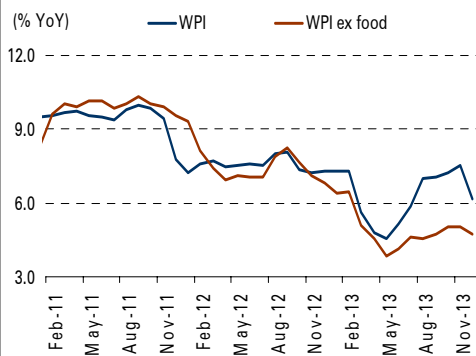


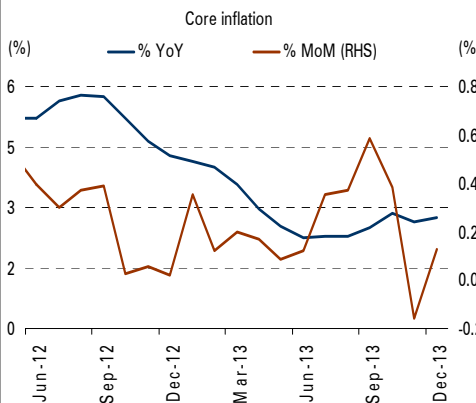
India: WPI inflation eases sharply; RBI likely to maintain status quo

Chart 1: WPI inflation drops on cooling food prices



Source: CEIC, ICICI Bank Research

Chart 2: Core WPI edged up to 2.75%



Source: CEIC, ICICI Bank Research

January 15, 2013

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- **December WPI eased to 6.16% YoY (consensus: 7.0%, ICICI Bank: 6.8%) from prior of 7.52%. Fall in food prices contributed ~85% to 1.36 percentage point drop in inflation levels.**
- **Core WPI edged up to 2.75% YoY as against 2.63% YoY in November-2013, while fuel WPI remained nearly flat at 11%.**
- **We expect the RBI to maintain status quo on 28th January.**

The WPI inflation for December-2013 clocked 6.16% YoY, versus our estimate of 6.8% and prior of 7.52%. This is attributable to sharper than expected fall in primary food inflation to 13.7% YoY from a prior of 19.9%. Overall, food prices contributed ~85% to 1.36 percentage point drop in inflation levels.

Primary inflation fell on cooling of vegetables prices

The primary articles inflation fell to 10.78% YoY versus 15.92% YoY in November-2013, amidst falling food prices. Vegetables inflation cooled off to 57.3% YoY from record high 95% levels in November-2013. On the ground vegetables prices show a 30% MoM drop in both wholesale and retail prices. While the WPI index reflected the same, the CPI index showed a lesser fall to the tune of 18% MoM, thereby leading us to expect further correction going ahead. Similarly, decline in protein inflation (eggs, meat & fish) was in contrast to a rising trend witnessed in CPI.

Fuel inflation remained flat

Fuel inflation remained flat at ~11%, though prices increased 0.81% MoM. This was mainly on account of a 1.2% MoM increased in prices for electricity, LPG and high speed diesel. Given that suppressed inflation in administered products is coming to the fore, we are not worried as it possibly supports a healthy fiscal balance in the future. However, we remain concerned regarding the continued hikes in non-administered products (like petrol), as the oil marketing companies are raising prices amidst elevated global crude prices.

Core inflation edged up amidst delayed impact of FX depreciation

The lagged impact of Rupee depreciation continues to show effect in the non-food manufactured products inflation that edged up to 2.75% YoY, rising from lows of 2.2% in June-2013. However, the sequential momentum has eased to 0.13% MoM after averaging 0.42% MoM during July-October, given the weak pricing power of producers. In the coming months, we expect core WPI to remain at sub 3%, RBI's comfort level for this inflation measure.

