

RESEARCH

BOB Economics Research | Wholesale Inflation

WPI inflation eases to a 39-month low

BOB Economics Research | Retail Inflation

Core moderates, food accelerates

BOB Economics Research | Weekly Wrap

US-China trade deal lifts sentiment

SUMMARY

India Economics: Wholesale Inflation

WPI inflation eased to 0.3% in Sep'19 from 1.1% in Aug'19 driven by lower fuel and power inflation at (-) 7.1% in Sep'19 (-4% in Aug'19). Even manufactured product inflation fell to (-) 0.4% in Sep'19. On the other hand, food inflation increased marginally to 6% in Sep'19 from 5.8% in Aug'19 led by onions. The macro backdrop fits in with the lower than estimated WPI inflation as producer pricing power is limited. Even CPI inflation will continue to remain below RBI's target of 4% thus opening room for another 25bps rate cut in Dec'19.

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

India Economics: Retail Inflation

Retail inflation rose to a 14-month high at 4% in Sep'19 led by food inflation, particularly vegetable (15.4%) and meat and fish (10.3%). However, core inflation moderated to 4%, a 26-month low led by transport and communication, amusement & recreation and clothing & footwear. Given the seasonal/rain related reasons for spike in vegetable prices we believe food inflation will come-off in the next few weeks and months. Thus RBI should look at propping growth with 25bps cut in Dec'19.

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

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-----------------------|--------|--------|
| Cipla | Buy | 555 |
| GAIL | Buy | 200 |
| ONGC | Buy | 200 |
| TCS | Add | 2,230 |
| HPCL | Buy | 400 |

MID-CAP IDEAS

| Company | Rating | Target |
|-------------------------------------|--------|--------|
| Alkem Labs | Buy | 2,230 |
| Future Supply | Buy | 730 |
| Greenply Industries | Buy | 200 |
| Laurus Labs | Buy | 480 |
| PNC Infratech | Buy | 250 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|----------------------------|--------------|------------|-------------|-------------|
| US 10Y yield (%) | 1.73 | 6bps | (4bps) | (143bps) |
| India 10Y yield (%)* | 6.73 | 4bps | 6bps | (125bps) |
| USD/INR | 71.02 | 0.1 | 0.2 | 3.5 |
| Brent Crude (US\$/bbl) | 60.51 | 2.4 | 0.2 | (24.8) |
| Dow | 26,817 | 1.2 | (1.3) | 5.8 |
| Shanghai | 2,974 | 0.9 | (1.9) | 14.1 |
| Sensex | 38,127 | 0.7 | 2.8 | 9.8 |
| India FII (US\$ mn) | 9 Oct | MTD | CYTD | FYTD |
| FII-D | (111.8) | (131.0) | 3,842.4 | 3,297.8 |
| FII-E | (11.2) | (655.9) | 7,504.8 | 659.6 |

Source: Bank of Baroda Economics Research | *7.26% GS 2029

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India Economics: Weekly Wrap

Global sentiment improved as US and China reached a trade truce. Global equity markets rallied, yields rose and JPY (risk-haven) fell. However, economic data emanating from China was weak as exports fell by (-) 3.2%. World Bank lowered India's growth forecast to 6% as domestic consumer demand remains muted. Industrial output contracted in Aug'19 led by capital goods and durables. This sets the pace for another 25bps rate cut by RBI even as inflation is expected to inch up to 3.6% in Sep'19 (3.2% in Aug'19).

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

WHOLESALE INFLATION

14 October 2019

WPI inflation eases to a 39-month low

WPI inflation eased to 0.3% in Sep'19 from 1.1% in Aug'19 driven by lower fuel and power inflation at (-) 7.1% in Sep'19 (-4% in Aug'19). Even manufactured product inflation fell to (-) 0.4% in Sep'19. On the other hand, food inflation increased marginally to 6% in Sep'19 from 5.8% in Aug'19 led by onions. The macro backdrop fits in with the lower than estimated WPI inflation as producer pricing power is limited. Even CPI inflation will continue to remain below RBI's target of 4% thus opening room for another 25bps rate cut in Dec'19.

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Food prices edge up: Food inflation inched up a bit to 6% in Sep'19 from 5.8% in Aug'19. The uptick was led by foodgrains and vegetables. While prices of former increased by 10.1% (9.7% in Aug'19), that of latter increased by 19.4% (13.1% in Aug'19). Within vegetables, onion prices spiked by 122% in Sep'19 (33% in Aug'19). Even amongst protein based items, prices of eggs, meat and fish rose by 7.4% in Sep'19 compared with 6.6% in Aug'19. However, fruit prices moderated to 6.7% in Sep'19 compared with 19.7% in Aug'19.

Fuel & power inflation slows further: Led by (-) 21.3% YoY decline in average crude prices, fuel and power inflation fell to more than 3 year low of (-) 7.1% in Sep'19 vs (-) 4% in Aug'19. The sharpest decline was visible in mineral oil index (-11.2% vs -6.9% in Aug'19). On the other hand, coal prices increased by 1.3% vs 0.8% increase in Aug'19. In Oct'19 as well there will be a large base effect as oil prices were at US\$ 84/bbl in Oct'18.

