

1. Global Economic Outlook

US Economy: US Federal Reserve lowered its policy interest rate by 25 basis points (bps), the second straight reduction in 2024, just a day after Donald Trump's victory in the US presidential election. Jerome Powell, the US Fed Chair noted that the economy was not signalling any distress that would necessitate an accelerated pace of rate cuts amid strong job market, and inflation that remains above its 2% target. According to the Labor Department's Bureau of Labor Statistics US, job gains increased by the most in six months in September 2024 (nonfarm payrolls increase by 254,000) and the unemployment rate fell to 4.1%. US consumer price index (CPI) rose 2.6% from a year earlier, up from 2.4% in September 2024, marking the first rise in annual inflation in seven months or the first acceleration on an annual basis since March 2024. The US CPI rose 0.2% for the fourth straight month in October 2024 when compared to September 2024.

UK Economy: The overall UK economy had a strong start to 2024, recording substantial GDP growth of 0.7% and 0.5% in the first two quarters, respectively, but growth has fallen in the second half of this year. According to Economic Activity and Social Change Indicators in the UK released by Office of National Statistics on 14 November 2024, only 15% of businesses reported increased turnover during October 2024 when compared with the previous month. For businesses trading, some of the main challenges impacting turnover during early November 2024 were economic uncertainty (23%), competition (18%), cost of labour (16%), cost of materials (16%) and insufficient domestic demand (13%). As per UK Economy forecast by KPMG UK, UK inflation could rise to 3% in early 2025 and Bank of England is expected to take a more cautious approach to easing monetary policy, taking the base rate to 3.5% by the end of 2025.

Chinese Economy: China's consumer price index (CPI), a key gauge of inflation, rose by 0.3% year on year in October 2024, slowing from an increase of 0.4% in September 2024. China's Producer Price Index (PPI) fell 2.9% year on year in October 2024, following a 2.8% drop in September 2024. The data came in worse than the market forecast of -2.5%.

Core inflation and service CPI inflation both edged up to zero percent month on month in October 2024, but both were weaker than traditional seasonality suggests, which indicates domestic consumer demand remained soft. The dip in the CPI inflation reading was mostly a result of food and energy price inflation. China has also announced stimulus package of 10 trillion yuan or \$1.4 trillion in the first week of November 2024 which is largely aimed at solving the local government debt issue and providing much-needed economic support.

2. Domestic Economic Outlook

IIP grew at 3.1% in September 2024 on robust manufacturing: According to data released by MOSPI, India's factory output, measured by the Index of Industrial Production (IIP), grew 3.1% year on year in September 2024, as against (-)0.1% in August 2024. The uptick came amidst a series of high-frequency data indicating a slowdown in economic activities, especially a slump in urban consumption. Manufacturing growth in September stood at 3.9% as against 1.1% in August 2024, and mining growth stood at 0.2% as compared to (-)4.3%. In October 2024, an unfavourable base effect is likely to dent the industrial activity print but in the remaining months, the overall IIP growth is likely to be higher, as the impact of a healthy monsoon on rural demand will kick in.

India's trade deficit widens to \$27.14 billion: India's merchandise trade deficit in October 2024 widened more than expected to \$27.14 billion, driven by a rise in imports despite exports increasing year-over-year. India's merchandise exports in October 2024 rose 17.26% year-on-year to \$39.2 billion while imports rose 3.88% to \$66.34 billion. India's total exports touched \$776.68 billion last fiscal year. The export performance was expected to remain strong, driven by the government's strategy to focus on selective products and markets like engineering and electronic goods. India's total exports are expected to rise above \$800 billion in the fiscal year ending in March 2025.

Services PMI revives to 58.5 in October from September's 10-month low: According to a survey report by S&P Global, India's services sector picked up last month after dropping to a 10-month low in September 2024 amid a marked expansion in

demand as well as job creation. HSBC India Services Business Activity Index, or services PMI for October 2024 reached at 58.5 from its ten-month low mark in September 2024. The increase in output is attributed to a healthy customer demand domestically and from abroad. In response to positive sales developments, and optimism regarding near-term prospects, firms recruited extra workers to the greatest degree in just over two years.

Cabinet approves equity infusion of Rs 10,700 crore in FCI: The Union Cabinet has approved the infusion of equity of Rs. 10,700 crore for working capital in financial year 2024-25 in Food Corporation of India (FCI). The food subsidy given to farmers during the 2014-2024 period has increased more than four times from what it was during the 2004-2014 period. The food subsidy was at around Rs. 5,15,000 crore during 2004-2014 period, and it went to Rs. 21,56,000 crore during the 2014-2024 period. The infusion of equity is a significant step towards enhancing the operational capabilities of FCI in fulfilling its mandate effectively.

Government purchases 121 LT paddy from Punjab meeting 65% of target: As of 8th November 2024, a total of 126.67 lakh tonnes of paddy arrived at the mandis in Punjab. Of this, 120.67 lakh tonnes have been procured by state agencies and the Food Corporation of India (FCI) representing 65% of the estimated target for the ongoing Kharif Marketing Season (KMS) 2024-25. The government is purchasing the paddy at a minimum support price (MSP) of Rs 2,320 per quintal for Grade 'A' paddy, ensuring fair compensation for farmers. The procurement process, which began on 1st October 2024, is expected to continue until 30th November 2024, with the central government setting an overall target of 185 lakh tonnes for this season.

Kharif output seen up by 5.4%: According to the first advance estimate released by Agriculture Ministry, India' food grain production will likely reach a record level of 164.7 million tonne (MT) in 2024-25 kharif season, with year on year increase of 5.4%. For the first time agriculture ministry has prepared area estimates using Digital Crop Survey (DCS) data under the Digital Agriculture Mission, replacing the manual Girdawari system.

Storage in major reservoirs down

Data from the Central Water Commission (CWC) showed that the storage in major reservoirs this week was 85% or 152.911 billion cubic metres (BCM) of the 180.852 BCM capacity. Last week, the level was 86% or 154.981 BCM.

3. Interest Rate Outlook

WPI inflation rises to 2.36% in October 2024: As per data released by the Commerce Ministry, India's wholesale price index (WPI)-based inflation rose to a four-month high of 2.36% in October 2024 primarily due a spike in key food prices and an unfavourable base. In October 2023, WPI inflation was (-)0.26%, and in September 2024, it was 1.84%. The wholesale food inflation in October 2024 soared to double digits, coming in at 11.59%, the highest print in 28 months. This was mainly driven by a surge in prices of vegetables, oilseeds, and cereals.

The yield on India's 10-year government bond rose toward 6.86%: Extending the rebound from the three-week low of 6.77% touched on 8th November 2024, the yield on India's 10-year government bond rose toward 6.86% amid a hawkish RBI and softer growth expectations. Lastly, Indian bond yields were lifted by their exposure to US credit markets due to expansionary fiscal policy in the US and the outlook of fewer rate cuts by the Fed next year. Looking forward, Indian 10-year government bond is estimated to trade at 6.77 in 12 months' time.

Government Bond Yield (in %)						
Date	31 Oct	04 Nov	06 Nov	08 Nov	12 Nov	14 Nov
USA 10 yr	4.30	4.30	4.44	4.31	4.43	4.46
Ind 10 yr	6.83	6.84	6.84	6.81	6.83	6.86
Ind 5 yr	6.77	6.77	6.77	6.75	6.77	6.79
Ind 3 M	6.51	6.53	6.46	6.45	6.45	6.44

Source: CMIE, worldgovernmentbonds