14 December 2020

EcoScope
The Economy Observer

CPI inflation exactly in line with expectations; WPI at nine-month high in Nov'20

Do not expect any further rate cut in FY21

- **Exactly in line with our expectations, but below market consensus of 7.2% YoY, headline inflation came in at 6.9% YoY in Nov'20, against 7.6% in Oct'20 and 5.5% in Nov'19.**
- **Food inflation stood at a three-month low of 9.4% YoY in Nov'20, vis-à-vis 11% in Oct'20 and an average of 10% since the start of FY21. Vegetables, which clocked >20% inflation during Sep–Oct'20, came in lower at 15.6% YoY in Nov'20. As a result, CPI, excluding vegetables, also came in lower at 6.2% YoY in Nov'20 from 6.4% in Oct'20. Additionally, core inflation remained stable at a 23-month high of 5.5% YoY last month.**
- **Within core, while inflation in 'miscellaneous' items remained flat for the third consecutive month at 6.9% YoY in Nov'20, inflation in 'housing' inched slightly lower. Inflation in 'clothing and footwear', however, rose in Nov'20 v/s Oct'20.**
- **Separately, Whole Price Index (WPI) based inflation rose to 1.6% YoY in Nov'20 from 1.5% in Oct'20 and 0.6% in Nov'19. This is marginally lower than market consensus of 1.7% YoY. The rise in WPI inflation in Nov'20 was primarily led by 23-month high inflation in manufactured products. While inflation in primary articles (WPI weight: ~23%) moderated to 2.7% YoY in Nov'20 from 4.7% a month ago, fuel and power (WPI weight: 13%) remained in the deflationary zone in Nov'20.**
- **Moreover, WPI food inflation (both primary and manufactured products) softened to 4.3% YoY in Nov'20 from 5.7% in Oct'20, driven by lower inflation in primary food products.**
- **Overall, we continue to believe CPI inflation (the Reserve Bank of India's monetary policy anchor) would ease to 5.5% YoY over the next two months (Dec'20–Jan'21), before rising to ~6.3% by Mar'21 due to the statistical effect. Therefore, we do not expect the RBI to cut rates any further in FY21.**

I. Retail inflation moderates to three-month low of 6.9% in Nov'20

- **CPI inflation in line with expectations…:** Headline inflation came in at 6.9% YoY in Nov'20 – in line with our expectations, but below market consensus of 7.2% YoY – against 7.6% in Oct'20 and 5.5% in Nov'19 *(Exhibit 1)*.
- **…due to lower food inflation…:** Food inflation came in lower at 9.4% YoY in Nov'20 v/s 11% in Oct'20 and an average of 10% since the start of FY21 *(Exhibit 2)*. Vegetables, which clocked >20% inflation over Sep–Oct'20, came in lower at 15.6% YoY in Nov'20 *(Exhibit 3)*. As a result, inflation in CPI, excluding vegetables, also came in lower at 6.2% YoY in Nov'20 v/s 6.4% in Oct'20. In fact, every item within food, except 'oil and fats' and 'fruits' exhibited lower YoY inflation in Nov'20. Additionally, inflation in 'fuel and light' fell to a five-month low of 1.9% YoY in Nov'20 vis-à-vis 2.1% in Oct'20.
- **…while core inflation remained stable:** Core inflation remained stable at a 23-month high of 5.5% YoY in Nov'20 *(Exhibit 4)*. Within core, while inflation in 'miscellaneous' items remained flat for the third consecutive month at 6.9% YoY in Nov'20, inflation in 'housing' inched slightly lower at 3.2% YoY in Nov'20 (from 3.3% in Oct'20). Inflation in 'clothing and footwear', however, rose to 3.3% YoY in Nov'20 from 3.1% in Oct'20.
- **Do not expect RBI to cut rates:** Overall, we continue to believe CPI inflation (the Reserve Bank of India's monetary policy anchor) would ease to 5.5% YoY over the next two months (Dec'20–Jan'21), before rising to ~6.3% by Mar'21 due to the statistical effect. Therefore, we do not expect the RBI to cut rates any further in FY21.

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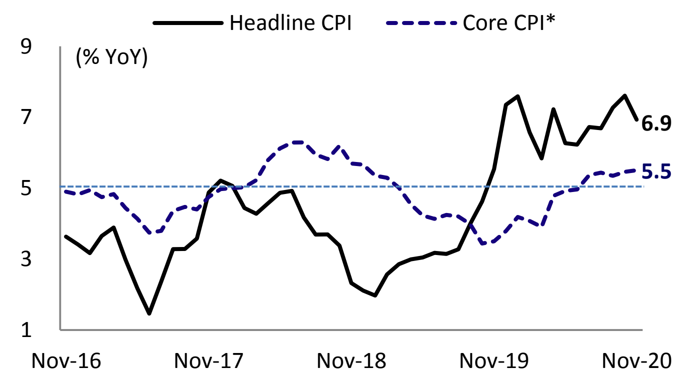
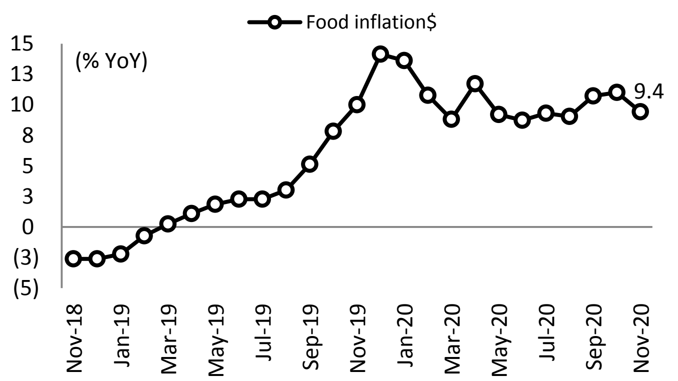
Exhibit 1: Retail inflation moderated to 6.9% in Nov'20…



