

India Macro Flash

No Relief in WPI – Up 7.8% in Sept; How Could the RBI "Reciprocate" Govt Reform Measures in its 30 Oct Policy?

- **Sept Inflation – Up 7.8%; Core Unchanged at 5.6%** — The Sept WPI print came in at 7.8%, in line with expectations and marginally higher than the 7.6% print seen last month. Core inflation remained unchanged at 5.6%. On a seasonally-adjusted basis, headline inflation was up 1.1% MoM while core was up 0.6%. The sharp revision in July data from 6.9% to 7.5% incorporates the electricity tariff revisions.
- **Inflation Internals – Rise in Fuel and Manufactured Products** (1) The Fuel Index rose 4.0% MoM (11.9% YoY), largely reflecting the first round impact of the diesel price hike (see [Fuel Price Hike/Duty Re-jig – A Big Sentiment Positive, Despite Impact on Inflation and Public Finances](#)). (2) Manufactured products rose 0.5% MoM (6.3% YoY) largely due to an increase in food products up 1.2% MoM (9.8% YoY) largely due to sugar, while core rose 0.4% (5.6% YoY). (3) Primary articles rose 0.5% on a MoM basis (8.8% YoY) (see page 2 for details).
- **Inflation Outlook** – While the impact of the fuel price hike is ~125bps, the recovery in monsoons eases the pressure on an even further build-up in primary product inflation. We thus maintain our view that headline inflation is likely to average 8% in FY13. However, key to watch is the inter-play of commodity prices and currencies. The INR has appreciated ~5% over the last month while concerns of a global slowdown, especially China, could result in a stabilising commodity prices. Both the above could result in the WPI inflation numbers coming in lower towards 4QFY13.
- **RBI's Dilemma – Inflation; Growth and Govt Action** – We maintain our view that the RBI is likely to ease rates by 50bps towards the latter half in 2H FY13. While growth remains sub-par, the inflation numbers, both WPI and CPI, remain well over targets. However, since 13 Sep, the govt has taken several initiatives on the reform side which builds the case for the RBI to complement govt initiatives with some monetary measures (see [RBI's Dilemma – IIP Recovers to 2.7% but Still Sub-Par; CPI Trends Lower but Still High at 9.7% and Govt Continues to Act](#)).
- **What could the RBI do in its 30 Oct Policy?** — Though not in our base case, given the slew of reform measures and the possibility of more to come (see pg 2 [US Mktg Trip Takeaways – Reforms Get India Back from the Edge](#) for reforms), there remains an outside chance of rate action in the RBI's 30 Oct Monetary Policy. However, given current inflation levels and the RBI's constant re-iteration on "sticky/core/headline inflation", the "credibility" factor could come into play. Thus, other than rate action, measures that the RBI could implement to boost growth include (1) Relaxing Provision Norms in certain sectors (2) Reduce Risk-Weighted Assets and (3) Tweaking Priority Sector Norms.

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Figure 1. Inflation Snapshot (% YoY, %MoM)

	Jun-12	Jul-12	Aug-12	Sep-12
Primary Art	9.7	10.5	10.1	8.8
%MoM	0.0	1.9	0.2	0.5
Manf Prods	5.4	5.9	6.1	6.3
%MoM	0.5	0.6	0.5	0.5
Fuel Index	10.3	8.4	8.3	11.9
%MoM	-0.4	0.7	0.8	4.0
WPI	7.6	7.5	7.6	7.8

Source: Office of the Economic Advisor

See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

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Key Data Highlights

PRIMARY ARTICLES: 8.8% YoY, 0.5%MoM

YoY trends in food articles eased to 7.9% vs. 9.1% in Aug due to lower prices of fruits & vegetables which offset higher prices of cereals. Pulses remained high, but lower than trends seen last month

Non-Food Articles came in at 10% v/s 13.8% YoY last month, due to fibres but oilseeds remained under pressure

Minerals however rose to 12.4% from 9.7% last month

Figure 2. Primary Articles – Breakdown by Component (% YoY)

