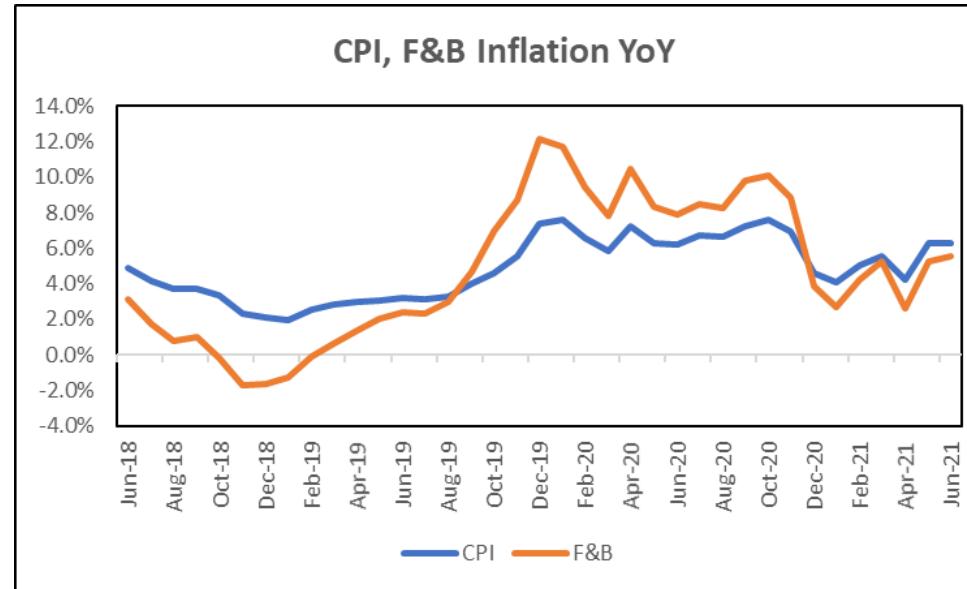




Comments on: CPI Inflation June' 21 & IIP May' 21

CPI Inflation over MPC's comfort band for second consecutive month

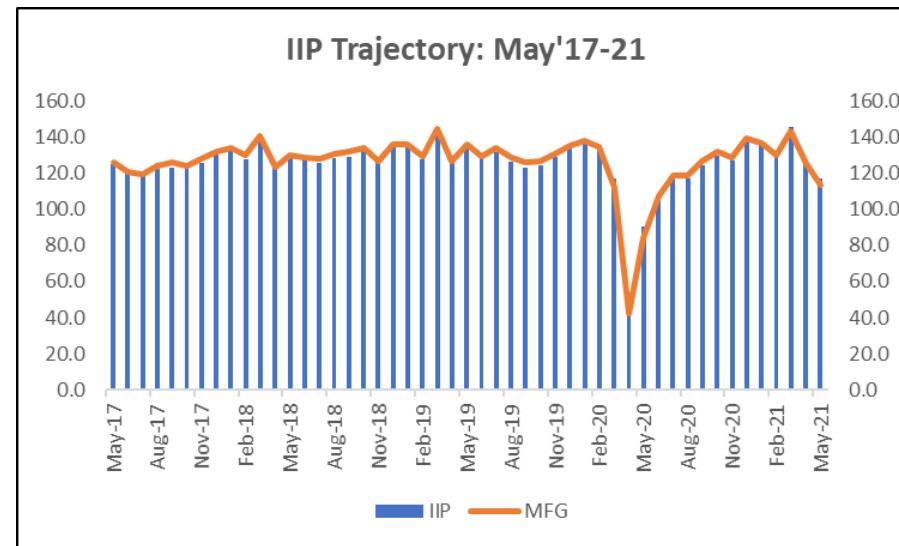


- CPI inflation continues to hover around 6.3% in Jun-21, highlighting the presence of broad based inflationary pressures
- Despite the benign vegetable prices where inflation print has been (-)0.7%YoY, the food and beverages inflation at 5.58%YoY continues to be pulled up by protein categories.
- While egg prices have risen by 19.3% and pulses by 10.0% in Jun-21 vs Jun-20, the sharpest rise in the food category has been in edible oil at 34.8% due to prevailing high international prices

CPI trajectory may moderate in near term but downside risks remain

- Core inflation continues to be high at 6.4%YoY with the additional push from increased retail fuel prices as well as the pass through of increased manufacturing costs, reflected in the WPI data
- In particular, the fuel and light inflation has remained in double digits for the second month in succession at 12.75%YoY; further, the 7.3%YoY inflation in miscellaneous category primarily reflects the pricing pressures in transport and communication segments
- Monsoon forecasts along with kharif crop expectations continue to be favourable and is likely to cool down food inflation; also, the unlocking of the economy will address some of the supply constraints
- Nevertheless, any slippages in the rainfall patterns may increase price risks in some of the food categories; global crude oil prices also continue to be a threat
- Acuite, therefore has increased the average CPI inflation forecast to 5.5% for FY22; however, the regulatory tolerance on inflation will continue to be higher in the current context given the priority accorded to the revival of the growth impulses
- In case of any further overheating in CPI, we also expect the government to take suitable measures to control prices of food products and retail fuels to mitigate any longer term structural risks to inflation.

IIP print look weak on a sequential basis due to the May lockdown



- IIP data on a YoY basis look strong since the industrial sector has aligned itself to operate in a restrictive environment in May-21 vs May-20 (both lockdown months); overall IIP grew by 29.3%YoY while the manufacturing sector grew at a higher 34.5%YoY
- The data, however looks weak on a sequential basis at -8.0%MoM with a contraction in output in almost all sectors in May-21 vs Apr-21 except mining (0.6%MoM); weakness was expected as the severe second Covid wave intensified further in May, leading to more stringent lockdowns as compared to April
- Nascent momentum in IIP got a set back in Apr-May but the ongoing unlocking measures and the expected progress in vaccination, raises hopes for a quick rebound of the IIP trajectory from Q2FY22