

CPI inflation at 6.4% in line with expectations

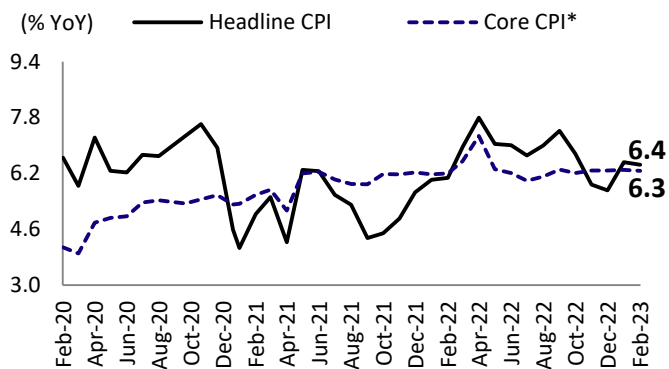
Another rate hike of 25bp in Apr'23 is a given

- CPI inflation stood high at 6.4% YoY in Feb'23 compared to 6.1% in Feb'22. Although the Feb'23 inflation print is 10bp lower than the Jan'23 level, it is still higher than the RBI's target upper limit of 6%. The number is exactly in line with our forecast and Bloomberg consensus.
- Cereals inflation remained very high at 16.7% YoY compared to 16.3% in Jan'23. On the other hand, vegetable inflation came in at -11.6% YoY in Feb'23 v/s -11.7% in Jan'23. Consequently, this offset caused food inflation to remain sticky at 6% YoY in Feb'23. Moreover, CPI, excluding vegetables, came in at 7.6% YoY, lower than a 104-month high of 7.8% in Jan'23.
- Other important observations in the inflation data: 1) Core inflation (housing, clothing and footwear and miscellaneous) came in at 6.3% YoY in Feb'23, similar to previous three months. 2) Standard core CPI (excluding food and energy), however, came in lower at 6.5% YoY in Feb'23 v/s 6.6% in Jan'23. 3) While imported inflation (weightage =10%) stood at a three-month low of 6.9% YoY, domestically generated inflation rose to 6.4% YoY in Feb'23 v/s 6.2% in Jan'23. 4) CPI in services remained unchanged at 5.1% YoY and that in goods inched down to 6.8% YoY in Feb'23 v/s 5.9% in Jan'23. 5) Energy inflation came in at a four-month low of 7.8% YoY in Feb'23 v/s 8.6% in Jan'23.
- Overall, the worst period of high inflation is likely behind us. However, the RBI expected 4QFY23 inflation to retreat to 5.7% YoY, implying Mar'23 inflation to be around 4.2% YoY, which is unlikely now. We expect Mar'23 inflation to come around 6% and to retreat toward 5% in the coming months. Therefore, we believe that another 25bp rate hike in Apr'23 is a given now.

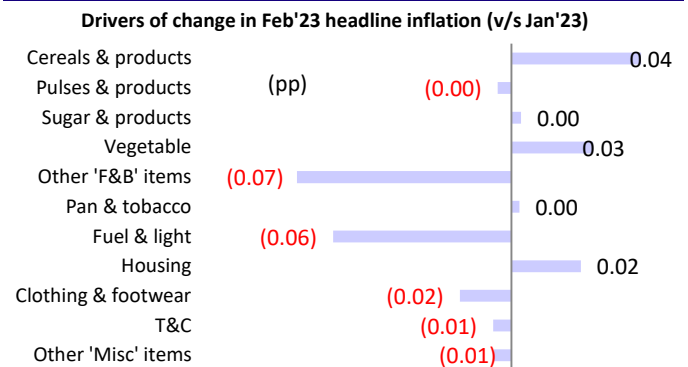
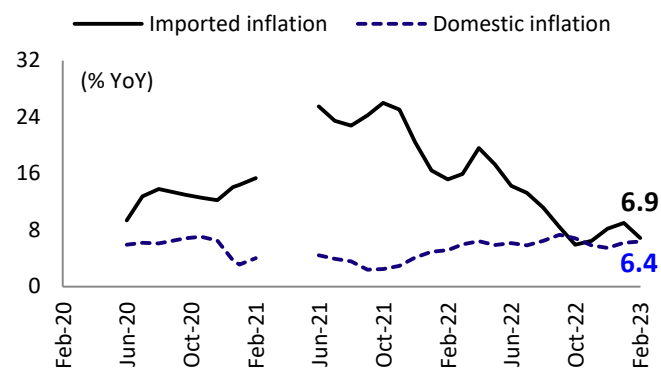
- **CPI inflation in line with expectations:** CPI inflation stood high at 6.4% YoY in Feb'23 compared to 6.1% in Feb'22. Although the Feb'23 inflation print is 10bp lower than the Jan'23 level, it is still higher than the RBI's upper limit 6%. The number is exactly in line with our forecast and Bloomberg consensus.
- **Higher inflation in cereals offset persistent deflation in vegetables:** Cereals inflation remained very high in Feb'23 at 16.73% YoY compared to 16.25% in Jan'23. On the other hand, vegetable inflation came in at -11.6% YoY in Feb'23 as against -11.7% YoY in Jan'23. Additionally, inflation in fruits and milk and milk products also rose in Feb'23. All other food items either saw lower inflation or deflation last month. Consequently, food inflation remained sticky at 6% YoY in Feb'23. Moreover, CPI, excluding vegetables, came in at 7.6% YoY, lower than a 104-month high of 7.8% in Jan'23.