	Wts	Monthly								Apr-Sep	
		Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sep12		FY13	FY12
1. Food Articles	14.3	10.1	10.9	10.6	10.9	10.2	9.1	7.9	14.2	9.9	9.0
Cereals	3.4	4.6	6.8	5.6	6.6	8.1	10.7	14.2	8.7	5.0	
Rice	1.8	5.0	6.0	4.9	7.5	9.9	10.3	12.4	8.5	3.4	
Wheat	1.1	-0.6	6.0	6.8	6.8	6.4	12.8	18.6	9.6	-0.6	
Pulses	0.7	10.1	11.3	16.8	20.6	28.6	34.4	29.3	23.5	-5.6	
Fruits and Vegetables	3.8	10.0	11.0	14.8	17.6	10.5	5.4	0.1	9.9	15.7	
Milk	3.2	15.3	15.7	11.9	7.5	8.0	6.7	6.2	9.3	8.5	
Tea	0.1	4.6	18.5	30.5	33.0	25.3	32.8	31.5	28.6	4.8	
2. Non-Food Articles	4.3	-0.8	1.4	8.6	7.2	13.3	13.8	10.0	9.0	19.2	
Fibres	0.9	-31.3	-31.0	-16.5	-12.7	5.9	3.5	-5.7	-9.4	46.5	
Oil seeds	1.8	13.4	16.7	19.1	18.5	25.5	28.3	28.1	22.7	13.4	
Sugarcane	0.6	0.0	0.0	0.0	3.9	1.2	4.9	4.9	2.5	7.1	
3. Minerals	1.5	34.5	15.9	11.5	7.6	8.7	9.7	12.4	11.0	25.0	
PRIMARY ARTICLES (1+2+3)	20.1	10.4	9.6	10.3	9.7	10.5	10.1	8.8	9.8	12.6	

Source: Office of the Economic Advisor

FUEL INDEX: 11.9%YoY: and 4% MoM

The Fuel Index increased sharply to 11.9% vs 8.3%YoY reading last month.

This was due to rise in mineral oils (10.8% vs. 5% in Aug) – primarily led by high speed diesel (8.9% vs. 0.4% in Aug).

The revision in electricity tariffs in now reflected in the August data; consequently resulting in an upward revision to the headline no's from 6.9% to 7.6%.

Figure 3. Fuel Index – Breakdown by Component (%YoY)

	Wts	Monthly								Apr-Sep	
		Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sep12		FY13	FY12
1. Coal	2.1	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.9	13.3	
2. Mineral Oils	9.4	14.7	13.7	12.7	10.3	4.9	5.0	10.8	9.6	16.3	
Controlled Fuels:											
LPG	0.9	14.3	15.5	15.4	11.3	0.7	0.6	1.1	7.4	13.1	
Kerosene	0.7	18.3	18.3	18.3	13.1	0.6	1.6	2.2	9.0	26.0	
High Speed Diesel	4.7	9.2	9.2	9.2	6.8	0.0	0.4	8.9	5.8	7.6	
Mkt Determined Fuels:											
Petrol	1.1	12.0	12.0	10.5	11.9	8.7	9.5	6.7	9.9	25.4	
Light Diesel Oil	0.1	26.7	20.2	10.7	3.8	1.7	5.8	17.3	9.9	36.4	
Aviation Turbine Fuel	0.3	17.4	14.4	13.7	12.5	10.5	13.2	28.9	15.5	43.9	
Naphtha	0.8	19.2	15.9	14.8	13.3	13.8	12.6	23.0	15.6	25.3	
Bitumen	0.2	23.3	11.6	10.2	10.5	17.3	14.3	8.9	12.1	14.2	
Furnace Oil	0.5	32.2	31.5	27.3	21.1	19.0	16.0	22.4	22.9	30.9	
Lubricants	0.2	21.8	10.6	7.2	9.3	8.8	4.4	2.0	7.1	17.5	
3. Electricity	3.5	4.0	4.0	4.0	17.7	17.7	17.7	14.2	12.6	0.0	
FUEL INDEX (1+2+3)	14.9	12.8	12.1	11.5	10.3	8.4	8.3	11.9	10.4	12.9	

Source: Office of the Economic Advisor

MANUFACTURED PRODUCTS: up 6.3%YoY and 0.5% MoM

Manufactured FOOD prices rose to 9.8% from 9% YoY in Aug.

