

RESEARCH
BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: December 2022

SUMMARY
INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

As 2022 ends economic challenges stand ready for major global economies. Persistently high inflation, elevated borrowing costs and resurgence in Covid-19 infections in China are some of the key risks to global growth. Further, as major central banks (US Fed and ECB) have indicated to keep the rates high this year as well, there is no respite in sight. Economies are bracing for a technical recession, which in case of India will impact our exports, rates, foreign inflows and currency. However, strength in our domestic demand and government spending is likely to prevent any major economic slowdown. A dominant question this year will be, when central banks will pause.

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Daily macro indicators

Indicator	30-Dec	02-Jan	Chg (%)
US 10Y yield (%)	3.81	3.87	6bps
India 10Y yield (%)	7.33	7.34	1bps
USD/INR	82.74	82.75	0.0
Brent Crude (US\$/bbl)	85.9	85.9	0.0
Dow	33,221	33,147	(0.2)
Hang Seng	19,741	19,781	0.2
Sensex	60,841	61,168	0.5
India FII (US\$ mn)	29-Dec	30-Dec	Chg (\$ mn)
FII-D	(52.0)	13.2	65.2
FII-E	56.6	(430.0)	(486.6)

Source: Bank of Baroda Economics Research



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03 January 2023

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Sonal Badhan
Economist

Global growth: 2023 is off to a shaky start as major global economies are beginning to show signs of stress owing tight monetary policies. While in the US, housing sector, retail sales, industrial activity are under strain, in Europe inflation continues to bite and weak demand is hampering production business. Risks to global growth are also emanating from China, as it witnesses economic slowdown due to surge in Covid-19 infections amidst low vaccination rates. As global economy heads towards a possible economic recession, a key question for the investors will be when major central banks will pause.

Global Central Banks: So far, both US Fed and ECB have indicated that rate hikes could continue well into the current year as well, until inflation is substantially brought down. In case of BoE, there appears a split as to when to pause, considering the bank has already hiked rates 9 times since Dec'21. Recently, in Dec'22, US Fed, ECB, and BoE had slowed their pace of hike in benchmark rates by incorporating 50bps increase, compared with 75bps rise in their previous meetings. BoJ also shocked the markets in Dec'22 as it widened the 10Y bond yield target range from -0.25% to +0.25% to -0.5% to +0.5%.

Key macro data releases: With data on the fiscal state of the government coming in till Nov'22, fiscal deficit has reached 58.9% of the targeted level, compared with 46.2% during the same period last year. Capex remains the bright spot, with spending spearheading and revenue expenditure also at par with last year. On the income side, net revenue witnessed marginal slowdown on account of moderation in both direct and indirect tax receipts.

On the industrial production side, core sector output expanded by 5.4% in Nov'22 compared with a growth of 0.9% in Oct'22. This was on the back of improvement in coal, fertilizers, steel and cement output. Double digit growth in steel and cement has lifted hopes of robust growth in construction sector.

CPI inflation eased much more than expected to 5.9% in Nov'22 (12-month low), (our estimate 6%) from 6.8% in Oct'22. This was the first time in FY23 that inflation was below RBI's upper threshold of 6%.



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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