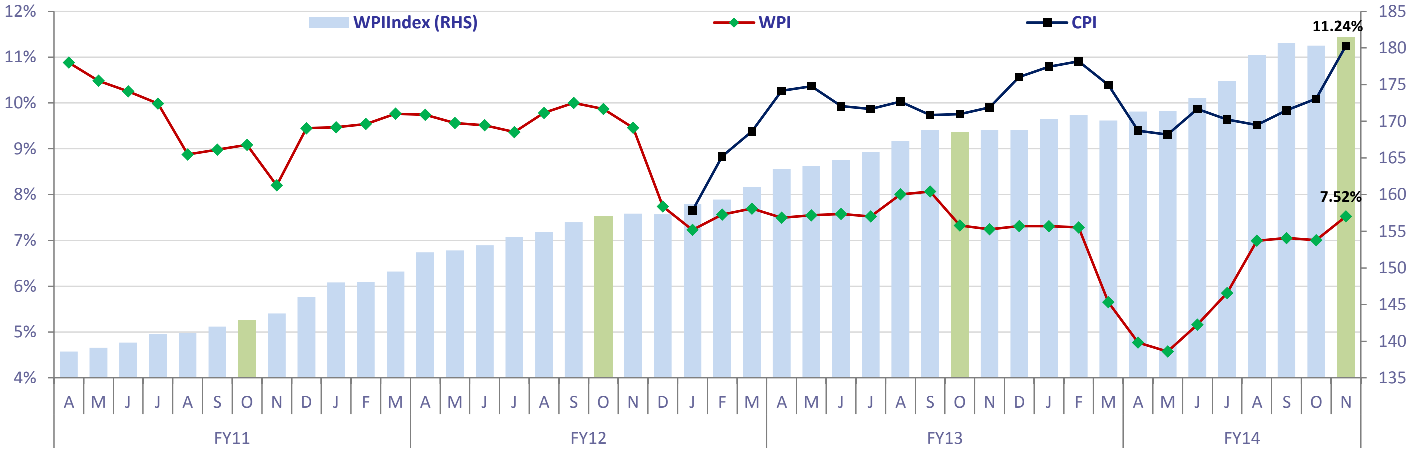
WPI Inflation - November 2013

Inflation stood to its 14 months high at 7.52% in Nov'13

YTD Primary Food Articles Index rose by 19.8% in FY14 against 8.5% in FY13 | Sep'13 Inflation Revised Upward By 59 bps to 7.05%.

Inflation trend

WPI Index | WPI based Inflation | CPI based Inflation



WPI inflation rose further to 7.52% in Nov’13 against expectations of ~7.20%. Correspondingly, inflation stood at 7.0% in Oct’13 and 7.24% in Nov’12. Inflation for Sep’13 has been revised upward by 59 bps from 6.46% to 7.05%, taking all of the last four WPI readings above 7% mark. Meanwhile, CPI inflation also moved up to 11.24% in Nov’13 against 10.09% in Oct’13 against and 9.90% in Nov’12.

On M-O-M basis the WPI index inflated by 0.67% against 0.33% in Oct’13 and an average increase of 0.82% in this fiscal. Primary articles, Fuel and Power index grew by 1.87%, 0.10% & 0.20% respectively. Build up inflation (Apr-Nov) stood at 6.7% in FY14 against 4.84% in FY13. Primary articles group reported 14.88% inflation in this fiscal (Apr-Nov) with Primary food articles increasing by 19.76%. Thus, food stands to be the major contributor to inflation now.

