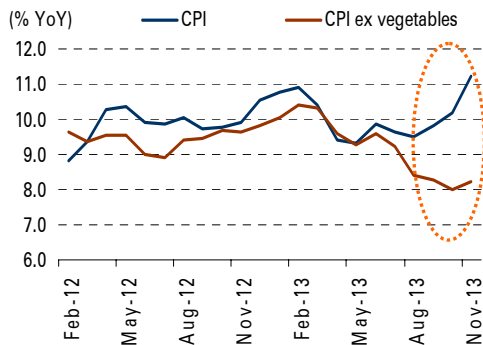


India: November CPI inflation surprisingly surges to historic highs

Chart 1: CPI inflation spikes on rising vegetables prices



Source: CEIC, ICICI Bank Research

Chart 2: Vegetables prices dropped only in last week of November, while weekly average price rose for tomatoes & potatoes

Food prices in Delhi (₹/kg)			
Food commodity	Potato	Onion	Tomato
1-Nov-13	28	65	45
7-Nov-13	30	66	60
14-Nov-13	33	64	60
22-Nov-13	30	55	56
29-Nov-13	25	46	55
Current price	20	35	35

Source: Department of consumer affairs, ICICI Bank Research

December 12, 2013

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- **November CPI spiked to record high 11.2% YoY (well above consensus estimate of 10%). However, there is some relief from a flat core CPI at 8% and historically low fuel CPI at 7%.**
- **Interestingly, rise in inflation level is primarily attributable to spike in vegetables inflation to record high 61.6% while CPI ex vegetables inflation remained nearly flat at 8.2%.**
- **While inflation levels are likely to ease in December on falling vegetables prices, we believe that price pressures remain high and expect RBI to hike repo rate by another 25 bps in rest of FY2014 with high possibility of a hike in December meeting.**

CPI inflation spikes to record highs; well above expectations

The consumer price inflation print for November-2013 came in at record high 11.24% YoY versus prior print of 10.05% YoY. The print was higher than our and consensus expectation of 10% YoY, primarily on account of the differential view on vegetables prices.

While high frequency prices data showed a month-end drop in vegetables prices, the 9% MoM rise in vegetables inflation in CPI is possibly on account of the fact that prices dropped only in the last week, while weekly average over the month increased, especially in case of tomatoes and potatoes.

Food inflation at record highs on stubborn vegetables inflation

Inflation in food, beverages and tobacco, that comprises ~50% of the inflation basket, surged to record high 14.5% YoY. The increase in food inflation pressures is mainly attributable to rise in vegetables inflation to a record high of 61.6% YoY. However, CPI ex vegetables inflation remained nearly flat at 8.2% YoY.

Meanwhile, other food inflation sub-components also edged higher, with food inflation ex vegetables rising to 8.5% YoY versus prior reading of 8.1% YoY.

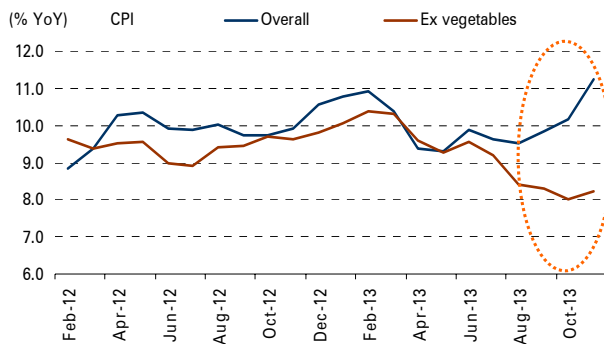
Flat core CPI is encouraging; fuel inflation hits record low

Core CPI provided another positive surprise and came in at 7.97% YoY versus 8.05% in October-2013. While inflation in services remained flat at 6.9% YoY that in housing and clothing edged down to 10.3% and 8.9% respectively compared to prior reading of 10.4% and 9.1%. Further, fuel inflation remained at record low 7% YoY levels.