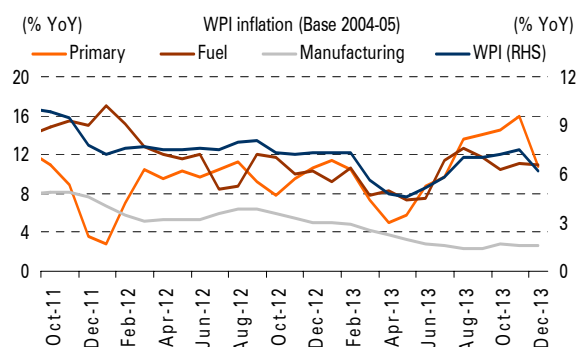
RBI likely to maintain status quo on 28th January

In the December policy, the RBI paused while clarifying that the future policy decisions would be guided by the trend in food and core inflation. While the anticipated decline in food inflation has materialized, core inflation in both CPI and WPI measures has remained sticky. On balance, the January policy decision is a close call. We expect the RBI to remain on hold, given the sharp drop in headline inflation levels, with the trend likely to continue in the coming months.

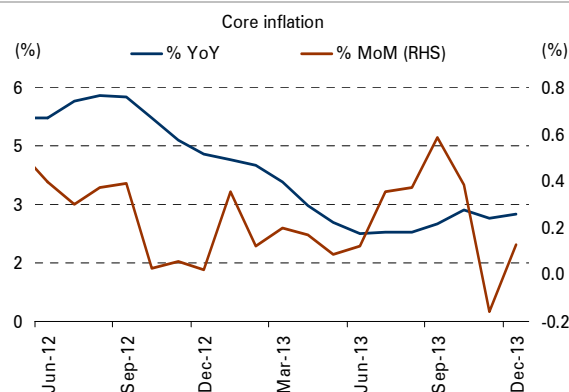
WPI inflation slips to 6.16%

WPI Inflation		
(% YoY)	Nov-13	Dec-13
Headline	7.52	6.16
Primary	15.92	10.78
of which Food	19.93	13.68
of which Vegetables	95.25	57.33
Manufacturing	2.64	2.64
of which Manufacturing-ex-food	2.63	2.75
Fuel	11.08	10.98

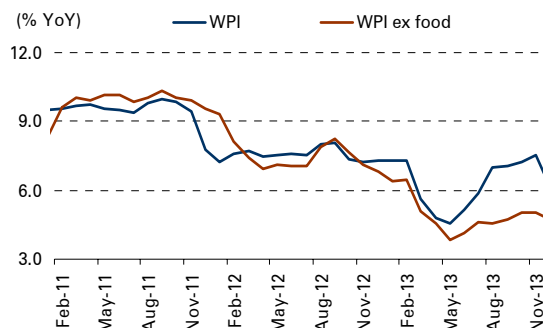
Source: CEIC, ICICI Bank Research

Fall in inflation level driven by primary inflation


Source: CEIC, ICICI Bank Research

Core WPI edged up to 2.75%


Source: CEIC, ICICI Bank Research

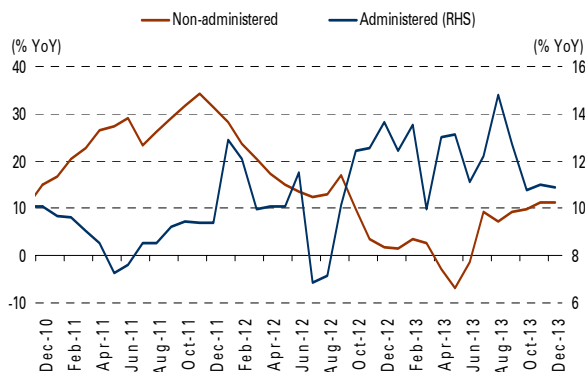
WPI inflation drops on cooling food prices


Source: CEIC, ICICI Bank Research

Sharper decline in vegetables prices in WPI vis-a-vis CPI

Period	Vegetables inflation			
	% MoM		% YoY	
	CPI	WPI	CPI	WPI
Aug-13	8.5	17.5	26.6	81.0
Sep-13	4.0	-2.7	35.0	91.1
Oct-13	7.3	-4.9	45.7	80.2
Nov-13	8.9	9.5	61.1	95.2
Dec-13	-18.4	-29.7	38.8	57.3

Source: CEIC, ICICI Bank Research

Fuel inflation remained flat at 11%, as suppressed inflation comes to the fore


Source: CEIC, ICICI Bank Research

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