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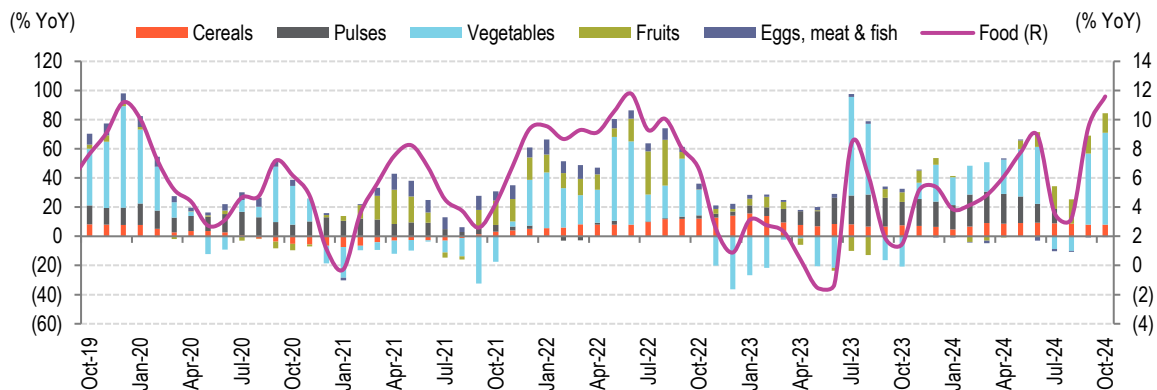
WPI inflation climbs up

WPI inflation rose to 2.4% in Oct'24 compared with 1.8% in Sep'24 led by elevated food inflation. Our forecast for headline WPI inflation was at 2.7%. Vegetable inflation advanced higher driven by spiralling of tomato prices. Under foodgrains, higher prices of wheat was noted. Fuel and power inflation remained in deflation at 5.8% supported by dip in oil prices. Manufactured products inflation edged up to 1.5% from 1% in Sep'24. The first advance estimates have projected higher projection for kharif crops which bodes well for easing pressure. Improvement in reservoir levels bodes well for rabi sowing which is expected to pick up pace. However, the trajectory of food inflation needs to be monitored amidst the adverse weather related events, volatility in global commodity price and firmer dollar. Given the evolving geo-political dynamics and financial conditions, RBI is expected to remain data dependent with the possibility of rate action only likely in Q4FY25.

Food inflation remains elevated:

Headline WPI inflation surges to 4-month high to 2.4% in Oct'24 from 1.8% in Sep'24, marginally lower than our estimate of a 2.7% increase. This was driven by spike in food inflation, growing at double digit pace of 11.6% (more than 2 year-high) from 9.5% in Aug'24 owing to unfavourable base. The vegetable inflation continued to remain in uptick at 63% (From 49% in Sep'24) in Oct'24 driven by upward momentum in tomato prices. Moreover, potato prices inched up marginally to 78.7% against 78.1% in Sep'24. However, some moderation was noted in onion prices at 39.3%, down to 8-month low against 78.8% increase in Sep'24. Cereal inflation eased slightly at 7.9% (8.1% previously) in Oct'24; rice prices (7.5% versus 8.1%) softened and wheat prices (8% from 7.6%) edged up. Globally, wheat prices have also increased on account of unfavourable weather conditions. Pulses inflation also softened down to 15-month low at 9.7% (13% previously). Furthermore, prices of both milk (3% from 3.2%) and eggs (0.4% from 3.3%) have also cooled off in Oct'24.

