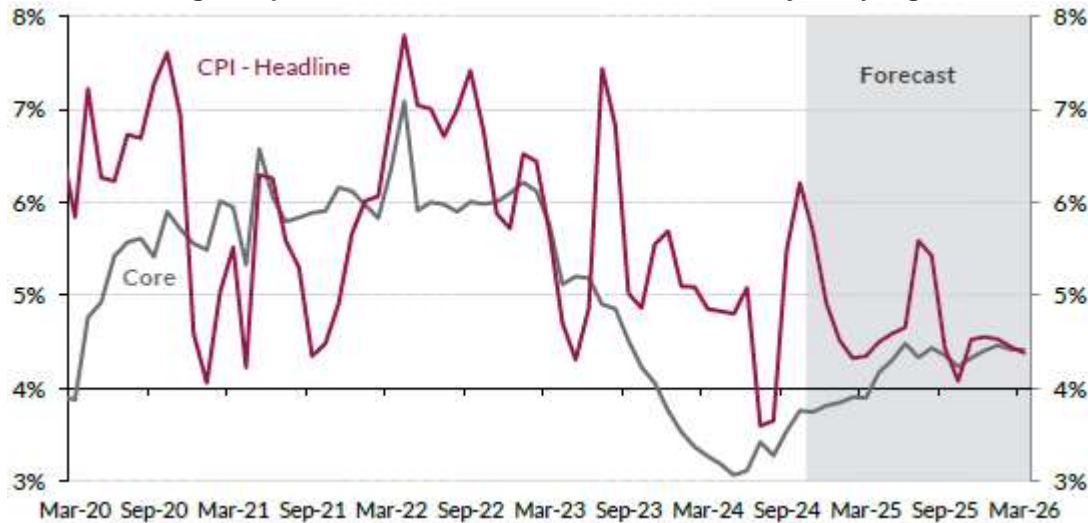


Higher India inflation push back on cuts, despite soft growth

India CPI inflation was stronger at 6.21%: vegetables, fruits and edible oils drove the MoM jump as expected, but the magnitudes were larger. A pickup in gold prices added to rising core inflation momentum. Prices thus far in November indicate the hump in inflation may last longer, and disinflation in 4Q needs to be sharper to bring headline down to the comfort zone. IIP at 3.1% augurs poorly for manufacturing GVA, though the weak fiscal impulse partly responsible for this is now reversing. Despite weaker growth, inflation continues to push back on expected rate cuts – we maintain the earliest possible cut can be in Apr.

Exhibit: Barring sharp food disinflation in 4Q, CPI inflation trajectory higher



Source: Axis Bank Business and Economic Research

India CPI inflation rises further to 6.21% on food, gold, services

India Oct CPI inflation rose faster than expected to 6.21% - the highest since Aug'23 – mainly due to vegetables, fruits and edible oils. These were sharper than implied through high frequency mandi prices. Higher edible oil prices were also seen in FAO data on supply concerns, compounded by domestic tariff hikes. Core inflation was also higher at 3.8%, in line with pickup in gold and silver prices in the month, with central bank and domestic festive demand more than offsetting financial supply with recovery in treasury yields. Apart from gold and silver, momentum of core inflation is now higher than 4%, with the low base leading all core inflation metrics steadily higher.

Inflation hump likely to last longer than thought, pushing out rate cuts

A composite of food prices based on high-frequency data (where available) shows trends remain elevated so far in Nov too, with extraordinarily large disinflation needed to bring food inflation back down. Coupled with rising core inflation, this is likely to keep the hump higher and longer than earlier thought, with the high base in food prices at end-Q4 allowing for some moderation – but warm weather and the monsoon in Q1 bringing fresh risks. Despite weaker growth (below), the numbers push back on expected rate cuts.

Sep IIP in mild recovery to 3.1% YoY, auguring poorly for GVA

Sep IIP came in at 3.1% YoY, bringing quarterly IIP manufacturing (proxying the informal sector in manufacturing GDP) down to 3%. Coupled with weak trends in deflated early corporate results, the numbers bode poorly for manufacturing GVA, as seen until now. Internals showed recovery in electricity, refining, and cement.

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