12th November 2024

Fig 1: Headline CPI jumps as expected on higher food inflation in Oct’24; % y/y

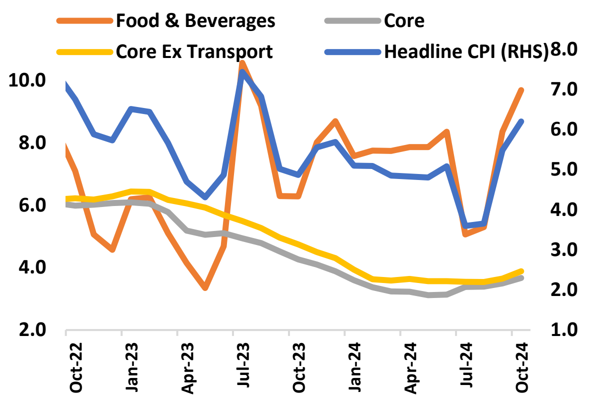

Fig 2: CPI ex veggies too spurts to 3.63%; % y/y

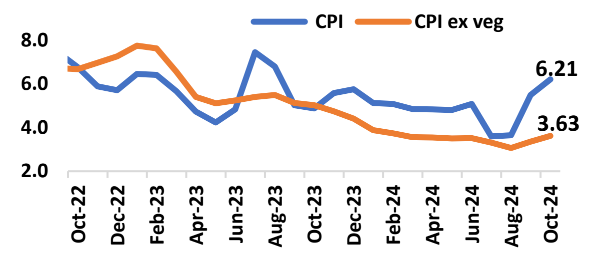

Fig 3: Data table

Y/Y, %	Headline CPI	Food	Fuel	Core	Core ex Transport
Apr-24	4.83	7.87	-4.02	3.23	3.64
May-24	4.80	7.87	-3.67	3.12	3.57
Jun-24	5.08	8.36	-3.61	3.14	3.57
Jul-24	3.60	5.06	-5.48	3.38	3.54
Aug-24	3.65	5.30	-5.25	3.39	3.54
Sep-24	5.49	8.36	-1.34	3.49	3.65
Oct-24	6.21	9.69	-1.61	3.67	3.88

Source: CEIC, UBI Research

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Both CPI and IIP clock in line with above consensus estimates (UBI data preview)

October CPI reading at an uncomfortably high 6.21% and September IIP recovering to 3.1% from a temporary blip last month were in line with our estimates of 6.15% (consensus: 5.90%) and 3.1% (consensus: 2.5%). The inflation spike is sharper than the MPC’s estimate with their December quarter forecast at 4.8% while it seems to currently tracking above 5.5% even though we still see a sharp CPI correction by Q4 FY25 to move towards the MPC’s 4.2% forecast. In our view, with CPI ex veggies still relatively subdued at 3.6%, the seasonal correction in veggie prices may be delayed with onion prices now on an upswing in November. The MPC may also remain concerned about the threshold inflation shift attributed to 20% duty hike in edible oils and spike in cereals CPI led by PDS sub-indices.

From the MPC’s perspective, we maintain our call of a shallow 50bps rate cut cycle starting Feb’25 as highlighted in our MPC outcome report. Yet, in a volatile world, we need to embrace uncertainty and keep a close watch on Trump’s policies which are likely to keep Dollar and rates elevated given upward pressure on both growth and inflation leading to repricing of Fed rate cut expectations. Consequently, risk of rate cuts “later rather than sooner” remains from Indian MPC’s perspective as well. In the interim, we will also watch out for announcements relating to appointment of the RBI Governor and RBI Deputy Governor.

Food remains key inflation driver with relief likely only by Q4 FY25

Food CPI spiked to 9.7% YoY, highest since July 2023, led by a spike primarily in veggies and edible oils inflation even as sequential price pressures in cereals remain a cause for concern. Veggies inflation clocked 42% as expected on rise in tomato and onion prices, while CPI ex veggies remained subdued at 3.6% (vs 3.1% in Aug’24). More importantly, veggies may see a seasonal correction by Q4 FY25, with index likely to correct from an unforeseen 292 levels towards sub 200 levels. This is likely to be a key factor driving convergence towards the MPC’s forecast of 4.2% in Q4 FY25 even as an overshooting is likely in Q3 (MPC: 4.8% vs UBI estimate: 5.5% with upward bias).

