

## 1. Global Economic Outlook

**US Economy:** US annual inflation rate dipped below 3% in July 2024 for the first time since 2021, a relief to investors who are expecting the Federal Reserve to cut interest rates next month as a sense of unease has settled over Wall Street after signs of a cooling labour market. Prices rose at an annual rate of 2.9% in July 2024 while core inflation, which does not account for the volatile food and energy industries, climbed 3.2% over the previous 12 months and 0.2% since June 2024. US producer prices increased less than expected in July 2024 as the cost of services fell by the most in nearly 1-1.5 years amid signs of diminishing pricing power for businesses, evidence of waning inflation pressures that reinforced hopes of an interest rate cut next month.

**UK Economy:** British consumer price inflation increased for the first time this year in July 2024, but the rise was smaller than expected as services prices rose much less sharply. The annual rate of consumer price inflation increased to 2.2% after two months at the Bank of England's 2 % target, slightly less than the median 2.3% forecast in a Reuters poll of economists. The Bank of England expects inflation to go up to 2.75% in the coming months before falling below 2% next year. Gross domestic product in of UK economy grew 0.6% in the second quarter of 2024 after a 0.7% expansion in the first quarter which was the fastest in more than two years.

**Chinese Economy:** China's exports grew at their slowest pace in three months in July 2024, missing expectations and adding to concerns about the outlook for the nation's vast manufacturing sector even as imports swung back to resume solid growth. Outbound shipments climbed 7.0 % in July from the year earlier, a slower pace of growth than June's 8.6% rise and missing forecasts of a 9.7% increase. Imports rose at robust 7.2% rate, reversing a 2.3% decline in June 2024 and marking the strongest performance in three months. It also beat analysts' expectations of a 3.5% rise. China's trade surplus narrowed to \$84.65 billion in July 2024, compared with the \$99 billion forecast and \$99.05 billion recorded in June 2024. The United States has repeatedly highlighted the surplus as evidence of trade advantages enjoyed by Chinese firms. China's economy grew 4.7% in the second quarter, below

expectations, keeping alive calls for policymakers to roll out more support to hit the government's full-year growth target of around 5 %.

## 2. Domestic Economic Outlook

**Major reservoirs at 69% of capacity:** Above normal rainfall has boosted water levels in the country's 50 major reservoirs consistently for seven weeks. For the second week in a row water levels in these dams stood above the previous year level. The reservoir levels are now 14% above the last ten-years average. According to the Central Water Commission (CWC)'s weekly bulletin, the reservoir capacity is filled up to 69% as on 17 August 2024, as against 65% a week ago. In the south (42 dams) and east (23 dams), dams are filled up 26% and 15% respectively higher than the previous year due to adequate monsoon rains. Dams in southern states currently have 79% capacity filled, as per CWC, which is an improvement from 77% a week ago. Only reservoirs (10 dams) are significantly below last year (-37%) and last 10 year average (-20%).

**Exports shrink 1.5% in July, trade deficit widens to \$23.5 billion:** India's merchandise trade deficit rose to the highest level in nine months in July 2024 on the back of high crude imports and a contraction in overall goods exports after three straight months of positive growth. Exports contracted 1.47% on year to \$33.98 billion in July 2024, while imports rose 7.4% to \$ 57.48 billion. The trade deficit of \$23.5 billion registered in the month was the highest since October 2023, when it touched \$30 billion. The key reason for the relatively higher deficit in July 2024 was a 17% increase in crude oil imports during the month to \$ 13.8 billion while imports of petroleum products fell 22% on year to \$ 5.2 billion.

**Retail inflation at 59-month low of 3.54% on high base:** India's retail inflation, based on the Consumer Price Index (CPI), plunged to a 59-month low of 3.54% in July 2024, due to the statistical effect of a high base. In July 2023, the CPI inflation was 7.44%, a 15-month high. According to MoSPI data, the provisional inflation rate stands at 3.54% for the entire country, with rural areas experiencing a higher rate of 4.10% compared to 2.98% in urban regions. Out of the 22 listed states/union territories in the CPI report, Bihar had the highest combined inflation rate of 5.87%. This was followed by Assam at 5.11%, and Uttar Pradesh at 4.57%. Jharkhand had the lowest combined inflation rate of 1.72%, followed by Delhi at

2.06%, Chhattisgarh at 2.16%, and Rajasthan at 2.53%.