* 'Housing', 'Clothing and footwear' and 'miscellaneous'

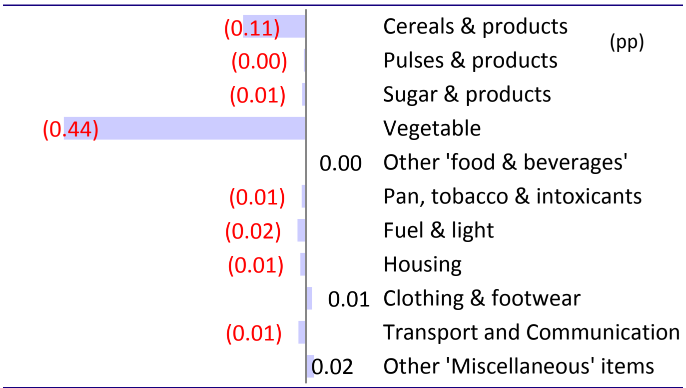
Exhibit 2: …due to lower food inflation



$Excl 'non-alcoholic beverages';'prepared meals, snacks, sweets etc.'

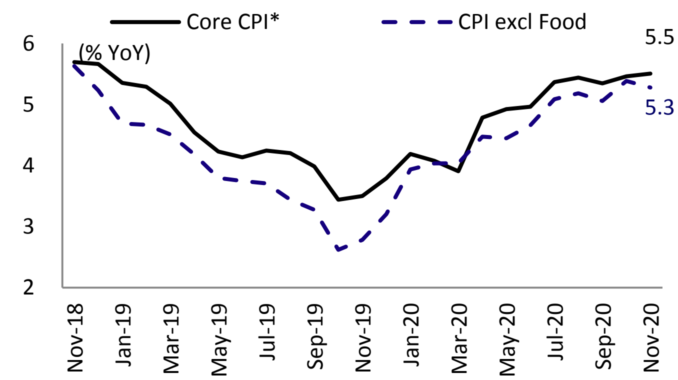
Source: Central Statistics Office (CSO), MOFSL

Exhibit 3: Negative contribution by vegetables was highest



Source: CSO, MOFSL

Exhibit 4: CPI core inflation remained flat at 5.5% in Nov'20



* 'Housing', 'Clothing and footwear' and 'miscellaneous'

Exhibit 5: CPI and key components (% YoY)

% YoY	FY18	FY19	FY20	Nov-19	Sep-20	Oct-20	Nov-20
Overall CPI	3.6	3.4	4.8	5.5	7.3	7.6	6.9
Food & beverages	2.2	0.7	6.0	8.7	9.8	10.1	8.8
Cereal & products	3.5	2.1	2.8	3.7	4.7	3.5	2.3
Pulses & products	(21.0)	(8.3)	9.9	13.9	14.7	18.3	17.9
Meat & fish	3.2	4.0	9.3	9.4	17.5	18.6	16.7
Milk & products	4.1	1.8	2.9	3.5	5.6	5.2	5.0
Fruits & vegetables	5.5	(2.8)	14.5	25.6	15.7	16.1	11.6
Pan, tobacco & intoxicants	6.9	6.2	4.2	3.3	10.7	10.6	10.4
Fuel & light	6.2	5.8	1.3	(1.9)	2.8	2.1	1.9
Housing	6.5	6.7	4.5	4.5	2.8	3.3	3.2
Clothing & footwear	4.7	4.1	1.6	1.3	3.0	3.1	3.3
Miscellaneous	3.7	5.9	4.4	3.7	6.9	6.9	6.9
Transport & communication	2.7	5.2	2.4	0.9	11.5	11.2	11.1
Core CPI#	4.5	5.8	4.0	3.5	5.3	5.5	5.5

\# 'Housing', 'Clothing and footwear' and 'miscellaneous'

