

The weekend sent current down the spine as the news of Donald Trump being wounded in an assassination attempt surfaced. During the week, US CPI moderated to -3% for the first time since Mar'21, sending Sept-24 rate cut probability higher to 89%. Domestically, CPI number for Jun-24 spiked back above the 5% mark on strong inflationary pressures especially in food. In the current week, any cues on the Budget are key aspects to watch for continuity on being Positive on both G-Secs and INR.

US CPI moderation made policy easing visible:

- Headline CPI declined by 0.1% MoM in June on a seasonally adjusted basis, after remaining unchanged in May. Meanwhile, on a YoY basis it eased to 3% in June, as against market consensus of 3.1% and 3.3% prior in May. As noted above, this was the slowest annual gain in prices since Mar-2021.
- The key driver of the drop in headline inflation has been the energy sub-segment as it fell by 2.0% M-o-M in June, same as last month. This was driven by a 3.8% MoM drop in gasoline and 2.4% decline in fuel oil index.
- Before the release of CPI data, the CME FedWatch Tool showed the odds for 25-basis-point rate cut in September stood at 70.0% which was 68% a week ago, while a rate pause stood at 26.7% chance, and 50-basis-point rate cut has a slim 3.3% possibility.
- After the release of US CPI data, odds of an initial 25-basis point interest rate cut in September rose significantly to 89%. By the end of 2024, market is pricing in 3 rate cuts now thereby US yields fell by 10 bps during the week.
- Over the weekend, the assassination attempt on Donald Trump sent waves over the political landscape of US presidential elections. With this, the Trump's chances of winning has increased to 67% according to PredictIt site.

Domestically, June CPI rises in line with our above consensus forecast:

- Headline CPI inflation for the month of June'24 jumped to 5.08% vis a-vis 4.80% recorded in May'24. The data came in line with our projection of 5.06% vs consensus of 4.90% with a wide range of 4.40-5.19%. (pls see our [data previews report](#)).
- Interestingly, the data internals were also broadly in line with our expectations. Food and beverages inflation stayed elevated to reach 8.4%, higher than 7.9% in May'24. Core CPI at 3.14% continued to stay near record lows. Meanwhile, fuel CPI stayed in contraction zone again for the tenth consecutive month.
- **Food Inflation remains the elephant in the room:** Food inflation in June'24 clocked a sharp jump to 8.4% vs 7.9% in May'24 and remains a constant cause of concern. Vegetables prices spiked during the month of June due to late onset of monsoon and resultant heatwave (June was hottest month in 123 years). Vegetables inflation went up to 29.3% vs 27.4% in May'24. Food inflation, in particular vegetables inflation will be keenly watched in the coming months as monsoon is going to be the key driver. More importantly, CPI ex vegetables stayed at 3.5%, lowest in 7 years.
- Core inflation clocked 3.14% in June'24 as against 3.12% previous month and stayed near all-time lows. Household goods and services, health, recreation and educational expenses witnessed softening even as personal care inflation clocked 8.2% in June as against 7.7% in May boosted by higher gold prices. More importantly, the steep mobile tariff hikes in July of 10-25% across various packs are likely to drive core CPI higher next month by c.20 bps.

India Final Budget due on 23rd July'24:

- India Budget for FY25 is to be presented on 23rd Jul'24. Budget expectations along with positive liquidity shall drive the yield curve in the near term. We expect the Fiscal space c.0.55% of GDP (RBI dividend bounty of 0.4% and tax bouncy of 0.15%) distributed amongst Revenue (0.22%) & Capital expenditure (0.13%) and further lowering the deficit by 0.20% in FY25.
- Monsoon in India as on 14th July'24 has again slipped into a deficit of 2% having seen a surplus of 1% earlier this week and vis-à-vis 11% deficit as of end June. It is expected to switch back into surplus again on good rains being received in most parts of the country in tandem with La Nina effect seen globally.

Fig-1: India CPI up due to Food Inflation whereas Core CPI drills lower

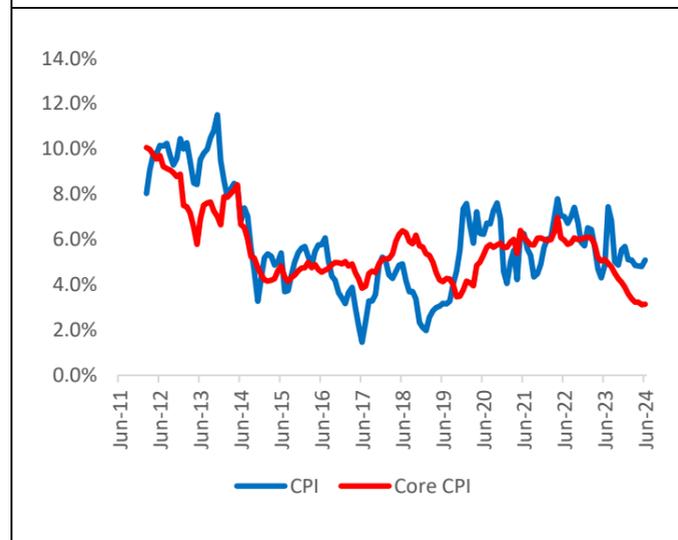
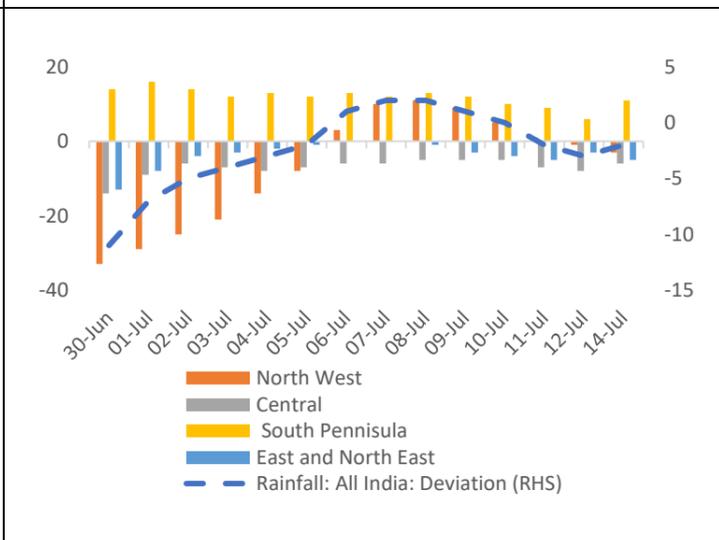


Fig-2: Cumulative Rainfall slipped into a deficit of 2% as on 14th July



By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Banking Research Team

Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

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