

CPI Inflation Inches Above RBI's Upper Tolerance Band in October

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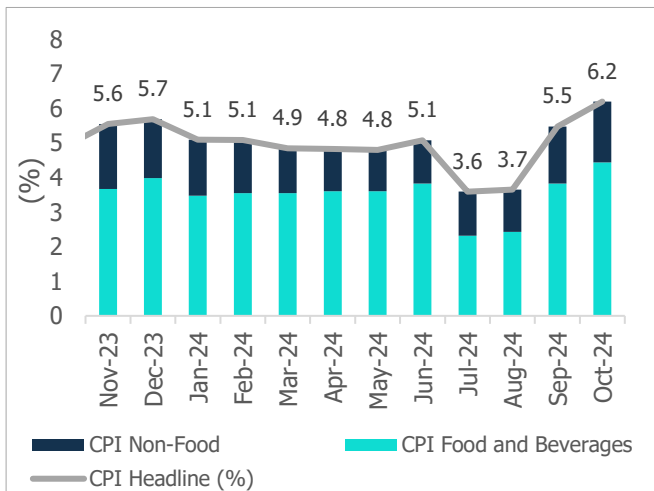
Headline Inflation Breaches the RBI's Upper Band but Core Inflation Remains Benign

Higher than our expectations, the CPI inflation increased to 6.2% in October, up from 5.5% in September. Despite a favourable base in October, high food inflation kept the headline inflation elevated. Core inflation also saw a minor uptick of 20 bps to 3.7% in October. Nonetheless, it remained relatively benign, staying below the 4% threshold over the past one year. Among major non-food categories, inflation remained high for personal goods, reaching 11% in October.

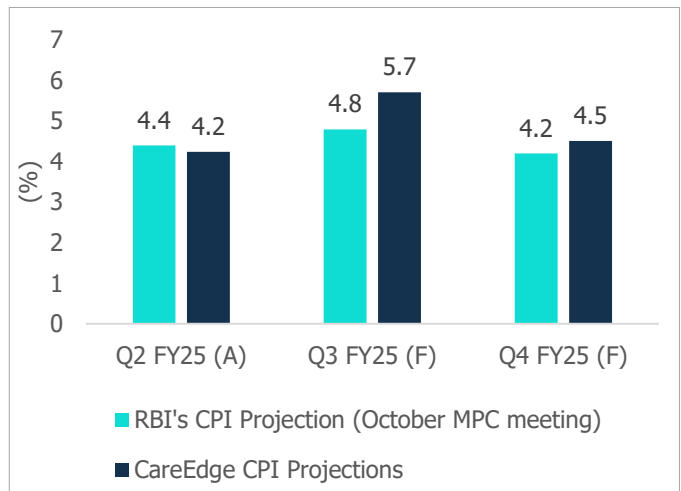
Food Inflation Remains a Concern. However, Prospects of Rabi Sowing Remain Bright

Food inflation remains a concern, rising to a 15-month high of 9.7% in October. Inflation continues to remain high in vegetables (42% Y-o-Y), edible oil (9.5% Y-o-Y), fruits (8.4% Y-o-Y), pulses (7.4% Y-o-Y) and cereals (6.9% Y-o-Y). On the brighter side, deflation in spices (-7% Y-o-Y) persisted, remaining in contractionary territory for four consecutive months. Over the past month, food prices experienced a broad-based increase, primarily driven by higher costs for vegetables and edible oils. The surge in vegetable prices, particularly tomatoes and onions, can be attributed to unseasonal rains and extended monsoons in certain parts of the country. Global vegetable oil prices have risen by ~27% Y-o-Y in October. The rise in global edible oil prices and the recent hike in the basic customs duty of various edible oil has resulted in higher inflation in the basket given their import dependence. In mid-September, the government hiked the basic customs duty of various edible oils to support domestic oilseed prices. Looking ahead, the arrival of the fresh harvest is expected to ease inflationary pressures on food prices. The outlook for rabi sowing is promising, with reservoir levels across most regions remaining higher than last year, except in certain northern states such as Punjab and Himachal Pradesh. As of November 7th, reservoir levels nationwide were at 86% of full capacity and 16% above the long-term average. Additionally, the higher soil moisture levels resulting from the delayed monsoon withdrawal will further support rabi sowing. However, managing food inflation will be crucial, as it directly impacts household inflation expectations. Sustained high food inflation calls for additional supply-side interventions by the government to stabilise prices.

Food Inflation keeps Headline Inflation Elevated Inflation Likely to Overshoot RBI's Projection in H2



Source: MOSPI, CareEdge



Source: MOSPI, RBI, CareEdge

Subdued Global Commodity Prices to Support Moderation in Inflation

Global commodity prices have remained subdued due to rising concerns over demand. In October, global commodity prices declined by 4.3% Y-o-Y, while Brent crude prices fell by 15% Y-o-Y, averaging ~USD 75/bbl. However, it is essential to closely monitor geopolitical developments, as these could significantly influence global commodity markets. The potential escalation of conflict in the Middle East, for example, could disrupt supply chains and add to volatility in global energy prices, which in turn may have broader implications for the domestic economy.

Component-Wise Retail Inflation (% y-o-y)

	Food & Beverages	Pan, Tobacco & Intoxicants	Clothing & Footwear	Housing	Fuel & Light	Miscellaneous	Headline Inflation
Weight	45.86	2.38	6.53	10.07	6.84	28.32	100
Nov-23	8.0	3.8	3.9	3.6	-0.8	4.4	5.6
Dec-23	8.7	3.6	3.6	3.6	-1.0	4.1	5.7
Jan-24	7.6	3.3	3.4	3.2	-0.6	3.8	5.1
Feb-24	7.8	3.1	3.1	2.9	-0.8	3.6	5.1
Mar-24	7.7	3.1	3.0	2.7	-3.4	3.5	4.9
Apr-24	7.9	3.0	2.9	2.7	-4.0	3.5	4.8
May-24	7.9	3.0	2.7	2.6	-3.7	3.4	4.8
Jun-24	8.4	3.1	2.7	2.7	-3.6	3.4	5.1
Jul-24	5.1	3.0	2.7	2.7	-5.5	3.8	3.6
Aug-24	5.3	2.7	2.7	2.7	-5.3	3.9	3.7
Sep-24	8.4	2.5	2.7	2.7	-1.3	4.0	5.5
Oct-24	9.7	2.5	2.7	2.8	-1.6	4.3	6.2

Source: MOSPI

Way Ahead

We believe that food inflation continues to pose a significant threat to overall headline inflation. Managing food inflation is crucial, as it directly impacts household inflation expectations. This situation underscores the need for the government to implement additional supply-side measures to stabilise food prices.

Looking ahead, the arrival of the fresh harvest is expected to ease some of the pressure on food prices. Additionally, the prospects for rabi sowing are positive, with higher reservoir levels across most regions. However, current trends suggest that inflation in the second half of FY25 may exceed the RBI's October projections, potentially delaying the start of a rate-cutting cycle. With headline inflation above the upper end of the RBI's tolerance band, the MPC will remain cautious and is likely to maintain status quo on policy rates in the December meeting. We anticipate that headline inflation will fall below 5% by Q4 FY25, driven by a moderation in food inflation. This would create an opportunity for the MPC to consider a 25-bps reduction in policy rates in February meeting. For the full year FY25, we expect CPI inflation to average 4.8%.

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