Manufactured NON-FOOD remained steady at 5.6%, same as last month. Rise in beverages (6.8% vs. 4.8% in Aug) and textiles (3.8% vs. 3% in Aug) was offset by fall in chemicals (7.5% vs. 7.7% in Aug) and basic metals (7.5% vs. 8.1% last month)

Figure 4. Manufactured Products – Breakdown by Component (%YoY)

	Wts	Monthly								Apr-Sep	
		Mar12	Apr12	May12	Jun12	Jul12	Aug12	Sep12		FY13	FY12
1. Food Products	10.0	6.2	6.4	5.8	5.9	7.0	9.0	9.8	7.3	7.9	
NON FOOD Manuf Products	55.0	5.0	5.0	5.2	5.2	5.7	5.6	5.6	5.4	7.6	
2. Beverage Tobacco & Prod	1.8	8.9	9.4	8.2	5.8	6.2	4.8	6.8	6.9	11.6	
3. Textiles	7.3	-3.3	-3.8	-3.0	-1.5	0.9	3.0	3.8	-0.1	12.7	
4. Wood & Wood Products	0.6	8.6	8.5	7.2	4.4	5.6	5.4	5.9	6.2	7.4	
5. Paper & Paper Products	2.0	2.5	2.3	2.1	2.3	2.6	2.7	2.9	2.5	6.5	
6. Leather/Leather Products	0.8	4.9	4.3	4.1	2.9	3.9	3.5	4.1	3.8	0.5	
7. Rubber, Plastic Products	3.0	1.2	1.2	2.2	2.3	2.6	2.5	3.2	2.3	8.1	
8. Chemicals & Chem Prod	12.0	7.7	7.1	7.3	7.3	7.5	7.7	7.5	7.4	8.1	
9. Non-Met. Mineral Prods	2.6	6.7	7.3	6.5	7.7	8.4	9.8	9.3	8.1	4.0	
10. Basic Metals, Alloys	10.7	10.1	11.1	10.6	10.1	9.7	8.1	7.5	9.5	10.0	
11. Machinery Machine Tools	8.9	2.5	2.0	2.5	3.0	3.2	2.8	2.5	2.7	3.1	
12. Transport Eqpmt & Parts	5.2	3.3	3.4	4.5	3.6	3.7	3.8	3.8	3.8	3.1	
MANUF. PRODUCTS	65.0	5.2	5.3	5.2	5.4	5.9	6.1	6.3	5.7	7.6	

Source: Office of the Economic Advisor

Charting Trends in WPI

Figure 5. Trends in Headline WPI (% YoY)

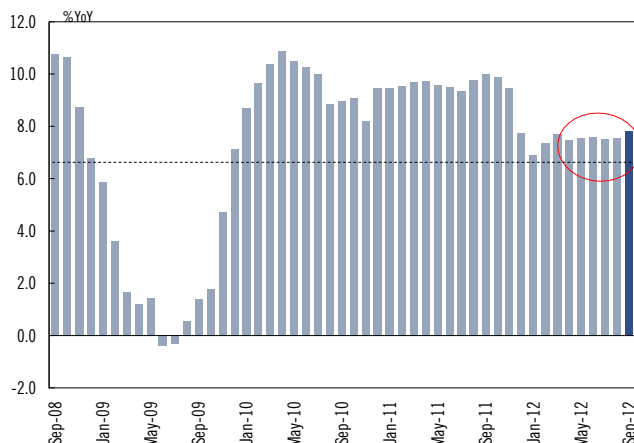


Figure 6. Trends in Primary Articles (%YoY)