**Food inflation falls to 13-month low to 5.42%:** Retail food inflation dropped sharply to a thirteen-month low to 5.42% in July 2024, compared to 9.36% in June 2024 largely because of base effect, while prices of pulses and cereals prices continued to be at elevated levels. The consumer food price index (CFPI) rose by 2.81% sequentially in July 2024. In July last year, the food inflation was high at 11.51%. Inflation in onion and potato were 60.54% and 65.64% respectively in July 2024 on year because of lower production. According to the agriculture ministry, output of potato and onion in the 2023-24 crop year (July-June) is projected at 56.76 million tonne (MT) and 21.23 MT, a decrease of 6% and 20% respectively. Tomato prices declined 42.91% last month because high prices prevailed a year ago. Inflation in tomato in July 2023 was 202% on year when retail prices crossed Rs 100/kg across key cities because of disruption in supplies due to rains in hilly states.

**India's WPI inflation eases to 3 month low of 2.04% in July:** India's wholesale price index (WPI)-based inflation for the month of July 2024 eased to 2.04% on an annual basis but prices of vegetables and food items rose sequentially. WPI inflation was at a 16-month high of 3.36% in June 2024, driven by costlier food items. Positive rate of inflation in July 2024 is primarily due to increase in prices of food articles, manufacture of food products, mineral oils, crude petroleum & natural gas, other manufacturing, etc.

**IIP growth eases to 5-month low of 4.2% in June 2024:** India's factory output growth, as measured by the Index of Industrial Production (IIP), moderated to a five-month low of 4.2% in June 2024 from 6.2% in May 2024, primarily due to slower growth in manufacturing activity. Manufacturing growth (accounting for 78% of IIP) slowed to a seven-month low of 2.6% in June 2024 from 5% in May 2024, and electricity growth eased a three-month low of 8.6% from 13.7%. Mining growth, on the other hand, rose to an eight-month high of 10.3% in June 2024 from 6.6% in May 2024. The Mining sector fuelled the IIP growth in June 2024. By growing 10.3% year-on-year compared to the June 2023 levels. The Manufacturing and Electricity sector rose 2.6% and 8.6%, respectively, year-on-year in June 2024, compared to the same period the previous year.

### 3. Interest Rate Outlook

**MPC keeps repo rate unchanged at 6.5%:** The Monetary Policy Committee (MPC) of the Reserve Bank of India (RBI) kept the policy repo rate unchanged at 6.5%. The status quo was anticipated by most observers. The RBI also continued to remain focused on withdrawal of accommodation. The rationale for the status quo was that headline inflation was not easing durably towards the target of 4%. This was because of stubbornly high food inflation. Core inflation remained low but the divergence between headline inflation and core inflation was increasing. At the same time domestic growth was holding up. Thus, apparently, there was no compelling reason to cut rates or change stance at this point. The MPC retained its inflation forecast at 4.5% for 2024-25. It expected inflation to moderate in the quarter ending September 2024, largely driven by base-effect. Here too, the RBI expects prices to rise as it revised its inflation forecast for the September quarter to 4.4%. In the June policy, it had projected September quarter inflation at 3.8%. Inflation was projected at 4.7% in the December quarter and ease to 4.3% in the March 2025 quarter.

**10-year bond yield likely to be marginally lower:** Indian government bond yields are expected to trend lower, tracking a fall in U.S. Treasury yields amid rising prospects of a deeper interest rate cut. The odds of a larger than 25 bps cut by the Federal Reserve have risen, but Indian bond yields should show only some muted reaction, with the benchmark finding a strong base in 6.84%-6.85% levels.

Date	7 Aug	9 Aug	12 Aug	14 Aug	16 Aug	19 Aug
USA 10 yr	3.93	3.94	3.9	3.85	3.89	3.88
Ind 10 yr	6.87	6.88	6.88	6.86	6.87	6.86
Ind 5 yr	6.84	6.79	6.79	6.78	6.79	6.78
Ind 3 M	6.58	6.59	6.59	6.58	6.61	6.57

Source: CMIE