However, the MPC may show some concern regarding the threshold shift in edible oils inflation (Oct: 9.5% almost 4x vs Sep’24) attributed to on hike in import duty for refined palm oil, refined soyoil and refined sunflower oil to 35.75% import duty against the earlier duty of 13.75% from mid-September. The incremental inflation contribution of oils to October CPI is almost 25bps and the impact may persist for the next 12 months. Another inflation sub-segment which remains a pain point is cereals. While YoY inflation was broadly flat at 6.9% on base effects, the MoM rise of 0.9% in this sub-segment with close to 10% weight in CPI is a cause for concern. While on-the-ground cereals prices have started to correct, if we delve deeper into cereals sub-components, the inflation pressures are primarily led by the rise in rice PDS CPI (4.6% MoM vs 21.4% in Sep’24) even as that for wheat PDS CPI flattened out post 9.9% MoM last month. This may be due to some recalibration by the government under the free food distribution scheme. Meanwhile the PDS cereals CPI spike is unsustainable yet may lend an upward bias to food inflation levels. On balance, underlying food price pressures remain a cause for concern and need close watch.

Core inflation trends broadly aligned with our expectations

Core CPI edged up to 3.67%, highest since Dec’23 vis-à-vis our estimate of 3.6%. While core inflation has seen a pickup from lows of 3.1% in June and may continue to trend upward in the coming months to hit 4% levels by Q4 FY25 on base effects, they broadly remain comfortable. Interestingly, in Oct’24, if we analyse core CPI as per detailed sub-segment wise classification, almost 90% of the 161 sub-segments are trending below the MPC’s 4% target. More importantly, most of the core CPI exclusion measures like core ex transport, core ex housing etc remain below the 4% mark. Gold prices have been the key driver of recent uptrend in core inflation driving personal care CPI to double-digits (first time since Jan’21) while all other broad sub-segments are in 2-4% range. Gold prices also down 5% in Nov’24 on Dollar strength post Trump victory which may provide some inflation relief if sustained.

Fig 3: OTG food prices are firming up again in recent weeks

% Change in Price (m/m)	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov 2024 (till 11 Nov)
Cereals	0.20	0.64	-0.40	-1.68	-0.41	0.55	0.76
Pulses	1.67	2.56	1.86	-1.17	-0.51	0.02	-0.04
Oils	-0.13	0.49	-0.14	-1.99	1.80	8.53	2.91
Vegetables (OTP*)	4.06	16.61	29.43	-7.26	0.61	13.52	-2.75
Milk	0.07	0.55	0.34	-0.07	-0.81	0.09	0.00
Sugar	0.54	0.49	0.18	-0.11	-0.22	0.40	0.27

Source: MCA, UBI Research *Onion, tomato & Potato.