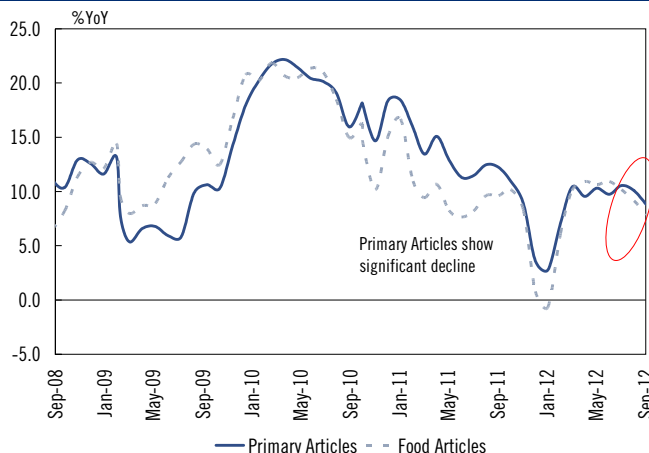


Figure 7. Trends in Manufactured Products Inflation (%YoY)

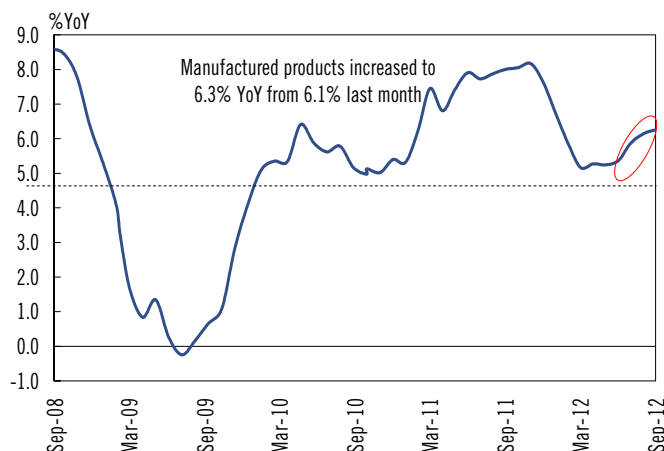


Figure 8. Trends in "Suppressed" Inflation (%YoY)

	Wt in WPI	Price Hike	Impact on Inflation*	Current Price	Curr. Losses	Required Price Hikes	Impact on Inflation
LPG	0.90%		0.30%	400	350.0	88%	0.6%*
Kerosene	0.70%			14.8	33.0	223%	1.6%
High speed diesel	4.70%	12%	0.55%	47	14.0	30%	1.4%
Overall impact	6.30%		0.85%				3.4%

*Incorporates the 12% diesel price hike on Sept 13.

Figure 9. Trends in the Fuel Index and Brent Prices (US\$/bbl/%YoY)

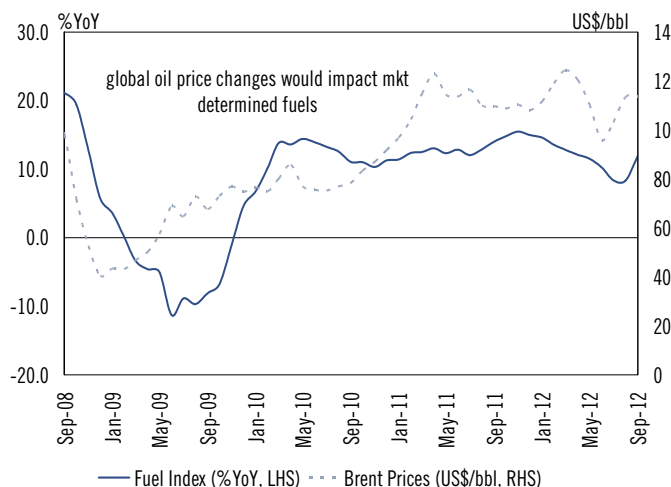


Figure 10. Trends in Brent Prices in INR terms (Rs/bbl)



Source for all charts: Office of the Economic Advisor, Bloomberg; Citi Research

Statistical Snapshot

Figure 11. India – Macroeconomic Summary, FY01-14E (%)

