

RESEARCH
BOB Economics Research | Retail Inflation

A big negative surprise

BOB Economics Research | Weekly Wrap

US-China trade deal at the epicentre

SUMMARY
India Economics: Retail Inflation

CPI rose to more than 5-year high of 7.4% in Dec'19 led by food inflation at 14.1%. Within food, vegetable inflation rose to 60.5% and pulses to 15.4%. Core also increased a bit to 3.8% in Dec'19 from 3.5% in Nov'19 on the back of higher telecom and fuel prices. However, most components of core decelerated in-line with muted demand. We do foresee inflation easing to 6% in Mar'20 and then to 4% in Q3FY21 because of which RBI will see through the current inflation spike and look at easing rates closer to Oct'20.

[Click here for the full report.](#)

India Economics: Weekly Wrap

US 10Y yield went up despite lower than estimated payroll additions. Oil and JPY too fell as US-Iran tensions eased. European services activity improved and Germany's retail sales were better than estimated. Global markets await phase-1 of US-China deal this week. On the domestic front, India's growth fell to an 11-year low of 5% in FY20. However, Budget can kickstart the economy by focusing on a privatisation roadmap and infra investments. This week CPI data will be released which will be highest since Aug'14.

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TOP PICKS
LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	570
ONGC	Buy	210
Petronet LNG	Buy	400
Reliance Industries	Buy	1,860
TCS	Add	2,230

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,290
Future Supply	Buy	680
Greenply Industries	Buy	210
Laurus Labs	Buy	480
PNC Infratech	Buy	245

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.82	(3bps)	3bps	(88bps)
India 10Y yield (%)	6.59	6bps	(18bps)	(100bps)
USD/INR	70.94	0.4	(0.1)	(0.6)
Brent Crude (US\$/bbl)	64.98	(0.6)	2.0	7.4
Dow	28,824	(0.5)	3.3	20.1
Shanghai	3,092	(0.1)	5.7	21.1
Sensex	41,600	0.4	2.9	15.5
India FII (US\$ mn)	9 Jan	MTD	CYTD	FYTD
FII-D	13.5	(900.2)	(900.2)	2,043.9
FII-E	21.9	270.5	270.5	7,659.7

Source: Bank of Baroda Economics Research

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RETAIL INFLATION

13 January 2020

A big negative surprise

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Food inflation at 6-year high: Headline CPI spiked to 7.4% in Dec'19 from 5.5% in Nov'19 led by sharp acceleration in food prices. The increase in food prices was quite widespread. Food inflation rose to 6-year high of 14.1% in Dec'19 from 10% in Nov'19. Within the food index, vegetable prices increased the most at 60.5% in Dec'19 versus 36.1% in Nov'19. In addition, prices of fruits too increased at a 17-month high of 4.4% compared with 3.2% in Nov'19. Prices of pulses too rose at a 40-month high of 15.4% in Dec'19 versus 13.9% in Nov'19. Prices of egg, milk, meat and fish too noted an uptick.

Core rose by 30bps: CPI inflation excluding food and fuel increased to 3.8% in Dec'19 compared with 3.5% in Nov'19. The increase in core was driven by transport and communication category which reported a 4.8% increase in Dec'19 vs 0.9% in Nov'19. While a part of this was on the back of higher retail prices of petrol and diesel, a larger part can be explained by increase in telecom tariffs which are more structural in nature. At the same time, certain components of core such as health at 3.8% vs 5.5% in Nov'19, education at 3.7% vs 5.2% in Nov'19 and housing at 4.3% vs 4.5% in Nov'19 showed deceleration.

Rate cut on hold till H1FY21: Such high food inflation level was last seen in FY14 when India had CPI inflation level of 9.4%. It has coincided with uptick in global food prices which are now at 5-year high. However, India does have surplus food stock in rice and wheat and this should put a cap on food inflation. Thus as vegetable inflation eases in the next few months, CPI inflation should decelerate as core inflation is likely to remain anchored around 4% in H1FY21 before inching up to 4.3% in H2FY21. However, in H2FY21 food inflation will be benign which opens up room for rate cuts by RBI as growth will remain below potential even in FY21.



WEEKLY WRAP

13 January 2020

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Markets

- **Bonds:** Except China, global yields closed higher amidst easing tensions between US and Iran. US 10Y yield rose by 3bps (1.82%). Oil prices fell by (-) 5.3% to US\$ 65/bbl due to easing supply concerns. India's 10Y yield rose by 7bps (6.59%) on expectation of higher headline CPI print in Dec'19 at 6.7%. System liquidity surplus was at Rs 3.2tn as on 10 Jan 2020 vs Rs 4.1tn in the previous week.
- **Currency:** Global currencies closed mixed this week. DXY rose by 0.5% amidst easing of US-Iran tensions. This in turn resulted in lower demand for safe-haven JPY (-1.3%). INR appreciated by 1.2% in the week driven by dip in oil prices (US\$ 65/bbl). FII outflows were US\$ 644mn.
- **Equity:** Barring FTSE, global indices ended higher this week as Middle East tensions receded and was supported by stronger services PMI print globally. Dax surged by 2% on the back of improvement in Germany's industrial production, even though factory orders and exports remained subdued. Sensex too ended the week in green (0.3%) with real estate and consumer durables stocks advancing the most.
- **Upcoming key events:** In the current week, markets will await industrial production, retail sales data print in the US and China. Apart from this, Phase 1 US-China trade deal will also be in focus (15 Jan 2020). On the domestic front, CPI, WPI, trade data and cues on Union Budget will guide markets.



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ADD – Expected return from >+5% to +15%

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SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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