

1. Global Economic Outlook

USA Economy: The USA economy grew at its slowest pace in nearly two years in the first quarter amid a surge in imports and small build-up of unsold goods at businesses. Low layoffs are keeping wages high, sustaining consumer spending, which accounts for more than two-thirds of economic activity. The saving rate decreased to 3.6% from 4% in the previous quarter.

UK Economy: According to the Organisation of Economic Co-operation and Development (OECD), Britain will suffer some of the lowest rates of economic growth and highest inflation among G7 countries this year and next. The OECD forecast showed that Britain's annual rate of consumer price growth was likely to be the highest among G7 countries, both this year and next. The report of OECD stated that robust real wage growth will support Britain's activity in the first half of 2024. However, sticky services price inflation and fiscal drag will continue to weigh on consumer's purchasing power and constrain trade growth.

Chinese Economy: The manufacturing and services sectors of China took a dip in April 2024, suggesting a loss of momentum for the world's second-biggest economy. The purchasing managers' index dropped to 50.4 in April 2024 from 50.8 in March 2024. Signs of slowing down after sizeable gains in March 2024 highlights erratic demand and underlines the challenges facing policymakers.

2. Domestic Economic Outlook

India's GDP to grow by 6.6% in FY25: India's Gross Domestic Product (GDP) is expected to grow by 6.6% in the current fiscal year 2024-25, according to a projection made by Deloitte. This projection is lower than the Reserve Bank of India's projection of 7%. The factors responsible for this growth are consumption expenditure, exports rebound and capital flows. It believes this trend will become further amplified thus accelerating private consumer expenditure growth. However, despite these strong numbers there are concerns about inflation and geopolitical uncertainties. India is seeing a prominent shift in consumer behaviour towards aspirational spending, which is inevitable in any nation that experiences economic prosperity.

Deloitte also cautioned that despite the necessity for credit growth to stimulate economic activity, the RBI will have to monitor rising household debt and encourage banks to leverage data analytics for smarter lending decisions.

Inflation estimated to step down in April 2024:

Retail inflation, measured by the Consumer Price Index (CPI), is estimated to have closed at around 4.77% in April 2024, compared to 4.85% in March 2024. It is expected that inflation in the non-core index might have brought overall inflation down during the month, while core inflation mildly cushioned the fall. Food inflation eased a bit and closed at 8.3% in April 2024, compared to 8.5% in the month prior. However, on a month-on-month basis, food prices rose by around 0.3% in April 2024. Precious metals were the major contributors to the rise in core inflation in April 2024, while petrol and diesel shielded the rise.

Core sector growth slowed to 5.2% in March:

The growth of 'core sectors' eased to 5.2% in March 2024 from 7.1% in February 2024. The reason behind this fall is the statistical effect of a high base. Typically, core sector's output rises in March from February, but the sequential growth recorded between the two months in FY24, is lesser than the 11.4% growth recorded on average in the past 12 years. Like the trend displayed by the core sector, IIP growth is likely to moderate somewhat in March, as the leap year effect fades.

IIP growth slowed to 4.7% in FY25:

As per the Index of Industrial Production (IIP), the growth in factory output is likely to slow down to around 4.7% in FY25. The estimation was 6.1% in FY24. The reason behind this fall is the statistical effect of a high base and fading away of pent-up demand. The Centre for Monitoring Indian Economy (CMIE) expects all three sectors- 'mining & quarrying', 'manufacturing', and 'electricity' to register a slower growth in the current fiscal year as compared to FY24. IDFC FIRST Bank sees GDP growing at 6.5% in the current fiscal- largely due to rise in input costs and increase in GDP deflator. In FY24, a GDP deflator of 1.5% y-o-y likely boosted real GDP growth, but this year the deflator is expected to be much higher with increase in WPI inflation.

Fall in export of agricultural and processed food products: The export of agricultural and processed food products fell marginally by 0.55% in the fiscal year 2023-24. The primary factor contributing to this is the plunge in rice shipments due to the ban on the export of white and broken rice and the 20% export duty on parboiled rice exports imposed last year. However, exports of fresh fruits and vegetables rose by 14% in FY24 to \$3.65 billion. Also, the share of livestock products- buffalo meat, dairy, and poultry in the APEDA basket rose by close to 12% last fiscal to \$4.5 billion compared to FY23.

3. Interest Rate Outlook

Indian bond yield delinks from US treasury yields: The year 2023 was marked with uncertainties like Russia-Ukraine conflict, and the Israel-Palestine war. This made all the nations struggle with inflation and slowing growth. Other sovereign bonds have been swinging wildly over the last two years. Indian government securities, on the other hand, seem to have been insulated from the volatility in global markets in this period. The factors contributing to this resilience are declining government borrowing, increasing demand due to the global bond index inclusion and a stable rupee. This resilience provides RBI the room to follow a monetary policy independent of the Fed and other central banks.

Gold prices calm down: Gold prices in the London Bullion cooled down in the week that ended on April 27 after consistently scaling new heights for four straight weeks. The price of gold fell to USD 2,329.1 per troy ounce from the preceding week's all time high of USD 2,373.2 per troy ounce. It saw a sharp drop of 1.9%. This fall in gold prices is likely a result of an anticipated delay in rate cuts by the US Federal Reserve.

Awaiting return of the US bond rollercoaster: US government bonds are taking investors on an unusually gentle ride. Although the short-term interest rates have spiked over the past two years, yields on the longer-dated government debt have remained lower. It's a rare occurrence that is at odds with financial history and with the current economic trajectory of the United States. When the bond

rollercoaster returns, fund managers will be in for a shock.

US Fed hold rates at 23-year high-mark: The US Federal Reserve has maintained its key overnight interest rate at the 23-year high mark since July 2023, and intends to hold it steady until inflation cools to target level. The Committee seeks to achieve maximum employment and inflation at the rate of two percent over the longer run.

Date	19 Apr	23 Apr	26 Apr	30 Apr	03 May
USA 10 yr	4.6	4.6	4.66	4.68	4.50
Ind 10 yr	7.23	7.16	7.19	7.19	7.15
Ind 5 yr	7.23	7.17	7.18	7.20	7.16
Ind 3 yr	7.22	7.13	7.19	7.15	7.13

Source: worldgovernmentbonds.com

Futuristic Outlook:

The Government of India has announced the buyback of its securities through auction for an aggregate amount of ₹40,000 crore (face value). Auction for securities will be conducted using multiple price method. The securities offered for buyback are 6.18% GS 2024, 9.15% GS 2024, and 6.89% GS 2025. The Centre's decision to repurchase short-term government bonds, maturing within 6-9 months, is expected to lower the yields and ease liquidity conditions.

The 4-year bond yield fell to as low as 7.0980% and was at 7.1112% after the announcement. The buyback would immediately release 400 billion rupees of liquidity into the banking system, helping ease liquidity tightness seen in late-April. The benchmark 10-year yield is likely to move in a 7.10%-7.15% range, following its previous close of 7.1470%.