Year to 31 March	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13E	FY14E
National Income Indicators*														
Nominal GDP (Rs bn)	21,840	23,676	25,500	28,617	32,422	36,934	42,947	49,871	56,301	64,574	76,741	88,558	101,399	116,609
Nominal GDP (US\$ bn)	478	493	528	623.5	720.5	833.7	950.2	1240.6	1223.9	1362.3	1683.7	1,841	1,844	2,159
Per Capita GDP (US\$)	469	474	500	582	662	754	847	1,090	1,061	1,164	1,420	1,532	1,511	1,718
Real GDP growth (%)	4.3	5.5	4.0	8.1	7.0	9.5	9.6	9.3	6.7	8.4	8.4	6.5	5.4	6.2
Agriculture growth (%)	0.0	6.0	-6.6	9.0	0.2	5.1	4.2	5.8	0.1	1.0	7.0	2.8	0.5	3.0
Industry growth (%)	6.0	2.6	7.2	7.3	9.8	9.7	12.2	9.7	4.4	8.4	7.2	3.4	3.2	4.4
Services growth (%)	5.4	6.9	7.0	8.1	8.1	10.9	10.1	10.3	10.0	10.5	9.3	8.9	7.5	7.8
By Demand * (%YoY)														
Consumption	3.0	5.3	2.3	5.4	2.3	8.6	7.9	9.3	7.6	8.1	8.1	5.4	5.0	5.7
Pvt Consm	3.4	6.0	2.9	5.9	2.1	8.5	8.7	9.2	7.1	7.0	8.1	5.5	5.0	5.5
Public Consm	0.9	2.3	-0.4	2.6	3.4	8.9	3.8	9.6	10.4	14.3	7.8	5.1	5.0	7.0
Gross Fixed Capital Formn	0.0	7.4	6.8	13.6	20.7	16.2	13.8	16.2	3.5	6.8	7.5	5.5	4.5	6.0
Cons; Invest, Savings ** (%GDP)														
Consumption	78.5	78.9	77.2	75.0	70.1	69.2	68.0	67.2	68.6	69.4	68.4	67.7	67.0	67.0
Gross Capital Formation	23.8	22.3	24.6	26.9	32.8	34.7	35.7	38.1	34.3	36.1	35.8	35.5	35.0	35.0
Gross Domestic Savings	23.2	22.9	25.7	29.1	32.4	33.4	34.6	36.8	32.0	33.8	32.3	32.0	31.8	31.5
Real Indicators (%YoY)														
Cement dispatches (domestic)	-1.9	9.8	8.7	5.8	8.1	10.1	10.2	9.8	8.5	11.2	5.2	7.0	8.0	9.0
Commercial vehicle sales	-11.9	-4.5	40.4	37.5	25.5	12.3	32.2	5.8	-22.3	39.2	27.0	19.5	1.2	12.9
Car sales	-5.3	3.2	5.3	32.1	19.2	7.4	19.7	11.7	7.0	25.7	29.3	3.9	2.9	22
Two-wheelers	0.7	15.3	15.8	12.6	16.8	15.0	12.1	-4.8	4.7	25.8	25.8	13.9	5.0	11.0
Diesel consumption	-3.4	-3.7	0.3	1.2	6.9	1.4	6.7	11.1	8.5	8.9	6.5	8.0	8.0	8
Mobile Tele density	0.3	0.6	1.3	3.1	4.8	8.2	14.1	22.0	33.0	48.5	66.8	75.1	79.0	80
Monetary Indicators (% YoY)														
Money supply	15.9	16.0	16.1	13.0	14.0	15.9	20.0	22.1	20.5	19.2	16.0	16.0	16.0	17.0
Inflation – WPI (Avg)	7.1	3.6	3.4	5.5	6.5	3.7	6.5	4.8	8.0	3.6	9.6	8.8	8	7
CPI (Avg)	3.7	4.3	4.1	3.8	3.9	4.2	6.8	6.2	9.1	12.3	10.5	8.4	8.0	7
Bank credit growth	17.3	15.3	23.7	15.3	30.9	37.0	28.1	22.3	17.5	16.9	21.5	17.0	17.0	17.0
Deposit growth	18.4	14.6	16.1	17.5	13.0	24.0	23.8	22.4	19.9	17.0	16.0	16.0	16.0	16.0
