

RESEARCH
BOB Economics Research | Monthly Economic Buffet

Economic Round-up: May 2022

SUMMARY
India Economics: Monthly Economic Buffet

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Daily macro indicators

Indicator	31-May	01-Jun	Chg (%)
US 10Y yield (%)	2.84	2.91	6bps
India 10Y yield (%)	7.42	7.42	0bps
USD/INR	77.64	77.53	0.1
Brent Crude (US\$/bbl)	122.8	116.3	(5.3)
Dow	32,990	32,813	(0.5)
Hang Seng	21,415	21,295	(0.6)
Sensex	55,566	55,381	(0.3)
India FII (US\$ mn)	30-May	31-May	Chg (\$ mn)
FII-D	48.4	52.2	3.8
FII-E	294.3	(128.1)	(422.4)

Source: Bank of Baroda Economics Research

BOBCAPS Research

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Sonal Badhan
Economist

Global growth slowdown: Due to resurgence in Covid-19 cases in China and continuation of war between Russia and Ukraine, supply chains had been impacted, thus pushing global commodity prices up. While there has been some relaxation in supply chain bottlenecks, and commodity prices have come down from their peaks, they still remain at elevated levels, impacting global inflation. This is also expected to affect profit margins of companies, push central banks to aggressively hike rate, create a high interest environment and dent consumer demand, which may slowdown recovery in growth. However, we do not see a recession looming.

Global Central Banks: There remains deviation in global central bank actions, with US Fed, BoE, RBNZ, and RBI hiking rates, ECB remaining on standby, and BoJ and PBOC remaining accommodative. US Fed has recently announced biggest (in 2 decades) rate hike of 50bps. Various Fed officials have indicated that this trend might continue if inflation is not curbed. BoE also hiked rate by 25bps this month, its 4th rate hike since Dec'21.

Key macro data releases: Latest data shows that India's real GDP rose by 8.7% in FY22, lower than NSO's previous estimate of 8.9% and RBI's 9.1% expectation. All sectors (except construction) of GVA witnessed downward revision. Most of the downgrade was visible in mining, manufacturing, agriculture and trade and hotels. India's growth moderated in Q4FY22 too, by 3.9% compared with an increase of 4.7% in Q3FY22. The slowdown was led by moderation in services activity including trade, transport on the back of pandemic induced restrictions. Nominal GDP was however revised a tad upward (19.5% versus 19.4%), which in turn helped centre to lower its fiscal deficit for FY22 from 6.9% to 6.7%. Buoyant revenue growth also played a part in this.

Separately, CPI print remains elevated in Apr'22 at 7.8% (~8-year high), with core CPI also up (66bps) at 7% in Apr'22. Given the trajectory of retail inflation with food and core inflation remaining elevated, we see a case for RBI hiking repo rate by another 25-35bps.



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Note: Recommendation structure changed with effect from 21 June 2021

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