

Significant divergence between global and domestic food inflation

FAO index sharply rises by 33.0%, India's food inflation moderates to 3.8% in Aug'21

20 September, 2021

Acuite has observed a significant divergence between the global and the domestic food inflation trajectory. The World Food Price Index (FPI) of UN FAO (United Nations Food & Agriculture Organization) which tracks monthly price changes for a basket of food commodities, has steadily risen since Jan-21 with annualized inflation print in double digits for the past eight months and touched a high of 33.0%YoY in Aug-21. On the other hand, domestic food inflation has moderated in the current quarter, averaging 4.13%YoY in Jul-Aug'21 and with no sequential increase last month. This has led to the moderation in the headline CPI inflation to 5.30%YoY and 0.25%MoM, providing relief to the policymakers.

Unlike crude oil prices which has a greater influence on India's inflation (as per RBI study, a USD 10 per barrel rise in crude oil price leads to ~50 bps increase in inflation), the increase in global food prices does not have any significant impact on the domestic food basket as India is largely self-sufficient in almost all food categories except for edible oils where India needs to import nearly 70% of its annual consumption; the retail prices of edible oils in India are highly sensitive to global edible oil prices as India imports nearly 70% of its domestic oil demand (see chart 2).

During the onslaught of the pandemic, the disruption in supply chains globally and domestically had led India's food inflation trajectory and global food prices to nearly move in tandem, until Dec-20. However, the trend in 2021 has reversed with the dichotomy between the two increasing significantly. The spurt in global food prices to nearly a decade high is primarily on the back of lingering supply chain constraints along with progressive restoration of demand conditions amidst unwinding of lockdown restrictions. On the contrary, domestic food inflation registered a significant downward adjustment from Q3FY21 onwards due to robust kharif arrivals, healthy rabi sowing and gradual easing of supply disruptions. After Dec'20, food inflation in India has largely remained range-bound except for a slight spurt during the period of the second wave in Q1FY22.

Looking ahead, we expect the divergence in the trajectory of global and domestic food prices to continue over the next 1-2 quarters. The upward pressure in global food prices may persist over a longer period due to unfavourable weather conditions in countries like Brazil, Argentina, Ukraine, Thailand etc. apart from labour shortages, higher freight and fertilizer costs and continuing supply chain bottlenecks. Conversely, on the domestic front, the recovery in Kharif sowing along with government interventions for easing supplies of edible oil and pulses augur well for the near-term food inflation trajectory. While the overall monsoon performance in the current year has not been exactly satisfactory in terms of the distribution of precipitation and may translate to some shortfall in some of the kharif crop output vis-à-vis expectations, the

pickup in rainfall in Sep'21 bodes well for the reservoir levels and the subsequent rabi sowing season.

As such, Acuite expects CPI inflation in FY22 to average at 5.5% vis-à-vis 6.2% in FY21. While pass through of higher input prices in manufacturing sector and pick up in vaccinations could fan some demand side pressures leading to core inflation to remain sticky at elevated levels, we expect food inflation to remain moderate and offset some of these pressures.

Annexure

Chart 1: The wedge between world FPI and India's food inflation increased in 2021