Figure 1: Surge in Food inflation



Source: CEIC, Bank of Baroda Research

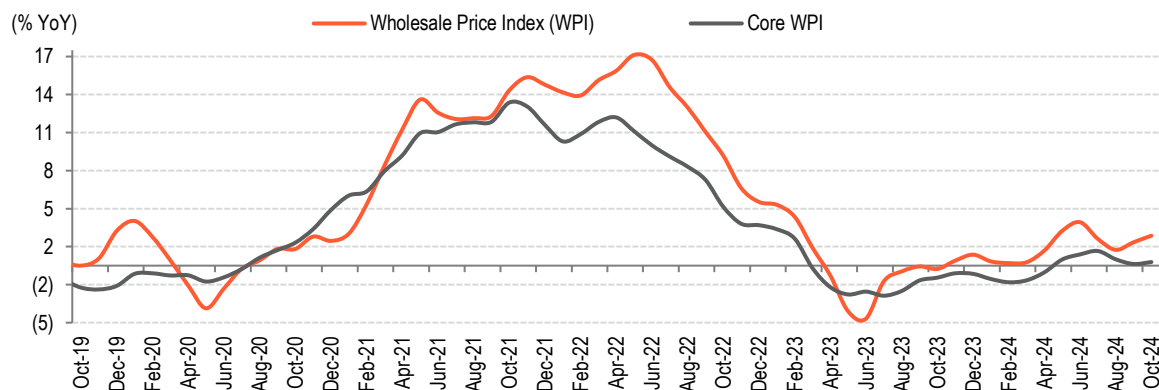
Deflation: Fuel and power prices

Sharp contraction in mineral oils index has dragged down the fuel and power inflation further at (-) 5.8% in Oct'24 compared with (-) 4% in Sep'24. The deflation in the mineral oil index (-7.7% versus -5.8%) was on account of broad based fall, especially in kerosene, petroleum coke and Naptha. Petrol price index declined at a tad slower pace at (-) 7.4% (-7.5% previously). LPG price index softened to 2.6% after climbing up by 13.2% in Sep'24. Coal price index slipped down further to (-) 0.9% (-0.8% previously) and the electricity index was down by (-) 3.6% compared with (-) 0.9% in Aug'24. Internationally, average oil prices have fallen by (-) 15% in Oct'24 from (-) 21% in Sep'24. So far, the oil prices have are down by (-) 1% in Nov'24 (1-13 Nov). Recent report by OPEC has noted, the global oil demand for CY24 will be lower on account of subdued demand from China, India and other regions. On production, the US EIA has projected higher global production this year than earlier forecasts. Changing global dynamics, dollar movement and the ongoing Middle East conflict can have a significant bearing on global commodity prices.

Core WPI edges upwards:

Core inflation inched up to 0.3% in Oct'24 from 0.1% in Sep'24. Inflation in manufactured products rose to 1.5% in Oct'24 from 1% in Sep'24. Out of the 22 sub-indices, escalation was visible in over 10 categories. Within this, categories such as, transport equipment, food products, rubber and plastic products, machinery and equipment, paper products, basic metals and furniture registered higher prices. The prices of basic metal declined at a much slower pace at (-) 2.3% from (-) 3.1% in Sep'24. Within basic metals, prices of copper (13% from 11.2%) and aluminium metal (7.7% from 6.2%) advanced in Oct'24. On the other hand, zinc price moderated to 4.3% (5% in Sep'24) for the same period. Slower pace of contraction was noted in the prices of lead, ingots (-1.1% from -4.7%). Notably, under other manufacturing, prices of gold and silver scaled up to 21.1% (previously 16.6%) and 31.9% (from 21.3%) respectively in Oct'24. At international level, as per World Bank, aluminium (18.4% versus 12.1%) and copper prices (20.1% versus 11.6%) have climbed up further. On the other hand, prices of iron ore (-14.8% versus -23.3%) and lead (-4.7% versus -11.2%) have declined at a much slower pace for the same period. Prices of precious metals including gold (40.4% versus 34.2%), silver (44.9% versus 30.4%) and platinum (12% versus 5%) continue to surge higher. Given the possibility of firmer dollar, we might see some weakness in gold prices in the near term.

Figure 2: Core WPI Picks up



Source: CEIC, Bank of Baroda Research

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