Another 25 bps repo rate hike possible amidst elevated price pressures

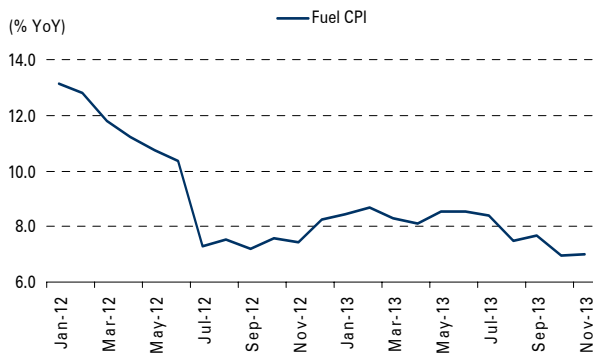
Post the release of the IIP and CPI data prints, the RBI Governor Rajan commented that the RBI is very uncomfortable with the high level of inflation in the economy. November WPI print to be released on Monday is also expected at close to 7%. While inflation levels are likely to ease in December on falling vegetables prices, we believe that overall price pressures remain high and expect another 25 bps repo rate hike in rest of FY2014 with a high possibility of a hike in December meeting.

CPI inflation surges past 11% mark on elevated vegetables price pressures



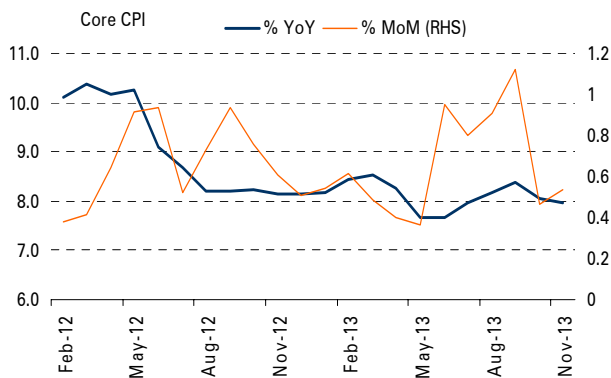
Source: CEIC, ICICI Bank Research

Fuel inflation remains at record lows



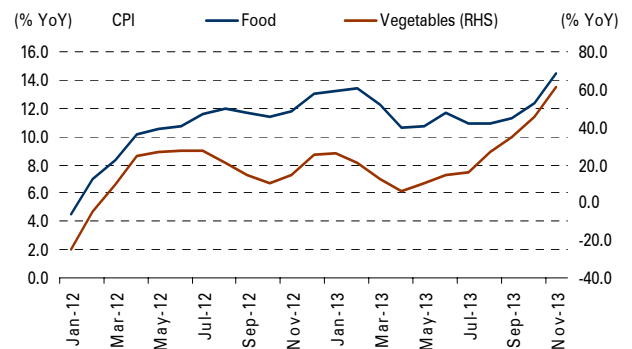
Source: CEIC, ICICI Bank Research

Flat core inflation provides some relief



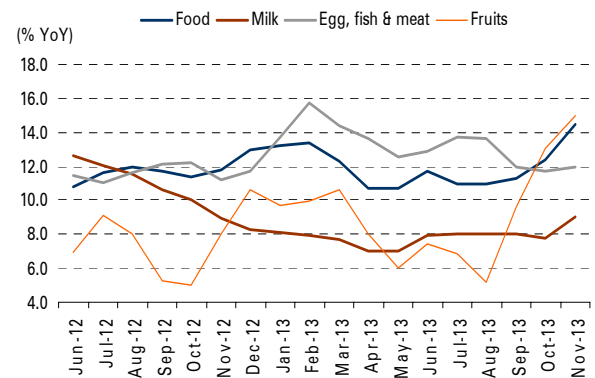
Source: CEIC, ICICI Bank Research

Inflation in vegetables persists at record high levels



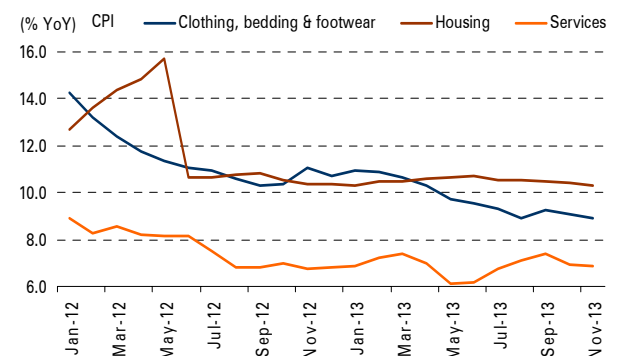
Source: CEIC, ICICI Bank Research

Other food inflation components have also witnessed upward pressure



Source: CEIC, ICICI Bank Research

Broad based easing in core CPI



Source: CEIC, ICICI Bank Research

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