Other important observations in inflation data: 1) Core inflation (housing, clothing and footwear and miscellaneous) came in at 6.3% YoY in Feb'23, similar to previous three months. 2) Standard core CPI (excluding food and energy), however, came in lower at 6.5% YoY in Feb'23 v/s 6.6% in Jan'23. 3) While imported inflation (weightage =10%) stood at a three-month low of 6.9% YoY, domestically generated inflation rose to 6.4% YoY in Feb'23 v/s 6.2% in Jan'23. 4) CPI in services remained unchanged at 5.1% YoY and that in goods inched down to 6.8% YoY in Feb'23 v/s 5.9% in Jan'23. 5) Energy inflation came in at a four-month low of 7.8% YoY in Feb'23 v/s 8.6% in Jan'23.

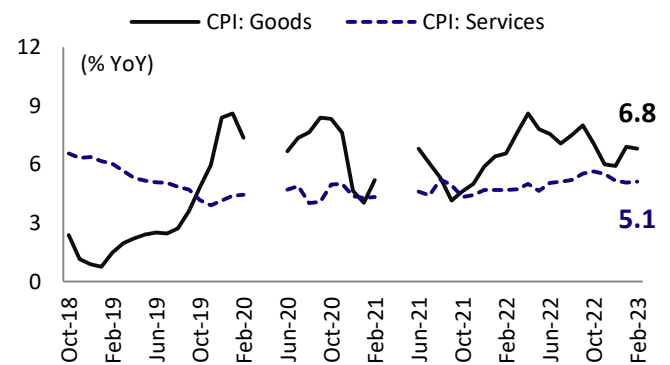
A 25bps rate hike in Apr'23 is a surety now: Overall, the worst period of high inflation is likely behind us. However, the RBI expected 4QFY23 inflation to retreat to 5.7% YoY, implying Mar'23 inflation to be around 4.2% YoY, which is unlikely now. We expect Mar'23 inflation to come around 6% and to retreat toward 5% in the coming months. Therefore, we believe that another 25bp rate hike in Apr'23 is a given now.

Exhibit 1: Retail inflation of 6.4% YoY in Feb'23 was in line with expectations...

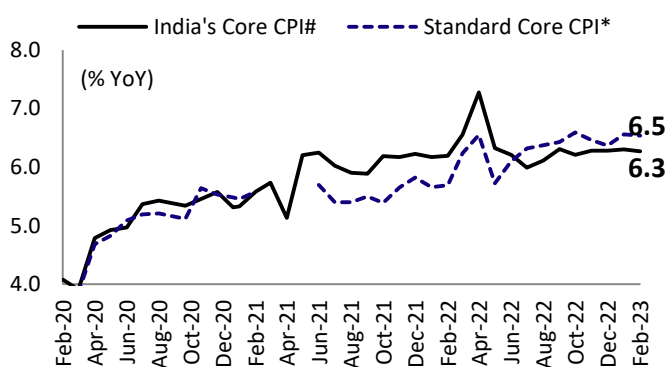
*Housing, Clothing and footwear and miscellaneous

Exhibit 2: ...led by higher (v/s Jan'23) contribution of cereals, vegetables and housing in Feb'23**Exhibit 3: While imported inflation came in lower, domestically generated inflation came in higher in Feb'23**

Weightage of imported items = 10% in CPI

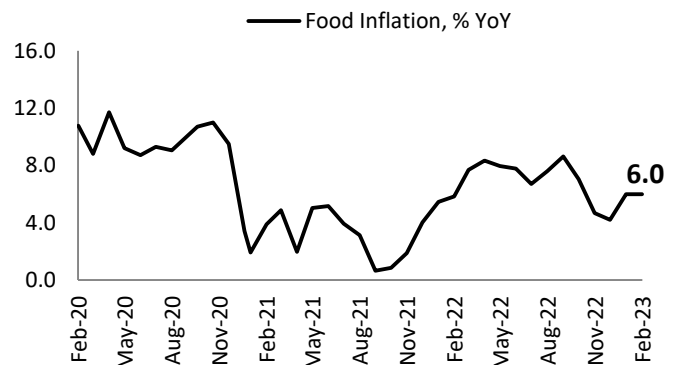
Exhibit 4: CPI in services and goods remained sticky in Feb'23

Source: Central Statistics Office (CSO), MOFSL.

Exhibit 5: Standard core inflation came in slightly lower in Feb'23

#Housing, Clothing and footwear and miscellaneous

*Excluding food and energy

Exhibit 6: Food inflation remained flat at 6% YoY during the month

Source: Central Statistics Office (CSO), MOFSL.

Exhibit 7: CPI and key components

YoY (%)	FY20	FY21	FY22	Feb-22	Dec-22	Jan-23	Feb-23
Overall CPI	4.8	6.2	5.5	6.1	5.7	6.5	6.4
Food and beverages	6.0	7.3	4.2	5.9	4.7	6.2	6.2
Cereal and products	2.8	3.8	0.5	4.0	13.8	16.3	16.7
Pulses and products	9.9	16.4	6.0	3.0	3.9	4.3	4.1
Meat and fish	9.3	15.4	7.9	7.4	5.1	6.0	3.4
Milk and products	2.9	5.4	2.8	3.9	8.6	8.8	9.6
Fruits and vegetables	0.7	2.6	6.2	4.9	-10.3	-7.3	-6.2
Pan, tobacco, and intoxicants	4.2	9.9	4.5	2.4	2.5	3.1	3.2
Fuel and light	1.3	2.7	11.3	8.7	10.9	10.8	9.9
Housing	4.5	3.3	3.7	3.6	4.5	4.6	4.8
Clothing and footwear	1.6	3.4	7.1	8.9	9.6	9.1	8.8
Miscellaneous	4.4	6.6	6.7	6.5	6.1	6.2	6.2
Transport and communication	2.4	9.9	10.1	8.1	4.9	4.5	4.5
Core CPI#	4.0	5.3	6.1	6.2	6.3	6.3	6.3

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

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