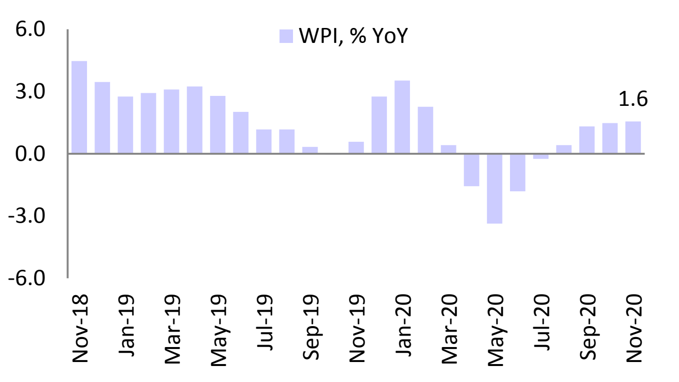
II. WPI inflation at nine-month highs

- **WPI marginally below expectations…:** Whole Price Index (WPI) inflation rose to 1.6% YoY in Nov'20 from 1.5% in Oct'20 and 0.6% in Nov'19 – marginally below market consensus of 1.7% YoY. The rise in WPI inflation in Nov'20 was primarily attributable to 23-month high inflation in manufactured products *(Exhibit 6).*
- **…led by higher inflation in manufactured products:** Inflation in manufactured products (WPI weight: ~64%) rose to a 23-month high of 3% YoY in Nov'20 from 2.2% in Oct'20 and -0.8% in Nov'19. All major categories within manufactured products – except, beverages, printing and reproduction of recorded media,

fertilizers, pharmaceuticals, electronics, and electrical equipment and machinery – exhibited higher WPI inflation, a reversal from deflation to inflation, or lower deflation. These items together constituted ~53% of the WPI index. Moreover, while inflation in primary articles (WPI weight: ~23%) moderated to 2.7% YoY in Nov'20 (from 4.7% in Oct'20), fuel and power (WPI weight: 13%) remained in the deflationary zone last month *(Exhibit 7)*.

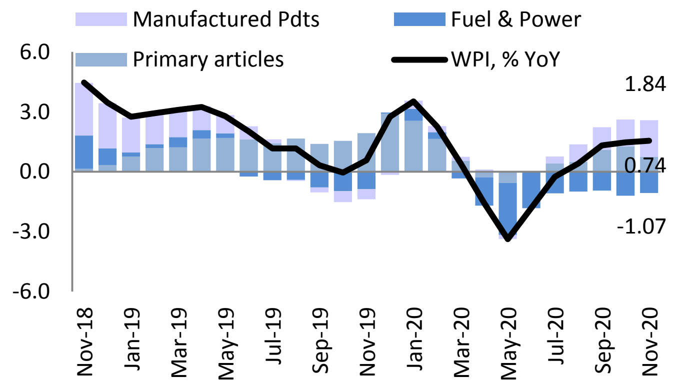
- **WPI food inflation softened last month:** WPI food inflation (both primary and manufactured products) softened to 4.3% YoY in Nov'20 from 5.7% in Oct'20 led by lower inflation in primary food products. On the contrary, WPI core inflation (WPI for non-food manufactured products) rose to a 22-month high of 2.7% YoY in Nov'20 from 1.9% in Oct'20 *(Exhibit 8)*.

Exhibit 6: WPI inflation at nine-month high in Nov'20…



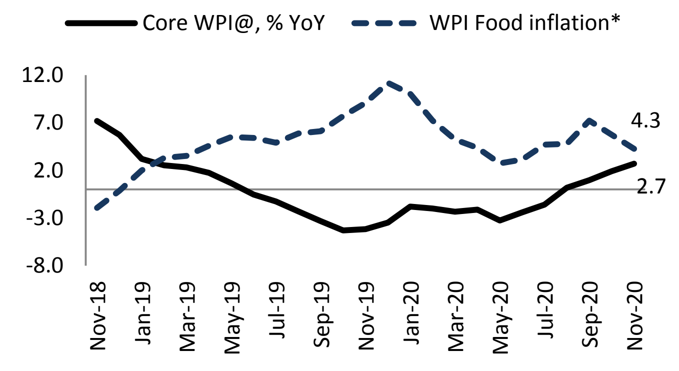
Source: EAI, MOFSL

Exhibit 7: …due to higher inflation in manufactured products



Source: EAI, MOFSL

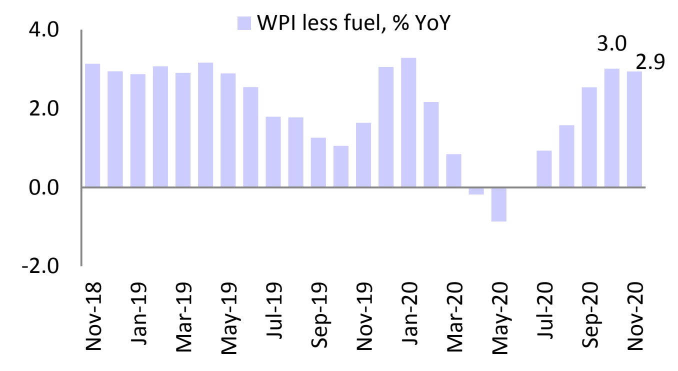
Exhibit 8: WPI food inflation moderated on the back of lower inflation in primary food products



* Primary food articles and manufactured food products

@WPI for non-food manufactured products

Exhibit 9: WPI less fuel fell to 2.9% YoY in Nov'20 from 3% in Oct'20



Source: EAI, MOFSL

NOTES

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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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