

INFLATION

14 December 2020

Food inflation moderates, core persists

CPI eased to a 3-month low of 6.9% in Nov'20 (7.6% in Oct'20) driven by lower food inflation at 9.4% (11% in Oct'20). Within food, vegetable inflation dropped the most. Core remains sticky at 5.9% led by retail fuel and gold prices. Domestic pump prices have increased further in Dec'20. While near-term outlook for inflation is favourable on the back of a high base and recent decline in food inflation, it is still estimated to remain above RBI's target of 4% in the foreseeable future thus leaving no room for a rate cut.

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CPI moderates: CPI inflation eased to 6.93% in Nov'20 from 7.61% in Oct'20. This was on the back of 160bps drop in food inflation. Core inflation remained firm at 5.9%.

Food inflation decelerates: Food inflation edged down to 9.4% in Nov'20 from 11% in Oct'20 led by deceleration in vegetable inflation to 15.6% in Nov'20 (22.1% in Oct'20), cereal inflation to 2.3% in Nov'20 (3.5% in Oct'20), meat and fish to 16.7% in Nov'20 (18.6% in Oct'20), eggs to 20.3% in Nov'20 (21.7% in Oct'20) and sugar to 0.9% (1.5% in Oct'20). However, non-alcoholic beverages increased to 10.1% (8.4% in Oct'20) and oil & fats to 17.9% (15.2% in Oct'20).

Core inflation remained firm: CPI excluding food and fuel was sticky at 5.9% in Nov'20 (same as Oct'20). Health inflation inched up to 5.5% from 5.2% in Oct'20. Education too increased to 2.4% from 2.1% in Oct'20. Transport and communication at 11.1% and personal care items at 12% remained elevated. A broader demand driven metric of core inflation is relatively muted at 3.6%. Supply side factors have become more adverse in Dec'20 as seen in increase in global commodity prices, in particular oil, which will be reflected in domestic pump prices and pass-through in other prices.

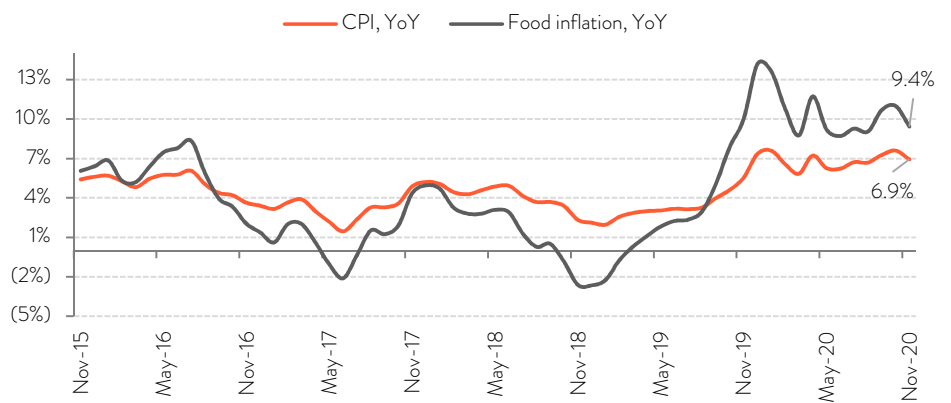
Near-term outlook positive: The near-term outlook is looking better because of an elevated base and recent dip in food prices. However, certain food items such as edible oils, pulses, meat and eggs are continuing to see inflation in double digits. Petrol and diesel prices have gone up by 3.8% and 6.5% respectively in the current month over Nov'20. Thus, we don't see RBI cutting policy rates any further. 10Y yield is likely to remain range bound between 5.8-6%. The focus now moves to Union Budget which will decide the trajectory of government borrowing in FY22 and thus yields.

KEY HIGHLIGHTS

- CPI moderated to 6.9% in Nov'20 from 7.6% in Oct'20.
- Food inflation fell by 160bps to 9.4% led by vegetable.
- Core inflation remains elevated at 5.9%.

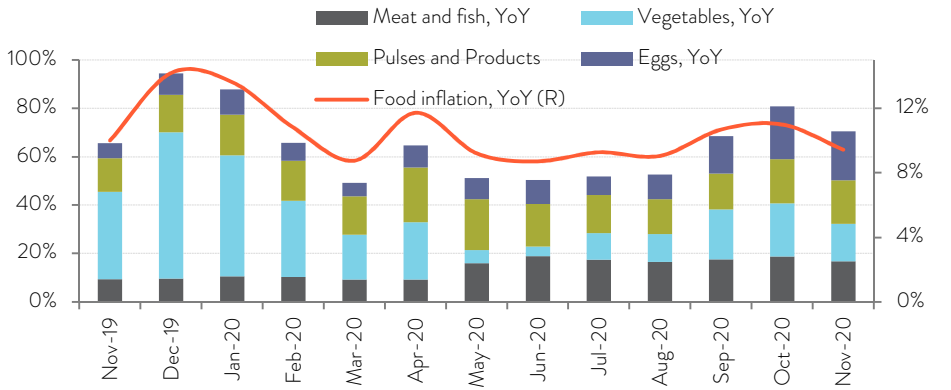


FIG 1 – CPI EDGED DOWN BY 70BPS TO 6.9% IN NOV'20 LED BY FOOD (160BPS DROP)



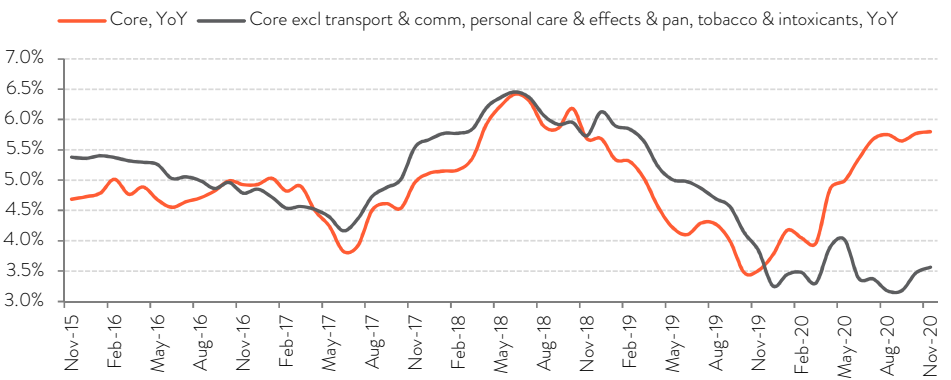
Source: CEIC, Bank of Baroda Research

FIG 2 – MODERATION SEEN IN MAJOR CATEGORIES



Source: CEIC, Bank of Baroda Research

FIG 3 – CORE INFLATION ELEVATED AT 5.9%



Source: CEIC, Bank of Baroda Research

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