

Economics

CPI at 4.83%; No rate cuts in CY24

Key takeaway: April CPI at 4.83% came in line with estimate (4.77%), with continued subdued core inflation adding to comfort. A favorable base helped keep inflation below 5% YoY, which otherwise increased at the fastest pace since Nov-23 on a MoM basis, coming in at 0.48%. A MoM rise in Food and Beverages inflation and spike in personal care component (led by gold & silver prices) drove the sequential rise in headline CPI. Given supply-side uncertainties and the uncertain policy course of Fed, we continue to see no rate cuts in CY24 and commence rate cuts in Q4FY25 versus the previously expected first cut in Q3FY25.

Core CPI falls to the lowest; headline sticky

Apr-24 headline inflation came in at 4.83% YoY versus 4.85% in Mar-24, the lowest since May-23. Vegetable prices rose 1.3% MoM in April versus 0.3% in Mar-24, spiking the Food and Beverages index by 0.63% MoM, the fastest pace since Nov-23. Spices inflation continued to be a drag for the fifth straight month, while the fuel and light component declined for the third straight month MoM. The food basket that can potentially dislodge household inflation expectations – comprising vegetables, pulses, spices, oils and fats – remained almost flat MoM after four consecutive months of decline.

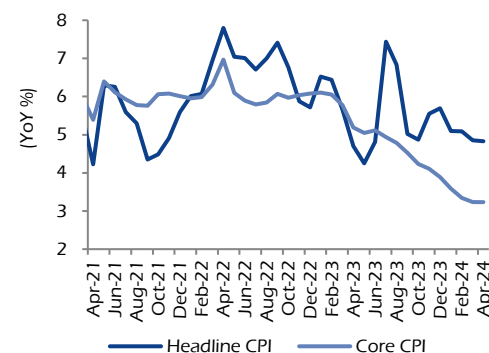
Core CPI continued its downward trajectory, with Mar-24 print at 3.23% YoY – the lowest on record. However, core CPI rose at the fastest pace in 12 months on sequential basis. The MoM print was 0.58%, versus six-month average of 0.21%. Inflation in personal care and effects rose by 3.02% MoM versus an average rise of 0.86% every April since the record began amid surge in gold and silver prices.

We retain FY25E CPI at 4.5%; first rate cut by RBI in Q4FY25

Despite easing inflation trajectory, the headline print remains sticky near 5% with: 1) headline CPI in the past six months averaging 5.2% YoY versus 5.56% in prior six-month period, and 2) only in six of past 24 months has inflation been below 5%. Hence, we expect the transition to rate cut cycle to be slow, with change in stance in Q3FY25 and the first rate cut in Q4, as the MPC maintains an unwavering focus on durably maintaining 4% inflation target and scouts for signals from the Federal Reserve regarding the timing of the first rate cut.

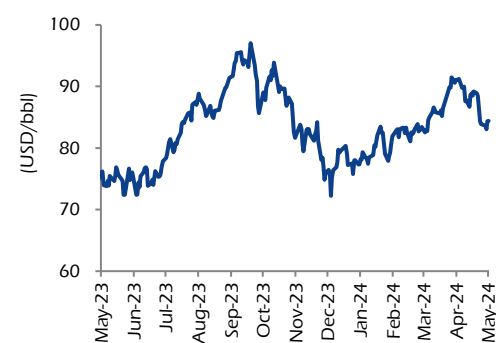
As far as headwinds are concerned, food prices continue to be the primary risk to overall inflation in India for FY25, owing to inclement weather conditions. Upside risks to food inflation can un-anchor inflation expectations and arrest the downtrend in headline CPI at current levels. Along with weather conditions, recent geopolitical uncertainties, and slow moderation in freight costs keep supply-side risks live. Stimulus-led China's turnaround and consequent global-manufacturing cycle turnaround may add uncertainties to the commodities and in turn, inflation outlook for FY25E.

Core inflation on a downtrend



Source: CEIC, Elara Securities Research

India crude basket prices moderating



Note: Data as on 10 May 2024; Source: CEIC, Elara Securities Research

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