

March 14, 2023

## No major surprises, global backdrop to dominate...

CPI inflation (February 2022)

6.44% YoY

### Key readings

- CPI inflation for February came in marginally lower and largely as per market expectation of 6.4% vs. 6.5% in January 2023
- Overall, there were very minor changes compared to last month. Food inflation declined 5 bps while core inflation rose 3 bps
- Within CFPI, while vegetables inflation continued to fall, three items viz. cereals (16.73% vs. 16.25%), milk (9.65% vs. 8.79%) and fruits (6.38% vs. 2.99%) saw higher inflation due to an MoM rise. While wheat prices have seen a fall in the wholesale market, retail prices are yet to witness a similar fall. Higher foodgrain output and procurement along with change in government food distribution policy also bodes well for outlook. Inflation in both sugar and non-alcoholic beverages rose marginally at 1.3% YoY (vs. 0.9% last month) and 4.4% YoY (vs. 4.3% last month), respectively
- Spices inflation, which was running high for many months seems to have topped out. Going forward, the base is also turning favourable. Even meat & fish and egg prices softened to 3.4% YoY (vs. 6.0% last month) and 4.3% YoY (vs. 8.8% last month) respectively. Pulses also became less costly at 4.1% YoY (vs. 4.3% last month). Food inflation should soften given anticipated increase in foodgrain production and procurement during the current harvesting season. However, the bigger concern right now for food prices is outlook on monsoon given El-Niño conditions are developing over the Pacific Ocean
- Core inflation was almost flat at 6.09% vs. 6.11%. Almost all items were flat except fuel and light, which saw a marginal fall at 9.9% vs. 10.8%. On an MoM basis, the index was up 0.5% (same as last month). Items that witnessed an increase are household goods and services at 7.4% YoY (vs. 7.3% last month) and health at 6.5% YoY (vs. 6.4% last month). Housing has also seen an uptick at 4.8% YoY (vs. 4.6% last month). On the other hand, clothing and footwear at 8.8% YoY (vs. 9.1% last month), personal care and effects at 9.4% YoY (vs. 9.6% last month), education at 5.6% YoY (vs. 5.8% last month) and recreation at 4.8% YoY (vs. 5.1% last month) saw some dip in momentum. Inflation in transport and communications remains stable at 4.5% YoY (same as last month)
- RBI had projected Q4FY23 CPI at 5.7%. Average inflation for January and February was at 6.5%. From next month onwards, the base is turning favourable. With prices also declining, inflation print could be around RBI's target of 5% (Q1 projection). However, current CPI print is the last data before RBI's next policy on April 6
- The global backdrop has changed significantly in last few days with financial instability in US banking system. Hence, if Fed does not hike rates in its March 22 policy meeting, RBI can easily justify a pause despite latest number being higher. In the larger context, RBI's FY24 inflation projection is at 5.3%. Current repo rate of 6.5% offers real yield of 1.2%, which falls within RBI's target range of 1-2%

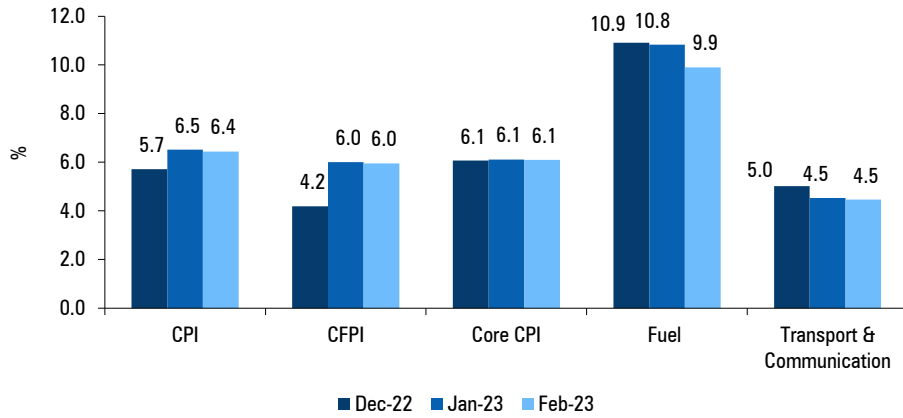
*CPI inflation saw no surprises in the latest print with both food and non-food inflation largely at last month's level*

*The global backdrop has changed significantly with US bond yields sharply lower from recent highs. RBI action in its next policy meeting will be largely dominated by US Fed action and global news flows*

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**Exhibit 1: No major change in last two months. Fuel inflation sees some moderation due to favourable base**



*Overall prices across category remain largely range bound. Both food inflation and core inflation remain at last month's levels*

Source: Mospi



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