

November 15, 2022

## Favourable base in food inflation drives headline lower

CPI inflation (October 2022)

6.77% YoY

### Key readings

- CPI inflation for October came in lower as per market expectation at 6.77% compared to 7.41% in September 2022
- The fall in inflation was led by food inflation with Consumer Food Price Index (CFPI) at 7.01% in October vs. 8.60% in September. Core inflation was also down marginally to 5.94% vs. 6.05% in the respective period
- Within food inflation, vegetable item was the major driver with inflation at 7.77% in October 2022 against 18.18% in September 2022. Other items that helped lower inflation was oil & fats (negative inflation for the first time on expected lines due to fall in prices and favourable base), pulses at 2.78% vs. 3.05%, sugar at 0% vs. 1.6%
- However, the fall in food inflation is primarily attributed to base effect. Sequentially, there was a rise of 1.08% in CFPI contributed by vegetables (sharp MoM rise of 4.12%). All items other than oil & fats and fruits saw an MoM rise
- Sequentially, prices of most food items saw an upward movement. Cereals inflation with almost 10% weight in CPI remain in double digits at 12.08%. The outlook, however, is better on prospects of arrival of Kharif harvest and good progress for the Rabi crop
- Core inflation overall has been very sticky around 6.0% levels since last one and a half years. In October 2022, similar to food inflation, base effect (particularly in transport & communication) led to lower print. Sequentially, all items saw a marginal rise on a month on month basis
- Within core inflation, prices of clothing & footwear rose 10.2% YoY (same as last month), housing at 4.6% YoY (same as last month), household goods and services at 7.6% YoY (same as last month), health at 5.7% (up 10 bps from September), education at 5.8% YoY (+ 5 bps over September) and personal care and effects at 7% (+ 21 bps over September). Higher personal care and effects was driven by gold and silver. Gold prices have increased further in November. On the other hand, deceleration in core was seen in recreation and amusement at 6.1% YoY (6.3% in September) and transport & communication at 4.6% YoY (5.4% YoY in September). Higher core inflation can be explained by higher domestic demand and incomplete pass-through of international commodity prices into retail prices. Given the demand outlook and festival season sales, core inflation is likely to ease gradually
- While the current CPI data print does not change the rate hike outlook in a meaningful way, lower magnitude of rate hike by the US Federal Reserve may provide some comfort to the RBI. RBI is expected to hike rates by 35 bps in its upcoming December monetary policy meeting

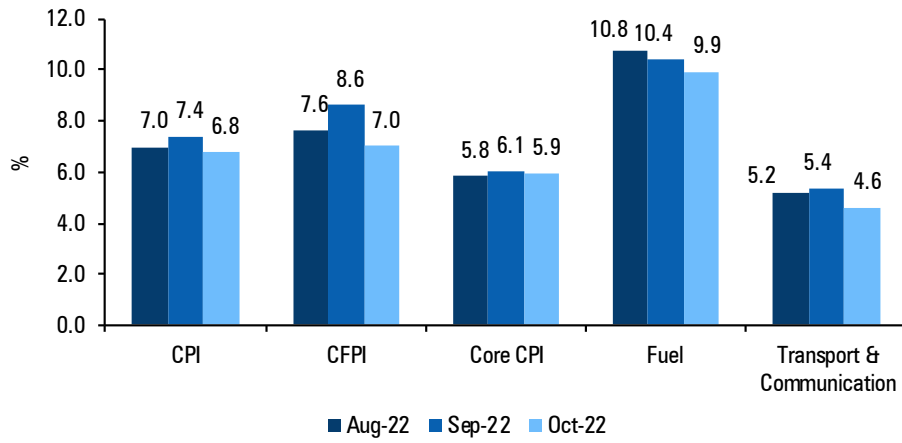
*CPI inflation fell to 6.77% in October from 7.4% in September as favourable base effect in major food items like vegetables helped despite a sequential rise in most food and non-food items*

*RBI is likely to hike repo rate by around 35 bps in its next policy meeting. Rate hike trajectory is unlikely to change with current CPI data, however lower rate hike by U.S. Fed will provide some comfort.*

### Research Analyst

Sachin Jain  
sachin.ja@icicisecurities.com

Exhibit 1: Lower food inflation along with lower fuel, transport & communication drive headline CPI lower



*The headline inflation for a few quarters was driven by food inflation. The base effect in transport and communication has also helped in managing core inflation at around 6.0% levels*

Source: Mospi



**Pankaj Pandey**

**Head – Research**

**[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)**

## ANALYST CERTIFICATION

I/We, Sachin Jain, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ00183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icicidirect.com](http://icicidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.