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Inflation risks seen subsiding

BOB ECONOMICS RESEARCH | MONTHLY ECONOMIC BUFFET

Economic Round-up: November 2024

SUMMARY**INDIA ECONOMICS: BOB ESSENTIAL COMMODITIES INDEX**

BoB Essential Commodity Index (BoB ECI) witnessed moderation in Nov'24 both on a sequential and YoY basis. This is led by sharp correction in prices of Tomato and Onion. For Onion, the retail price in Nov'24 declined for the first time since Jul'23. This is a significant development surrounding the constant fear of prices of TOP vegetables (Tomato, Onion and Potato). For Tomato as well, the mandi arrival statistics showed a jump of 46% in Nov'24 compared to Nov'23 (Upaj data). Wholesale prices of TOP items are also on the deflationary path.

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INDIA ECONOMICS: MONTHLY ECONOMIC BUFFET

Following the results of Presidential election in the US, market volatility significantly increased across the globe. While US equities and dollar benefitted, other currencies suffered a hit. US bond yields have noted a significant jump since the announcement of results. President-elect Trump's constant threat of imposing tariffs on US imports coming from China, Mexico and Canada has also sparked fears of possible risks to domestic inflation. These countries account for ~43% of US imports. In addition, prospects of tax concessions, and regulatory easing will also put pressure on fiscal math of the government. Elevated US debt levels are already a concern for the Fed. Given this backdrop, analysts now expect shallower rate cuts by Fed in CY25. In Asia, China is showing mixed signs of growth.

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**BOB ESSENTIAL
COMMODITIES INDEX**

05 December 2024

Inflation risks seen subsiding

BoB Essential Commodity Index (BoB ECI) witnessed moderation in Nov'24 both on a sequential and YoY basis. This is led by sharp correction in prices of Tomato and Onion. For Onion, the retail price in Nov'24 declined for the first time since Jul'23. This is a significant development surrounding the constant fear of prices of TOP vegetables (Tomato, Onion and Potato). For Tomato as well, the mandi arrival statistics showed a jump of 46% in Nov'24 compared to Nov'23 (Upaj data). Wholesale prices of TOP items are also on the deflationary path.

Dipanwita Mazumdar
Economist

Thus, retail prices are likely to exhibit further downward correction in the near term. Importantly, prices of energy, precious metals, fertilisers are also on a downtrend, so no major cost push inflation is expected. Moreover, international prices of edible oils and cereals are also largely contained. This couple with the arrival of fresh winter harvest will in turn lend comfort to headline CPI in the near term.

We expect CPI to settle around 5% in Nov'24, with risks tilted to the downside.

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:

- BoB ECI showed considerable broad-based moderation in Nov'24. On YoY basis, it inched down to 5.5% in Nov'24 compared to 7% in Oct'24. 13 out of 20 commodities in the index witnessed inflation below 4%. The major comfort came from downward correction in prices of vegetables such as Tomato and Onion. In fact, for Tomato, the trajectory of retail price corrected significantly coming off to 33.7% increase in Nov'24 compared to 115.2% increase seen in Oct'24. The prices for Onion as well, are showing downward momentum as it fell by -4.4% in Nov'24 compared to 44% increase seen in Oct'24. Notably, this is the first time since Jul'23 that the retail price series of Onion has declined.
- Sequentially, BoB ECI also softened to 0.4% in Nov'24 compared to by 2.5% in Oct'24. The sequential loss of momentum in inflation broadly mirrored the trend of YoY data. Here considerable decrease was seen in case of major edible oils led by Mustard oil (3.6% in Nov'24 compared to 11.4% in Oct'24), Soya oil (4.6% in Nov'24 compared to 10.9% in Oct'24) and Sunflower oil (6.6% in Nov'24 compared to 12.3% in Oct'24). Pulses have also fallen led by Gram and Moong dal. Other than this, prices of cereals, gur, salt have also eased. On a seasonally adjusted basis, however, BoB ECI has declined by -0.1%, thus some bit of inflation is attributable to seasonal phenomenon.



MONTHLY ECONOMIC BUFFET

05 December 2024

Economic Round-up: November 2024**Sonal Badhan**
Economist

Following the results of Presidential election in the US, market volatility significantly increased across the globe. While US equities and dollar benefitted, other currencies suffered a hit. US bond yields have noted a significant jump since the announcement of results. President-elect Trump's constant threat of imposing tariffs on US imports coming from China, Mexico and Canada has also sparked fears of possible risks to domestic inflation. These countries account for ~43% of US imports. In addition, prospects of tax concessions, and regulatory easing will also put pressure on fiscal math of the government. Elevated US debt levels are already a concern for the Fed. Given this backdrop, analysts now expect shallower rate cuts by Fed in CY25. In Asia, China is showing mixed signs of growth.

On one hand, while industrial production was weak in Oct'24, retail sales improved further. In Nov'24, PMIs, show that manufacturing firms noted improvement in activity, while services sector slowed a tad. In India, Q2FY25 GDP data (5.4%) indicates moderation in growth versus the previous quarter (6.7%), but despite that India remains one of the fastest growing major economy in the world. A rebound in activity is expected in H2FY25, which will push overall FY25 growth to 6.6-6.8% bracket. Signs of revival are already visible in Q3, with festive spending pushing GST collections, vehicle sales, air passenger traffic and services PMI higher.

Global Central Banks: In Nov'24, in line with market expectations, major central banks (US Fed, BoE) lowered their policy rates. US Fed delivered a 25bps rate cut, keeping in view softening labour market conditions. However, Fed cautioned against elevated levels of inflation and unsustainable fiscal policy. Markets are now pricing in another 25bps cut in Dec'24 meeting and shallower rate cuts in CY25. BoE also lowered its policy rate by 25bps, 2nd rate cut in 4 years. Accounting for recent budget announcements, inflation projections for CY25 were raised to 2.7% from 2.5% in CY24 and growth is estimated to be higher at 1.5% in CY25 (1% estimated earlier). As a result, no rate cut is expected in its Dec'24 meeting, and next year as well, while markets have priced in 2-3 rate cuts for now, Governor Bailey has signalled possibility of 4 cuts. In contrast, BoJ officials have indicated that given the sustained rise in inflation and wage growth, the central bank may opt for a 25bps rate hike as early as Dec'24.

Key macro data releases: India's GDP growth softened to 5.4% in Q2FY25, following 8.1% growth in Q2FY24. This was led by slowdown in government spending, investment demand and export growth. Private consumption remains robust.



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