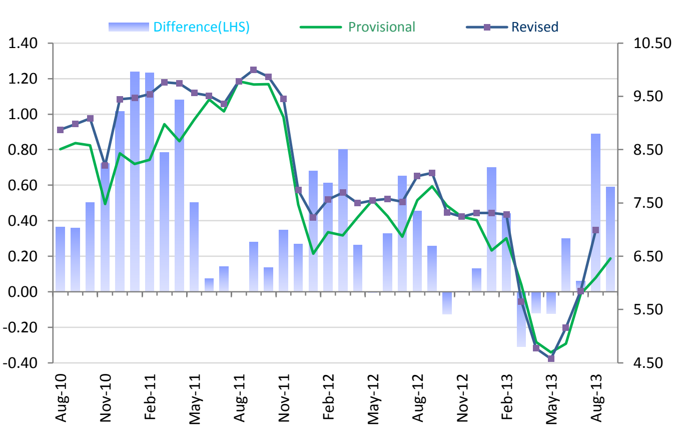
In terms of contribution to inflation, Primary articles contribution increased to ~49% in Nov’13 against ~28% in Nov’12. On the other hand, manufacturing segments contribution declined to ~26% in Nov’13 against ~51% in Nov’12. Within primary articles, food articles contribution stood at ~88%. Thus, primary food articles contribute ~43% in WPI directly against its weightage of just 14.34%. Similarly, in CPI basket also food contributed ~65% to inflation against a weightage of 49.7%.

In contrast to India, the international food price index (FAO index- which tracks prices of Meat, Dairy, Cereals, Oils & Sugar) observed deflation for the 5th consecutive months @ -4.41% in Nov’13. Within FAO, cereal prices fell (-23.9%) the most while dairy prices increased (23.1%) the most.

Now inflation seems to be purely food driven which can be corrected significantly by correcting the supply mechanism. We expect that based on a good crop harvest, a slower pace of increase in MSPs, subdued domestic demand conditions and a moderation in real rural wages , WPI may start correcting from here onwards. While a rate hike seems discounted at this juncture but interest rates don’t seem to directly affect food inflation. In light of this, a pause from RBI would be highly positive for the markets.

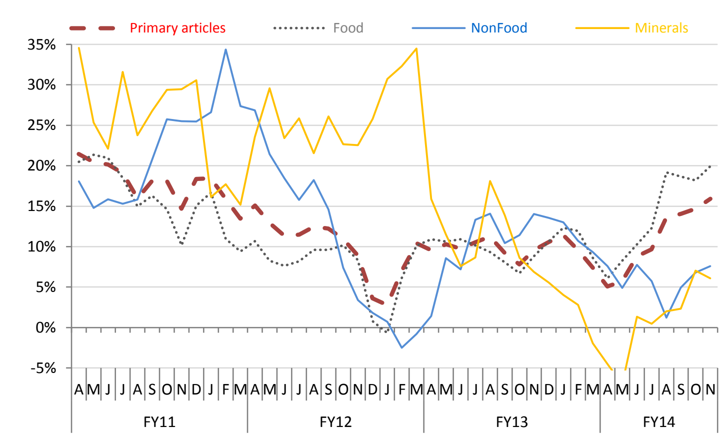
Inflation Revisions

Provisional | Revised | Difference in Percentage points (RHS)



