

How prices look in Jul'23

BoB Essential Commodity Index (BoB ECI) has picked up sharply by 4.9% (MoM) and 6.5% (YoY) in Jul'23. For the 4 days of Aug, it rose by 7.5% (YoY). This is attributable to sharp upswing in tomato prices followed by onion, tur, salt, milk and rice. Thus food inflation is quite broad based as of now. Tomato with a weight of 0.6% in CPI (10% of vegetable index) has shot up by 175.9% (YoY). This directly adds 17bps to the CPI data for Jul'23. Further, favourable base has also faded in Jul'23 (30bps: unfavourable base).

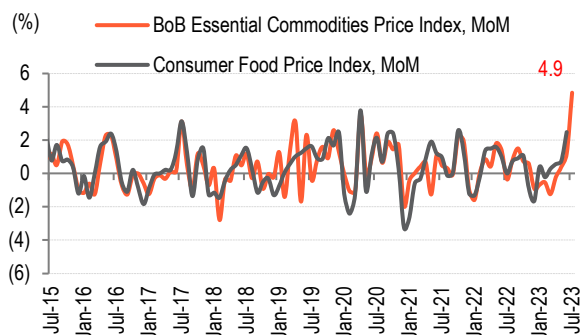
Another incipient shock may be the onion price shock which itself showed a 4.5% YoY increase in Jul'23 from 4.4% decline in Jun'23. Also production of this vegetable has been lower as per 1st AE of 2022-23 and the Dec-Jun crop have been impacted due to weather vagaries, which is reflected in prices. The Oct-Dec harvest would help in cooling off inflation, but before its arrival the Q2 inflation data might face some upside risk. The only respite is short lived cycles of vegetable inflation. Thus against this backdrop, CPI in Jul'2 is expected to settle ~5.8%, with risks tilted to the upside.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

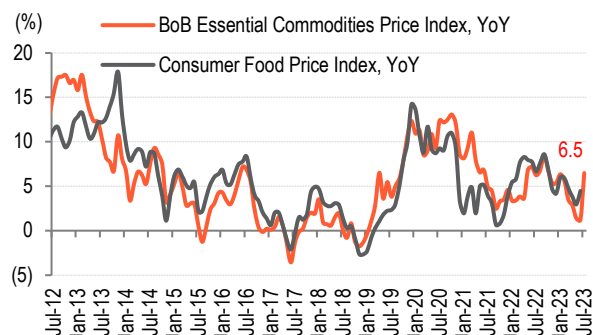
- On MoM basis, BoB ECI has seen a momentum in the past three months. In Jul'23, the index firmed up by 4.9% from 1.2% increase in Jun'23. Notably, even on a seasonally adjusted basis, BoB ECI inched up by 4.4% in Jul'23. Thus a fair degree of price pressure is seen building up.
- The breakdown of the index shows that on a sequential basis, 10 out of 20 commodities have shown an increase, with items such as tomato showing 195% increase in Jul'23, onion prices rising by 11.4%, potato by 3.6%. Apart from this, price pressure seen for soya and mustard oil as well as rice. Notably, government's decision to impose stock limit on Tur and Urad has helped checking the price buildup to some extent which was visible since Mar'23.
- The YoY picture also shows significant price pressure with 7 out of 20 items remaining above 6% level. Double digit inflation is noticed for commodities such as Tur, Rice, Salt, Milk and Pulses. For tomato price increased by 175.9%.