Fig 4: Vegetables index remains elevated in October 2024

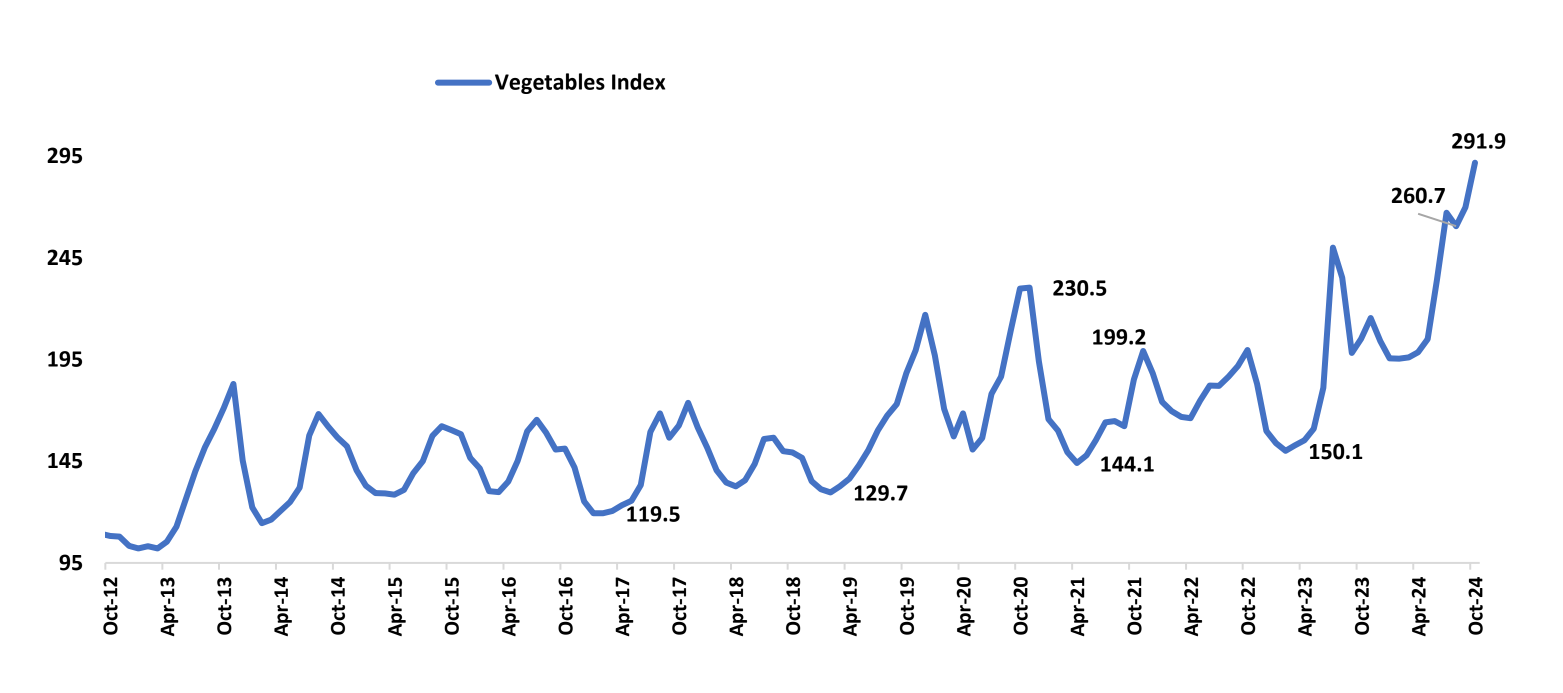

Fig 5: Core CPI metrics edge up yet remain comfortable

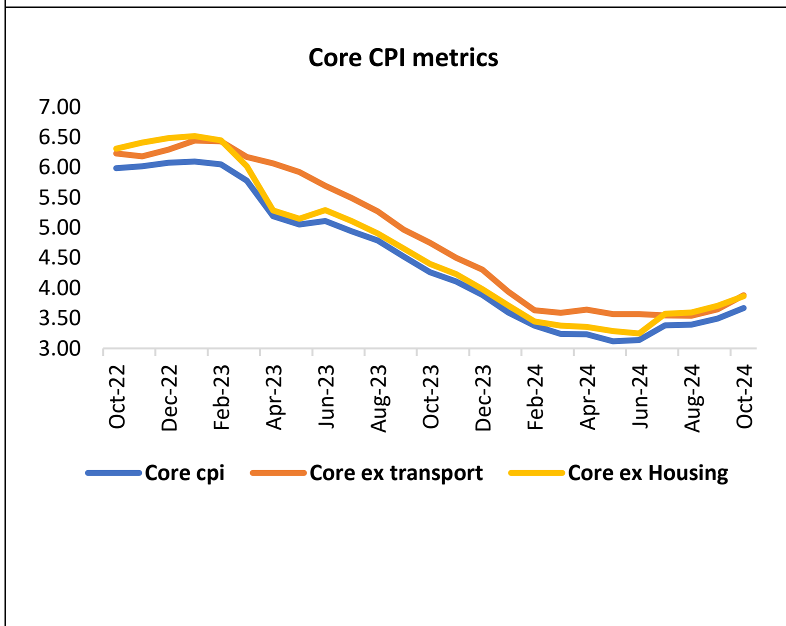

Fig 6: c.90% of core CPPI sub segments have sub-4% inflation

No. of core CPI sub-components as per inflation bracket

	<4%	4-6%	6%<
FY 2016	49	55	57
FY 2017	62	62	37
FY 2018	72	61	28
FY 2019	65	47	49
FY 2020	103	33	25
FY 2021	90	27	44
FY 2022	39	32	87
FY 2023	41	26	91
FY 2024	67	65	29
FY 2025 (YTD)	129	23	9
Oct'24	140	10	11