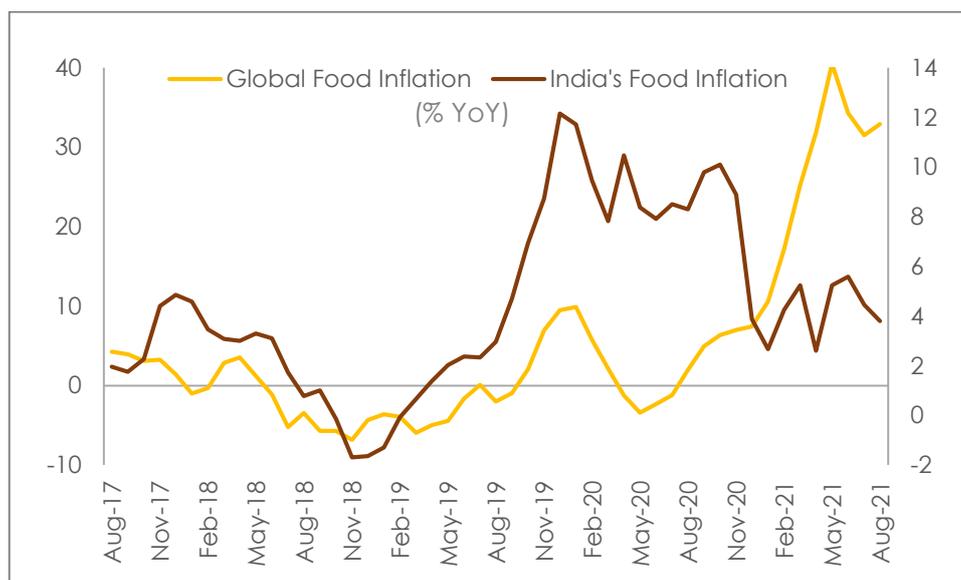
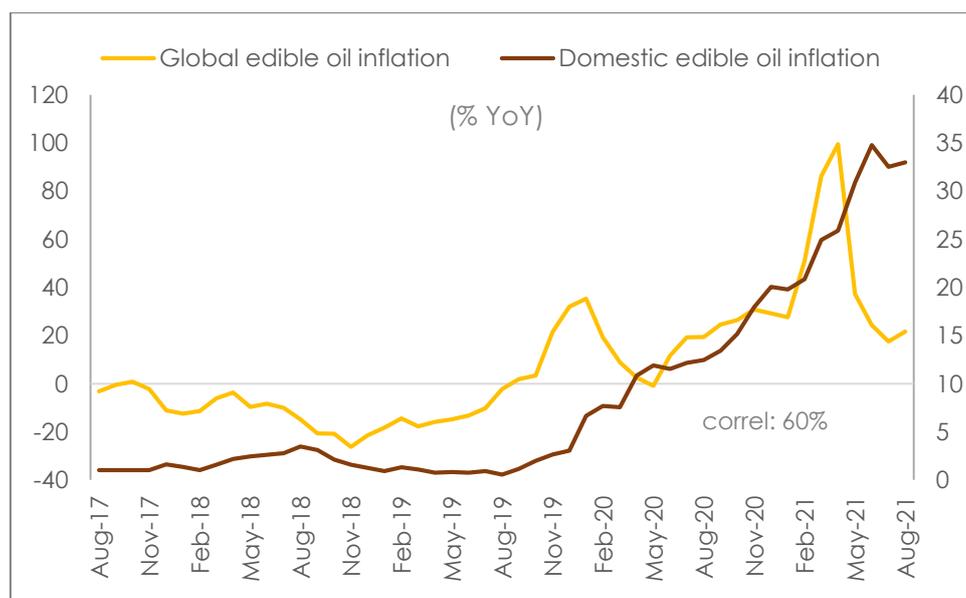


Chart 2: Domestic edible oil prices highly sensitive to global oil price movements



About Acuité Ratings & Research Limited:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,800 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in BKC, Mumbai.

Media Contacts:

Roshni Rohira Ph: + 91-9769383310 roshnirohira@eminenceonline.in	Neelam Naik Ph: + 91-9619699906 neelam@eminenceonline.in
--	--

Investor Outreach:

Analytical Contact:

Rituparna Roy Deputy Vice President Ph: + 91-7506948108 rituparna.roy@acuite.in	Suman Chowdhury Chief Analytical Officer Ph: + 91-9930831560 suman.chowdhury@acuite.in
---	--

Disclaimer: This release is sent to you for the sole purpose of dissemination through your newspaper / magazine / media / website / agency. The release may be used by you in full or in part without changing the meaning or context thereof but with due credit to Acuité. However, only Acuité has the sole right of distribution of its releases through any media. Acuité has taken due care and caution for writing this release. Information has been obtained by Acuité from sources which it considers reliable. However, Acuité does not guarantee the accuracy, adequacy or completeness of information on which this release is based. Acuité is not responsible for any errors or omissions or for the results obtained from the use of this release. Acuité has no liability whatsoever to the users / distributors of this release.