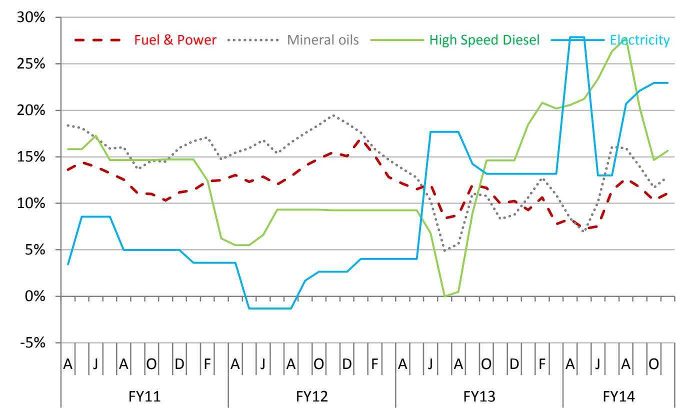
Inflation - Primary articles group

Primary Articles | Food Articles | Non-Food Articles | Minerals | % YoY



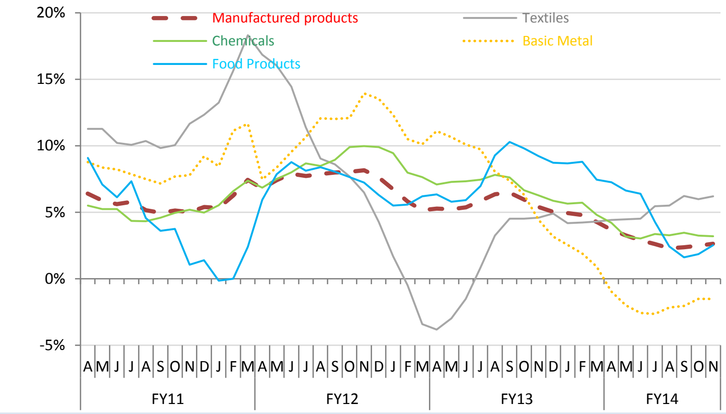
Inflation - Fuel & Power Group

Fuel & power | Mineral oils | Coal | Electricity | %YoY



Inflation - Manufacturing Group

Manufacturing | Textiles |Chemicals | Basic metals | Food | %YoY



Y-O-Y Growth (%)	Weights	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Nov-12	Apr-Nov'13	Apr-Nov'12
All Commodities	**100**	**5.16%**	**5.85%**	**6.99%**	**7.05%**	**7.00%**	**7.52%**	**7.24%**	**6.70%**	**4.84%**
Primary Articles	20.12	8.79%	9.68%	13.57%	14.03%	14.68%	**15.92%**	9.56%	14.88%	6.40%
Fuel & Power	14.91	7.51%	11.36%	12.66%	11.72%	10.33%	**11.08%**	9.97%	9.39%	6.13%
Manufactured	64.97	2.89%	2.60%	2.31%	2.36%	2.50%	**2.64%**	5.41%	2.15%	3.79%
Primary Articles										
Food	14.34	10.27%	12.29%	19.17%	18.68%	18.19%	**19.93%**	8.80%	19.76%	8.47%
Non-Food	4.26	7.73%	5.71%	1.21%	4.92%	6.79%	**7.60%**	14.04%	4.38%	6.06%
Minerals	1.52	1.32%	0.48%	1.99%	2.33%	7.03%	**6.09%**	6.88%	3.95%	-3.93%
Fuel & Power										
Coal	2.09	-8.94%	-8.94%	-8.94%	-8.94%	-8.94%	**-8.94%**	13.92%	0.95%	0.00%
Mineral oils	9.36	10.12%	16.06%	15.92%	13.94%	11.68%	**12.85%**	8.31%	7.95%	6.07%
Electricity	3.45	12.99%	12.99%	20.69%	22.13%	22.96%	**22.96%**	13.16%	22.96%	13.16%
Manufactured										
Food Products	9.97	6.41%	4.29%	2.43%	1.61%	1.86%	**2.52%**	9.25%	3.14%	8.11%
Textiles	7.32	4.53%	5.46%	5.51%	6.22%	5.99%	**6.20%**	4.59%	5.25%	3.36%
Chemicals	12.02	3.03%	3.37%	3.28%	3.47%	3.26%	**3.19%**	6.27%	1.92%	3.52%
Basic metals	10.75	-2.58%	-2.64%	-2.16%	-2.03%	-1.50%	**-1.50%**	4.45%	-0.49%	1.96%

CPI - Combined	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Nov-12
CPI - Combined	10.39%	9.39%	9.31%	9.87%	9.64%	9.52%	9.84%	10.09%	**11.24%**	9.90%

World Food Prices	Mar-13	Apr-13	May-13	Jun-13	Jul-13	Aug-13	Sep-13	Oct-13	Nov-13	Nov-12
FAO Index (y-o-y)	-1.03%	1.28%	4.62%	5.64%	-2.60%	-4.36%	-6.49%	-4.91%	**-4.41%**	-1.50%
FAO Index (m-o-m)	0.89%	0.85%	-0.95%	-1.17%	-2.10%	-1.38%	-0.36%	1.34%	**-0.16%**	-0.68%

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