Fig 7: Goods and Services inflation divide remains yet flattened out in October

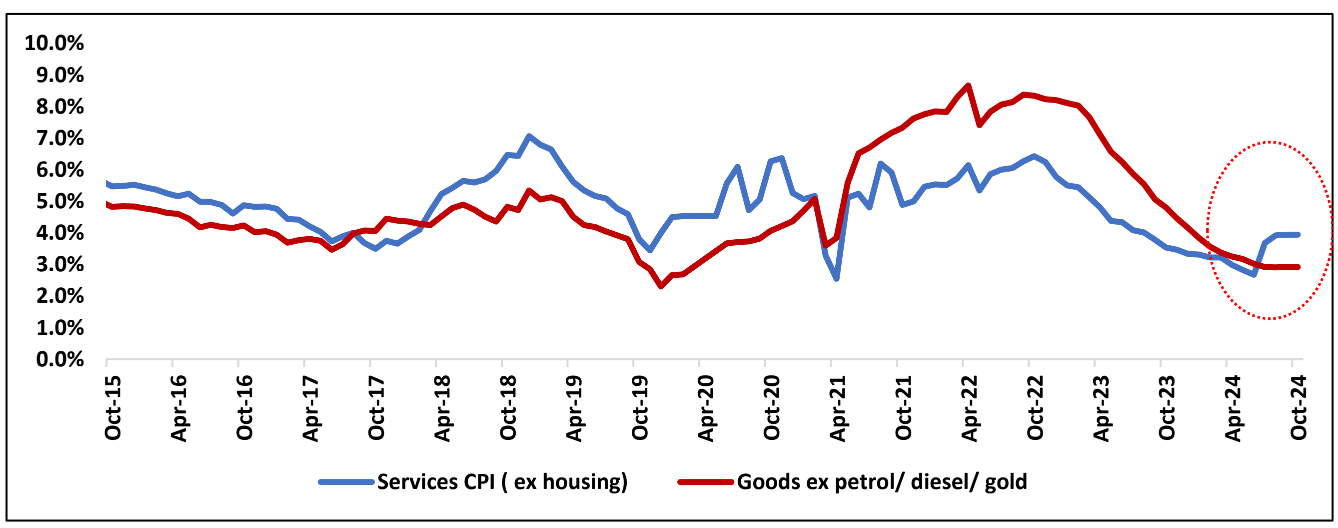

Fig 8: Most core CPI segments in 2-4% range except personal care which spiked to double-digits

% YoY	Pan; tobacco; & intoxicants	Clothing	Footwear	Housing	Household goods & services	Health	Transport & communication	Recreation & amusement	Education	Personal care & effects
Oct-23	3.87	4.45	3.59	3.80	3.93	5.88	1.96	3.27	5.07	7.84
Nov-23	3.81	4.04	3.29	3.55	3.50	5.51	2.09	3.15	5.01	7.83
Dec-23	3.65	3.75	3.05	3.63	3.37	5.08	1.96	3.08	4.82	7.28
Jan-24	3.28	3.46	2.87	3.20	3.07	4.88	1.96	2.89	4.93	5.88
Feb-24	3.12	3.18	2.64	2.88	2.82	4.53	1.83	2.71	4.75	5.23
Mar-24	3.11	3.12	2.57	2.71	2.70	4.28	1.52	2.76	4.69	6.02
Apr-24	2.99	2.89	2.40	2.68	2.75	4.27	1.09	2.64	4.20	7.45
May-24	3.03	2.83	2.17	2.56	2.51	4.20	0.97	2.57	4.07	7.67
Jun-24	3.08	2.77	2.05	2.69	2.39	4.13	0.97	2.33	3.57	8.23
Jul-24	3.02	2.76	1.99	2.68	2.33	4.06	2.60	2.20	3.54	8.44
Aug-24	2.71	2.75	2.10	2.66	2.43	4.10	2.71	2.37	3.85	8.00
Sep-24	2.51	2.80	1.98	2.72	2.55	4.09	2.71	2.37	3.79	9.00
Oct-24	2.50	2.79	2.15	2.81	2.65	3.96	2.71	2.48	3.95	10.99

Source: CEIC, UBI Research

Industrial Production revives to 3.1% in Sep’24

- IIP recovered to 3.1% in Sep’24 from negative zone in previous month, primarily due to base effects as Sep’23 saw sharp IIP spike on weakest rainfall in more than 100 years.

- The data was in line with our above consensus (2.5%) estimate (3.1%) with lead indicators also showing a recovery during the month like exports, auto production and core sector (40% weight in IIP).

- **More importantly, despite a pickup in the IIP number, we still see manufacturing GVA weakening in Q2 FY25** from strong levels in Q1 as corporate earnings (with a higher share in GVA) have clocked a YoY drop during the quarter (some estimates show that the companies’ earnings beat during the last quarters was the lowest in almost a decade). Overall, growth concerns remain though pick up in festive sales, recovery in rural demand and backloaded government spending in an election year may provide some relief to growth numbers for H2 FY25.

- From a sectoral perspective, the recovery in Sep’24 IIP was broad based, though we were surprised that the mining and electricity swung back into positive zone despite negative signals from the core sector data.