Figure 1: On MoM basis, BoB ECI inched up by 4.9% in Jul'23 from 1.2% in Jun'23



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, it rose to 6.5% in Jul'23



Source: CMIE, Bank of Baroda Research

Table 1. Prices have seen considerable upside risk in Jul'23

Price of major essential commodities (% YOY)	Wts in CPI	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23
Milk	6.4	9.7	10.2	11	11.2	11.1	11.3	10.8	10.9	10.7	10.8
Rice	4.4	7.9	6.8	7	7.6	7.8	7.5	8.6	8.9	9.5	11.3
Atta (Wheat)	2.6	17.3	17.7	18.3	20.2	18.3	9.4	6.5	4.3	2.5	2.6
Mustard oil (Packed)	1.3	-9.4	-8.6	-9.2	-9.5	-13.3	-16.3	-17.3	-19.4	-20.6	-20.0
Sugar	1.1	0.5	0.5	0.5	1	1.5	1.2	1.7	2.2	2.7	3.3
Tea loose	1	-1.2	-0.7	-3.5	-3.7	-4.4	-4	-3.2	-3.7	-3	-2.2
Potato	1	29.1	10.8	9.7	8.5	2.5	-6.8	-8.7	-9.7	-13.3	-10.6
Tur/Arhar dal	0.8	5.8	7.5	8.9	9.2	8.7	9.9	13.1	16.1	23.9	29.5
Soya oil (Packed)	0.7	-3.2	0.9	1.3	1.8	-0.8	-10.4	-15.2	-20.1	-21.6	-20.0
Sunflower oil (Packed)	0.7	-0.9	2.1	2.4	1.5	-0.3	-12	-20.5	-25.7	-28.8	-29.1
Onion	0.6	-27.4	-22.6	-21.6	-22	-27.9	-27.7	-13.6	-6.4	-4.4	4.5
Tomato	0.6	4.3	-34	-44.6	-30	-12.7	-0.4	-13.2	-45.1	-37.4	175.9
Urad dal	0.3	1.2	1.1	1	1.1	0.5	1.8	3.3	4.4	7.1	8.9
Moong dal	0.3	1.5	1.1	1.4	1.8	2.3	2.6	4.3	5.6	7.1	8.7
Masoor dal	0.3	0.6	-0.8	-1.7	-2.7	-4.2	-4.7	-3.4	-4.1	-4.5	-4.3
Groundnut oil (Packed)	0.3	3.3	4.7	4	4.4	5.5	4.3	2.7	1.1	0.9	1.2
Salt pack	0.2	16.9	18	17.4	15	15.4	14.2	14.1	12.8	11.4	10.9
Gram dal	0.1	-3.8	-3.5	-3.3	-3	-3.1	-2.7	-1.3	-0.1	1.2	2.1
Vanaspati (Packed)	0.1	5.9	4.5	2	0.7	-3.1	-11	-15.7	-19.4	-20.6	-18.5
Gur	0.1	5.4	3.2	0.8	0	-0.6	0.6	1.3	2.1	3.9	5.6

Source: CMIE, Bank of Baroda Research, Note: Commodities where price change is more than 6% on YoY basis, have been marked in red, green shaded areas are the recent drop in prices

So where is CPI print headed?

- The Jun'23 print of CPI was quiet worrisome especially on the food front. Apart from the usual seasonality shock for tomato, strains were visible even for onion, green chilies, garlic and ginger, where even the seasonally adjusted series remained elevated on a sequential basis. For other items of food as well, such as pulses and spices, the seasonally adjusted series showed

considerable upside risk. This is attributable to supply related disruption on account of skewed monsoon which has impacted the current harvesting period of crops. Even the 1st AE 2022-23 data for onion, tomato and spices, showed some degree of softening on production front.

- For vegetables, the only comfort is that the cycle of peak and trough is short lived not exceeding on an average of 6-7months (potato: 6months, onion: 7months, tomato: 4-5months). The current tomato spike would bottom out in the coming months with the Jul-Nov arrival of harvest.
- *One needs to be watchful of the onion price shock before its arrival of Oct-Dec harvest. For tomato much of the pass through has happened from wholesale to retail chain as the gap between the two has touched a high of Rs 19.7/kg in Jul'23. But for onion, the pass through is much lower (gap at Rs 6.5/kg in Jul'23).*
- Another discomfort comes from an elevated core on the backdrop of tightening supply by OPEC+ members. Notably RBI in its MPR assumed crude at US\$ 85/bbl as the base case and the current scenario poses considerable upside risk to the projections.
- Against this backdrop, we see significant risks to the underlying H1 inflation trajectory. H2 might get some comfort with the usual reversal in vegetable prices. For Jul'23 we expect CPI to settle ~5.8%. RBI in its coming policy would be continuing with its hawkish pause and might revise its inflation projection for Q2 upwards.

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