate hike in almost 11 years with a guidance of further hikes with future policy actions being data dependent. The BOE, in their recently concluded meeting also raised interest rates by 50 bps (their biggest rate increase in 27 years). This is their sixth consecutive hike, taking the policy rate to 1.75%. UK CPI for June came in at a multi-year high of 9.4% (vs 9.1% in May). US economy contracted for a second consecutive quarter, with Q2 CY2022 Q-O-Q GDP growth at -0.9% (Q1 CY2022 at -1.6%), with weak demand and business activity signalling a possible recession.

US Treasury yields remained volatile throughout the month, with the 10-year US Treasury trading in the 2.65% - 3.10%. The yield curve is now inverted with the 2-year vs 10-year inverted at 35 bps. Crude prices during the month traded in the range of USD 100/bbl to USD 115/bbl. However, with talks around a possible recession gaining ground and with a modest increase in production agreed upon by OPEC+, Crude prices are now trading below USD 100/bbl. The IMF lowered the global growth projections to 3.2% for FY2023 (from 3.6% in Apr 2022) citing tighter financial conditions, Europe's energy worried and slowdown in China. India's growth outlook was also revised lower to 7.4% from 8.2% in April.

On the domestic front, CPI inflation for June 2022 came in slightly lower than expected at 7.01% from the previous month's print of 7.04%. Core inflation eased marginally to 6.0% (vs 6.10% in May). Although inflation is expected to have peaked in April, the trajectory to below 6.0% is likely to be gradual. WPI inflation remained elevated at 15.18% in June (vs 15.88% in May). However, the impact of softening of commodity prices could reflect in WPI readings in the upcoming months and eventually feed into CPI prints. IIP data for May 2022 increased to 19.6% due to a lower base (vs a revised April number of 6.7%). Trade deficit for June 2022 widened to USD 26.18 bn (vs USD 9.60 bn last year). Exports grew at ~24% y-o-y, however, imports increased by 58%, with oil imports up by almost 100% y-o-y. CAD remains a key monitorable going forward with the market pricing in higher estimates for FY2023. Although Dollar continues to strengthen against other currencies, Rupee remains one of the better performing currencies with the USD/INR trading in the range of 79-80 during the month. PMI numbers have been encouraging with Manufacturing PMI at 56.4 and Services PMI at 55.5 in July 2022. GST revenues continue to remain upbeat with July collections at INR 1.49 Lakh Crs (second highest grossing monthly collection since inception).



With Crude prices softening, the Government reduced the windfall tax and export duty which were levied three weeks back. The cess on domestic crude oil production was reduced from INR 23,250/ton to INR 17,000/ton. The export duty on diesel and ATF were reduced by INR 2/litre while the duty of INR 6/litre on petrol was completely removed. Tighter liquidity conditions during the month resulted in overnight rates moving sharply higher and trading at MSF level before falling lower recently. Credit offtake has picked up with non-food Bank credit growing at 13.7% in June 2022, while tighter liquidity has resulted in deposit growth lagging and a spike up in CD issuances.

On a month-on-month basis (as on July 31, 2022), with liquidity drying out, money market rates in the 3-month segment shot up by 40-45 bps while 6-month levels moved up by 20-25 bps. Yields in the 3-10 year segment in both G-Sec and corporate bonds rallied by 15-20 bps. Activity in longer end G-sec has also picked up. OIS levels fell, with the 5-year OIS yields moving lower by 54 bps during the month. Spreads on the 1-year to 5-year OIS levels have compressed to 16 bps.

10-Year G-Sec



Past performance may or may not be sustained in the future.

Central Banks globally have continued on their path of policy normalization in an environment of soaring inflation. However, with discussions around possible recessionary impact gaining, Crude prices have softened resulting in a corresponding rally in rates. Pressure on the external sector resulting in depleting FX reserves and impact on Rupee continue to remain key a monitorable. Against this backdrop, global growth parameters, inflation trajectory and Crude prices remain are important factors going forward.

Source: MOSPI, Internal, Bloomberg

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