

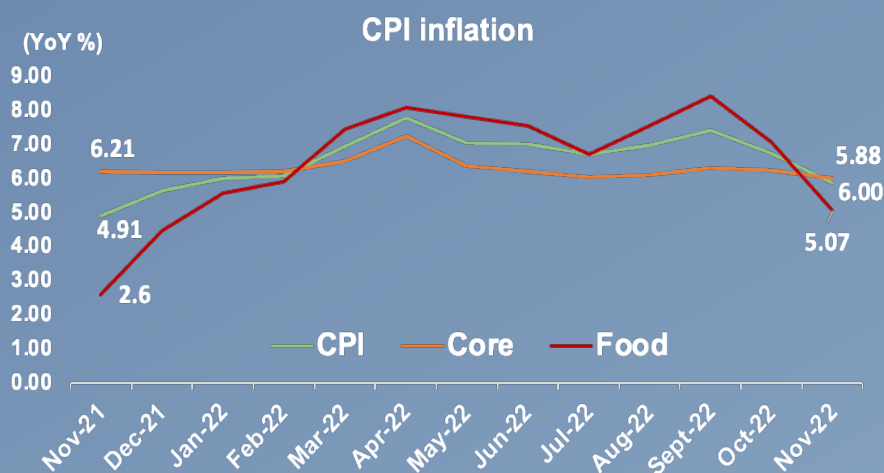
In Focus: Headline inflation eases more than expected in November on sharp contraction in vegetable – corporate issuances to get boost

12 December 2022

A sigh of relief as retail inflation measured in terms of consumer price index (CPI) came in at 5.9% YoY in November – lower than the upper tolerance band of Monetary Policy Committee (MPC) of RBI first time in last 11-months. Inflation in October was at 6.8%. Prices of food moderated to 5.1% in November from 7.1% in October. Prices of vegetables contracted significantly by 8.1% YoY in November. Fruits also had seen a moderation in prices by 2.6% in November from 5.2% in October. Among vegetables; while potato prices continued to increase at double digit but the rate of inflation reduced substantially to 15.9% in November from 34.6% in October. Prices of onion contracted higher by 29.7% in November from 26.8% in October. Prices of tomatoes contracted sharply to 12.3% YoY in November from an increase of 13.9% in October. Among other food articles; Prices of cereals remained higher at 13% and pulses inched up to 3.1% from 2.8% in previous month. Prices of milk increased by 8.2% while prices of oil & fats contracted for second straight month and came in at 0.6%. Spices remained at double digit at 19.5% in November. Prices of sin products grew by 2%. Fuel & light grew at double digit by 10.6%.

Core inflation remained sticky at 6% YoY in November from 6.2% in October. Among the core items clothing and footwear prices moderated to 9.8% from 10.2% the month before. Household goods and services remained steady at 7.7% while health stood at 5.8%. Transport & communication prices inched up to 5.3% in November from 4.6% a month before. Recreation & amusement inflation moderated to 5.4% YoY in November from 6.1% in October. Inflation in education and personal care & effects remained unchanged at 5.8% and 7% respectively.

Sharper than expected moderation in inflation will require to recalibrate inflation projection for Q3 and full year of FY23. Last week in its policy outcome, the MPC projected inflation at 6.6% in Q3 and 5.9% in Q4. So far till November; inflation in Q3 averaged at 6.3%. With moderation in CPI more than expected the MPC gets room for a further smaller quantum of rate hike than its December's 35 basis point increase. We expect the MPC to increase repo rate by another 25 basis points in February to take the terminal repo rate at 6.50%. We expect the 10-year G-Sec yield to range in between 7.20-7.40%. The Corporate bond issuance will likely increase with the stabilization of yield. The spreads between corporate and G-Sec yields widened in November as corporates aggressively started to issue bonds on easing G-Sec yields.



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