- Within manufacturing, growth pickup was led by the volatile pharma segment while manufacturing ex pharma IIP clocked only 1.3%.

- From a use-based classification perspective, recovery in aggregate demand buoyed Sep’24 IIP. Capital goods IIP pickup was driven by government spending (Central Government capex declined by (-)34.9% (y/y) in Q1 FY25, whereas it grew by 10.2% (y/y) in Q2 FY25).

- Consumer demand also picked up thereby buoying IIP, primarily led by rural demand (proxied by non-durables) while urban demand (proxied by non-durables) remained steady. This was in line with FMCG companies’ guidance for the quarter along with other lead indicators like auto sales etc.

- Going forward, we see IIP staying in single digits, with recovery in rural demand on good monsoon and government spending pickup likely to support growth. However, global political uncertainty is likely to weigh on global and hence domestic growth outlook. This is also likely to delay broad based private capex recovery in our view.

Fig 9: IIP edged up in Sep’24; % y/y

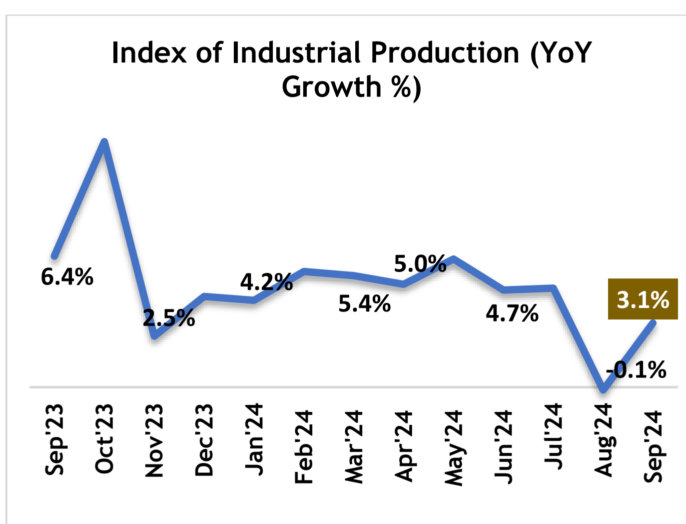

Fig 10: Improvement seen across sectors, electricity fares low growth in Sep’24; % y/y

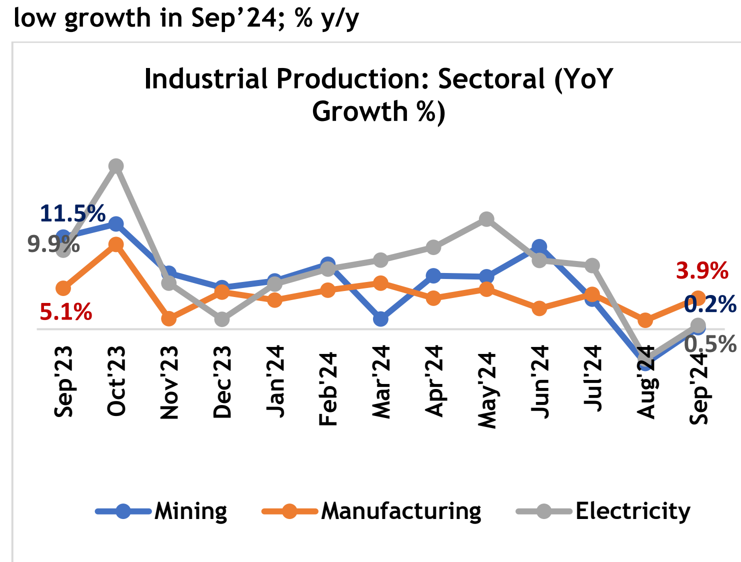

Fig 11: IIP growth led by aggregate demand recovery i.e. capital and consumer goods sub-sectors; *% YoY*

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Jul'24	Aug'24	Sep’24
Mining	14.4	3.8%	-4.3%	0.2%
Manufacturing	77.6	4.4%	1.1%	3.9%
Electricity	8.0	7.9%	-3.7%	0.5%
Industrial Production: Use-based				
Primary goods	34.0	5.9%	-2.6%	1.8%
Capital goods	8.2	11.8%	0.5%	2.8%
Intermediate goods	17.2	6.4%	3.0%	4.2%
Infrastructure / Construction Goods	12.3	4.6%	2.2%	3.3%
Consumer durables	12.8	8.3%	5.3%	6.5%
Consumer non-durables	15.3	-4.3%	-4.5%	2.0%

Source: CEIC, UBI Research

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