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1. Global Economic Outlook

US Economy: Real gross domestic product (GDP) increased at an annual rate of 1.4% in the first quarter of 2024, according to the "third" estimate of the U.S. Bureau of Economic Analysis (BEA). In the fourth quarter of 2023, real GDP increased by 3.4%. The increase in the first quarter primarily reflected increases in consumer spending, housing investment, business investment, and state and local government that were partly offset by a decrease in inventory investment. Imports, which are a subtraction in the calculation of GDP, increased. Labour Department employment report shows that US employers added 206,000 jobs in June 2024, and the unemployment rate slightly surged to 4.1%. That, perhaps, could have improved the Fed's odds of taming inflation without triggering a recession. Annual wage growth rose 10 cents to $35. Disposable personal income increased $240.2 billion, or 4.8%, in the first quarter, a downward revision of $26.6 billion from the previous estimate. Real disposable personal income increased 1.3%, a downward revision of 0.6 percentage point.

Chinese Economy: Earlier this year, China announced an ambitious goal of reaching 5% economic growth in 2024. Today, nearly seven months into the year, economists and government officials say they are optimistic that China can reach its goal. Economic growth in China, however, has slowed in recent years. Growth is projected to decelerate to 3.3% by 2029, according to the International Monetary Fund (IMF). Surveys of Chinese factory managers showed a mixed outlook for the world's second-largest economy in June 2024, with growth steady but not picking up much steam. The China Federation of Logistics and Purchasing's official purchasing managers index, or PMI, remained at 49.5, the same as in May 2024, on a scale up to 100 where 50 marks the cut off for expansion.

UK Economy: The ascension of the Labour government has injected rare impetus into Britain's capital market. On 5th July 2024, the first day of the newly elected Labour government, the domestically focused FTSE 250 index rose by 0.86% and the country's 10-year bond yield dipped by 0.8 percentage points. The GDP for the first quarter this year increased by 0.6%, and the annual Consumer Prices Index rose by 2% in May 2024, aligning with the anticipated interest rate cut by Bank of England.

2.Domestic Economic Outlook

Inflation slides to under 5% from 9% in 10 years: In FY14, the headline inflation in the country stood at 9.4%. In a matter of 10 years, the headline inflation has dropped to 5.5% in FY24, according to data provided by the Ministry of Finance. During the Monetary Policy Committee (MPC) meeting of the RBI during 5-7 June, 2024, it said that the headline inflation was projected to ease from 5.4% in 2023-24 to 4.5% in 2024-25. This was subject to evenly balanced risks from the rising incidence of adverse climate events, pressures from input costs and volatility in crude prices and financial markets as well as the effects of monsoon on food prices.

Services PMI rises in June after May break on new orders: Services activity across the country improved in June 2024, with the HSBC India Services Business Activity Index, or services PMI, rising to 60.5 during the month from five-month low of 60.2 in May 2024. Demand strength and rising intakes of new business were cited as the key determinants of growth by panellists. The manufacturing activity also witnessed a considerable recovery in June 2024, largely due to the same reason. Data released on 01 July 2024 showed manufacturing PMI rising to 58.3 from 57.5 in May 2024. On the inflation front, panellists reported higher prices for food (chicken, eggs and vegetables) and fuel. Average input prices, however, rose at a below-trend rate and one that was the softest in four months.

10% growth in GST revenue may continue in near term: The easing growth in gross Goods and Services Tax (GST) collections in the current financial year largely depicts that India's economy has now transitioned into a "stabilised phase" from a "recovery phase", meaning sub-10% growth may continue in the near-term going forward. Stabilisation phase signifies a maturing tax system, successful implementation of compliance measures,

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and an economy that has largely recovered from the pandemic's impact. The GDP growth too is expected to be slower this year, with many economists pegging it at 7%, as against 8.2% in FY24. So far, in the first quarter of FY25, gross collections growth has averaged 10.1%, around 2 percentage points lower than average growth of last fiscal. The months, May and June have recorded 10.2% and 8.1% growth in collections, respectively, which are the lowest rates in close to three-years. One key reason for the low growth could be general elections, which indirectly affected timely audits, and thereby recoveries.

Gross tax collections up 15.9% in April-May: The Centre's gross tax collections (post refunds but before transfers to states), stood at Rs 4.6 trillion in the first two-months of the current financial year, 15.9% higher than the year-ago level, data released by the Controller General of Accounts (CGA) showed on Friday. This is against 10.6% annual growth pegged in the Budget for FY25. Net tax revenue (after refunds, and after devolution to states) during April-May, stood at Rs 3.19 trillion, accounting for 12% of the Budget estimate of Rs 26.02 trillion. However, during the same period of FY24, net tax revenue had accounted for about 16% of the Budget target. The sharp growth in gross collections during April-May FY25 was primarily driven by a massive 41.7% growth recorded in personal income tax (PIT) collections, which stood at Rs 1.8 trillion. The interim Budget, however, presented in February, had pegged the PIT growth during FY25 at only 14.3%.

Food inflation to stay between 7.5-8% for next 2-3 months: In the wake of severe heatwaves persisting in certain areas of northern and eastern India, economists expect food inflation to stay in the range of 7.5-8% in the next two-three months. The RBI has projected retail inflation to average 4.9% in Q1FY25, and 3.8% in Q2FY25. For the entire fiscal year, inflation is projected to average 4.5%, 90 basis points (bps) lower than FY24. Data sourced from the Department of Consumer Affairs website said, prices of tomato were up 26% month on month, so far, in June; and that of onion were up by 14% and potato prices were up too, by 8%.

3. Interest Rate Outlook

Bond yields are falling, life insurers may raise rates: The fall in long-term bond yields, coupled with pressure from reinsurers, is causing private insurers to reevaluate their term insurance rates. The yield on the 40-year bond has decreased from 7.34% at the time of issue last year to 7.09%. Similarly, the yields on other long-term bonds have also dropped. For example, the 27-year bond maturing in 2051 is trading at a yield of 7.06% only marginally higher than 10-year bond yield of 7%. These long-term bonds were already highly sought-after, with demand from insurance companies surpassing supply. However, the entrance of new foreign investors in the bond market following JP Morgan index's inclusion of govt bonds has further pushed down yields. And if RBI cuts rates later this year to keep pace with the US Fed, as expected by some economists, bond yields could fall further.

RBI may keep repo rate unchanged this year: DBS Group Singapore-headquartered DBS Group expects the Reserve Bank of India (RBI) to keep the repo rate unchanged at 6.5% for the rest of the calendar year. Three Monetary Policy Committee (MPC) review meetings are scheduled in August, October and December, respectively. The RBI has held the repo rate unchanged during the last eight meetings, including the recent 07 June 2024 meeting. The MPC is unlikely to relent in the short term as a prolonged heatwave and rainfall shortfall in June hurt vegetable production and drove prices higher, according to the DBS Group research note.

Date	30 Jun	2 July	4 July	6 July	8 July
USA 10 yr	4.41	4.43	4.37	4.27	4.27
Ind 10 yr	7.00	7.00	6.99	6.99	6.98
Ind 5 yr	7.02	7.02	6.99	6.99	6.98
Ind 3 yr	6.97	6.96	6.95	6.95	6.94

Source: worldgovernmentbonds