Deflation in core continues: Both core and manufactured product inflation declined further in Sep'19. While core inflation fell from (-) 0.5% in Aug'19 to (-) 1.1% in Sep'19, manufactured product inflation dropped to (-) 0.4% after being flat in Aug'19. Of the 22 commodities only 7 witnessed upward momentum in prices, led by apparels, pharma products and machinery equipment. On the other hand, prices of basic metals, leather, paper, furniture and other manufacturing items eased the most. International commodity prices too declined by (-) 6.6% in Sep'19 on a YoY basis. In Oct'19 the trend is again downward at (-) 6.1%.



RETAIL INFLATION

14 October 2019

Core moderates, food accelerates

Retail inflation rose to a 14-month high at 4% in Sep'19 led by food inflation, particularly vegetable (15.4%) and meat and fish (10.3%). However, core inflation moderated to 4%, a 26-month low led by transport and communication, amusement & recreation and clothing & footwear. Given the seasonal/rain related reasons for spike in vegetable prices we believe food inflation will come-off in the next few weeks and months. Thus RBI should look at propping growth with 25bps cut in Dec'19.

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Food inflation rises: Food inflation rose to a 37-month high in Sep'19 at 5.1% from 3% in Aug'19. This was led by sharp uptick in vegetable prices at 15.4% (19-month high) versus 6.9% in Aug'19. Prices of meat and fish accelerated to a 68-month high of 10.3% versus 8.5% in Aug'19. Similar trend was also visible in pulses with prices increasing by 7.4% in Sep'19 compared with 2.3% in Aug'19.

Core at more than 2-year low: CPI inflation excluding food and fuel fell by 30bps to 4% in Sep'19 (lowest since Jul'17) compared with 4.3% in Aug'19 and 5.9% in Sep'18. Most categories of core inflation reported a softening bias led by transport and communication (110bps to 0.1%), recreation and amusement (30bps MoM to 5.1%) and clothing and footwear (30bps to 1%). Only personal care and effects category reported a 30bps MoM increase due to higher gold prices (up by 0.3% MoM in Sep'19). Given muted domestic demand and relatively benign international oil prices, we expect core inflation at 4% in H2FY20 compared with 4.2% in H1FY20 and 5.8% in FY19.

CPI to be within MPC's target: CPI print in Q2FY20 was 10bps higher compared to RBI's estimate of 3.4%. This was led by sharp acceleration in food inflation to 3.5% in Q2FY20 from 1.7% in Q1FY20. At the same time, core inflation has eased from 4.2% in Q1FY20 to 4.1% in Q2FY20. Should the uptick in CPI inflation to 4% matter and does it change our view for FY20/ FY21 inflation? No. The acceleration is driven by vegetable prices which in turn can be explained by excess rainfall in the last few months. As seasonal vegetable crop hits the market in the next few weeks and months, this should revert to normal. Thus growth should remain an overarching concern for RBI and the MPC should look at cutting rates by 25bps in Dec'19.

KEY HIGHLIGHTS

- CPI inflation rises to 4% in Sep'19 led by food.
- Food inflation picks up to 5.1% from 3% in Aug'19 led by vegetables (15.4%) and meat and fish (10.3%).
- Core inflation at a 26-month low of 4%.



WEEKLY WRAP

14 October 2019

US-China trade deal lifts sentiment

Global sentiment improved as US and China reached a trade truce. Global equity markets rallied, yields rose and JPY (risk-haven) fell. However, economic data emanating from China was weak as exports fell by (-) 3.2%. World Bank lowered India's growth forecast to 6% as domestic consumer demand remains muted. Industrial output contracted in Aug'19 led by capital goods and durables. This sets the pace for another 25bps rate cut by RBI even as inflation is expected to inch up to 3.6% in Sep'19 (3.2% in Aug'19).

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Markets

- **Bonds:** Global yields closed higher on the back of optimism surrounding US-China trade talks. Developments over Brexit also supported yields. UK 10Y yield rose the most (26bps) followed by US (20bps). Crude prices rose by 3.7% (US\$ 61/bbl) over anticipation of deeper cuts by OPEC and tensions in the Middle East. India's 10Y yield rose by 4bps (6.73%). System liquidity surplus was at Rs 2.2tn as on 11 Oct 2019 vs Rs 2.5tn in the previous week.
- **Currency:** Major global currencies closed higher in the week due to improved risk sentiment as US-China made progress in trade talks. As a result, safe-haven JPY and DXY fell by (-) 1.3% and (-) 0.5% respectively. GBP rose by 2.7% in the week to its highest in over 3-months as Brexit uncertainty subsided. INR depreciated by (-) 0.2% in the week as oil prices rose by 3.7%. FII outflows were US\$ 308mn in the week.
- **Equity:** Driven by optimism around US-China trade deal and Brexit, global indices surged higher. Dax rose by 4.2% followed by Shanghai Comp (2.4%). Following positive global cues, Sensex too ended the week 1.2% higher. This week equity markets will react to Q2FY20 results.
- **Upcoming key events:** In the current week, markets await China's Q3 GDP print, industrial production and PPI data. In addition, industrial production in US, Japan and Euro Area data will also be released. On the domestic front, WPI, CPI, trade data and RBI minutes are scheduled for release.



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BUY – Expected return >+15%

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

REDUCE – Expected return from -5% to +5%

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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