Fiscal Indicators (% GDP)														
Centre's fiscal deficit	-5.4	-6.0	-5.7	-4.3	-3.9	-4.0	-3.3	-2.5	-6.0	-6.5	-4.9	-5.9	-5.9	-5.5
State fiscal deficit	-4.0	-4.0	-3.9	-4.2	-3.3	-2.4	-1.8	-1.5	-2.4	-2.9	-2.7	-2.5	-2.5	-2.5
Combined deficit (Centre+State)	-9.2	-9.6	-9.2	-8.2	-7.2	-6.5	-5.4	-4.1	-8.4	-9.7	-8.3	-8.4	-8.4	-8.0
Off Balance Sheet Items	-	-	-	-	-	-0.5	-0.9	-0.6	-1.7	-0.2	-	-	-	-
Combined liabilities (dom+ext)	77.1	82.0	85.5	85.4	85.2	83.0	79.3	76.1	76.1	75.0	71.3	70.5	69.2	69.2
External Sector (% YoY)														
Exports (US\$bn)	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	288.1	311.1
% YoY	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-7.0	8.0
Imports (US\$bn)	57.9	56.3	64.5	80.0	118.9	157.1	190.7	257.6	308.5	300.6	381.1	499.5	465.1	493.0
%YoY	4.6	-2.8	14.5	24.1	48.6	32.1	21.4	35.1	19.8	-2.6	26.7	31.1	-6.9	6.0
Trade deficit (US\$bn)	-12.5	-11.6	-10.7	-13.7	-33.7	-51.9	-61.8	-91.5	-119.5	-118.2	-130.6	-189.8	-177.0	-181.8
Invisibles (US\$bn)	9.8	15.0	17.0	27.8	31.2	42.0	52.2	75.7	91.6	80.0	84.6	111.6	118.4	131.7
Current Account Deficit (US\$bn)	-2.7	3.4	6.3	14.1	-2.5	-9.9	-9.6	-15.7	-27.9	-38.2	-45.9	-78.2	-58.6	-50.1
% to GDP	-0.6	0.7	1.2	2.3	-0.3	-1.2	-1.0	-1.3	-2.3	-2.8	-2.7	-4.2	-3.1	-2.3
Capital Account (US\$bn)	8.8	8.6	10.8	16.7	28.0	25.5	45.2	106.6	6.8	51.6	62.0	67.8	61.6	58.6
% GDP	1.9	1.7	2.1	2.7	3.9	3.1	4.8	8.6	0.6	3.8	3.7	3.7	3.3	2.7
Forex Assets (excl gold) (US\$bn)	39.6	51.0	71.9	106.1	135.1	145.1	191.9	299.1	241.6	252.8	273.7	260.9	263.9	272.4
Months of imports	8.2	10.9	13.4	15.9	13.6	11.1	12.1	13.9	9.4	10.1	8.6	6.3	6.8	6.6
External Debt (US\$bn)	45.5	44.7	53.8	66.3	85.2	105.2	128.9	166.2	189.0	182.4	250.5	309.8	288.1	311.1
Short Term Debt	21.1	-1.6	20.3	23.3	28.5	23.4	22.6	28.9	13.7	-3.5	37.3	23.7	-7.0	8.0
Exchange Rate														
US\$/INR - annual avg	45.7	48.0	48.3	45.9	45.0	44.3	45.2	40.2	46.0	47.4	45.6	48.1	55.0	54.0
% depreciation	5.3	5.0	0.6	-5.0	-2.0	-1.6	2.0	-11.1	14.4	3.0	-3.8	5.5	14.3	-1.8
US\$/INR - year end	46.5	48.9	47.5	43.6	43.8	44.6	43.6	40.1	50.7	44.9	44.6	50.3	55.0	53.1
% depreciation	6.7	5.2	-2.9	-8.2	0.3	2.0	-2.3	-8.0	26.4	-11.4	-0.7	12.8	9.3	-3.5

** At current prices. Source: CSO, RBI, Ministry of Finance and Citi Research estimates, INR forecasts are as on 17 Sep

Appendix A-1

Analyst Certification

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