

RESEARCH
BOB Economics Research | CPI and IIP

A double whammy for the economy

SUMMARY
India Economics: CPI and IIP

Headline CPI rose to 7.4% in Sep'22 from 7% in Aug'22, led by food and core inflation. Food inflation accelerated further to 8.6% in Sep'22 from 7.6% in Aug'22, led by cereals, pulses and vegetables. Core inflation too quickened to 6.1% from 5.8% in Aug'22, due to recovery in demand. This is unlikely to cool down anytime soon as high frequency indicators are also showing traction. In addition, with unseasonal rains in Oct'22 hitting major crop producing states, we see further upside risks to food inflation and thus expect headline inflation to range between 6.75-7% in the next two months.

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Daily macro indicators

Indicator	10-Oct	11-Oct	Chg (%)
US 10Y yield (%)	3.88	3.95	7bps
India 10Y yield (%)	7.48	7.43	(5bps)
USD/INR	82.32	82.33	0.0
Brent Crude (US\$/bbl)	96.2	94.3	(2.0)
Dow	29,203	29,239	0.1
Hang Seng	17,217	16,832	(2.2)
Sensex	57,991	57,147	(1.5)
India FII (US\$ mn)	07-Oct	10-Oct	Chg (\$ mn)
FII-D	55.5	(21.4)	(76.8)
FII-E	(474.3)	(92.8)	381.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

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CPI AND IIP

12 October 2022

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Jahnavi
Economist

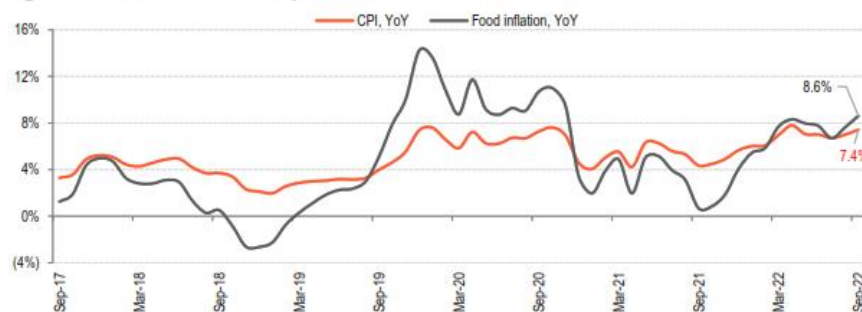
Sonal Badhan
Economist

Aditi Gupta
Economist

We also expect RBI to continue hiking rates till repo rate reaches 6.5%. Additionally, in a setback to growth, IIP contracted by (-) 0.8% in Aug'22 following 2.2% increase in Jul'22. Broad-based slowdown was visible, with manufacturing output declining by (-) 0.7%. Drawdown of inventory could be one of the reasons. Going ahead, with prevailing tight global monetary conditions, geo-political tension, rebound in oil prices, and impending global growth slowdown, risks to domestic recovery remain.

CPI inflation quickens to a 5-month high**CPI inflation inched up:**

CPI for Sep'22 came in at 7.4%, slightly higher than our estimate of 7.3%, and up from 7% in Aug'22. With this, CPI has averaged 7% in Q2FY23, marginally lower than RBI's estimate of 7.1%. Food inflation continues to remain elevated and was up by 8.6% in Sep'22 versus 7.6% in Aug'22. Out of 12 food and beverage items of inflation, 9 have shown a pickup in prices. Amongst them, vegetable inflation rose by 18.1% from 13.3% in Aug'22, cereals and products rose by 11.5% from 9.6%, pulses were up by 3% versus 2.6%, and milk and milk products rose by 7.1% from 6.4%. Prices of eggs fell less sharply in Sep'22, than in the previous month. Commodities where inflation was seen moderating included: oils & fats, fruits, and non-alcoholic beverages. Going forward, impact of unseasonal rains in Oct'22 on sowing and harvest, and trajectory of oil prices will have to be closely watched. RBI expects inflation to average at 6.4%, however we believe significant upside risks to this persist

Figure 1: CPI rose to 7%, aided by food inflation

Source: CEIC, Bank of Baroda Research



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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