

Headline eases, Core elevated

- **CPI inflation eased to 5.88% YoY in November (our est. 6.35%) vs. 6.77% in October. Deviation from our estimate is because of lower than anticipated vegetable and fruit inflation**
- **Food inflation eased to 5.1% YoY (vs. 7.1% last month) led by vegetables and fruits. Cereals and spices continue to see elevated inflation. We do expect cereal inflation to ease**
- **Core inflation remains entrenched at 6% YoY with most items at elevated levels. Core inflation at 6% now from early 2021 and it is now more widespread than before**
- **We do expect CPI inflation to ease to 5.2% in FY24 with a downside surprise to this year's inflation estimate by 10bps to 6.6%**
- **However, with core inflation at 6%, we do expect RBI to raise repo rate by another 25bps in the next policy along with change in stance to neutral**

Food inflation eases: Food and beverages inflation eased to 5.1% from 7.1% YoY last month led by sharp deceleration in vegetable and fruits inflation. Notably, it is the lowest inflation print this calendar year. It is driven by 8.3% MoM decline in vegetables, 2% MoM fall in fruits and 0.7% MoM decline in meat and fish. On a YoY basis, vegetable prices are lower by 8.1% and that of fruits are higher by only 2.6%. At the same time, there are segments within food, which have seen continued acceleration. For instance, cereal prices rose by 1.3% MoM and that of spices increased by 1.4% MoM. Cereal inflation on a YoY basis is at 13%, running at the fastest pace since August 2013. Spices are up by 19.5% YoY, fastest pace in the current series. While oils and fats witnessed a MoM uptick this month, the correction in global prices bodes well. Even pulses prices are rising at a moderate pace at 3.2% YoY.

We do believe there is a case for cereal inflation to moderate. The same rests on higher acreage under *rabi* sowing at present (+15% YoY). Also, procurement for paddy in the current marketing season is expected to be higher than last year. While foodstocks held by government are lower than last year (-32.5% YoY), if the government does chooses to modify its food distribution scheme started during pandemic, it should lead to build-up in foodstocks and thus lower food prices next year (our report: [India's cereal inflation at cusp of reversal?](#)). Food items witnessing higher acreage are wheat (+25% YoY), rice (+14% YoY), oilseeds (+8.6% YoY) and coarse cereals (+14% YoY). Vegetable prices have also continued to moderate this month. This should give another tailwind to lower CPI print in December.

Core inflation elevated at 6%: Core inflation (excluding food and fuel) remained firm at 6.04% YoY compared with 5.99% in October. Within core, the only category that saw a meaningful acceleration was transport and communication at 5.3% YoY versus 4.6% YoY last month. This can be explained by base effect since on a MoM basis, the index is up by less than 0.1%. On a YoY basis, health, and household goods and services saw a minor acceleration at 7.7% YoY (vs. 7.6% last month) and 5.8% YoY (vs. 5.7% last month) respectively. Personal care and effects also remained elevated at 7.0% YoY (same as last month) due to higher gold prices (+5.0% YoY). On the other hand, deceleration was seen in recreation and amusement at 5.4% YoY (vs. 6.1% last month) and clothing and footwear at 9.8% YoY (vs. 10.2% last month). Housing inflation remain stable at 4.6% YoY. Same was the case with education, which remain firm at 5.8% YoY (same as last month).

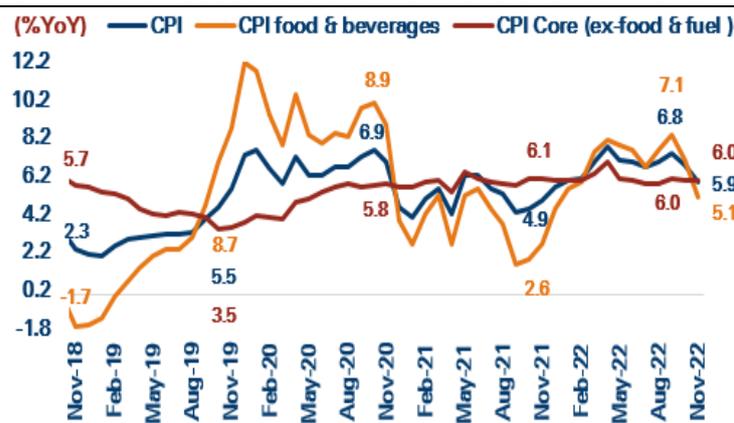
Does this change RBI's view on inflation? While this will lead to recalibration of CPI trajectory in Q3 and Q4 of FY23, core inflation continues to remain entrenched at 6%. This has been the case for core inflation since the beginning of 2021. While the driver of core inflation in 2021 was transport (higher global energy price pass-through), the current backdrop is much more widespread as seen in higher inflation in education, household goods and services and clothing and footwear. At the same time, components of food inflation such as cereals, spices and milk are witnessing elevated inflation. While cereal inflation is expected to come down, core inflation is likely to ease gradually in FY24. Hence, we continue to see CPI inflation heading towards 5.2% in FY24. This makes us believe that RBI is on its way to another hike in the next policy to ensure that core inflation eases gradually.

CPI: Headline eases, Core elevated

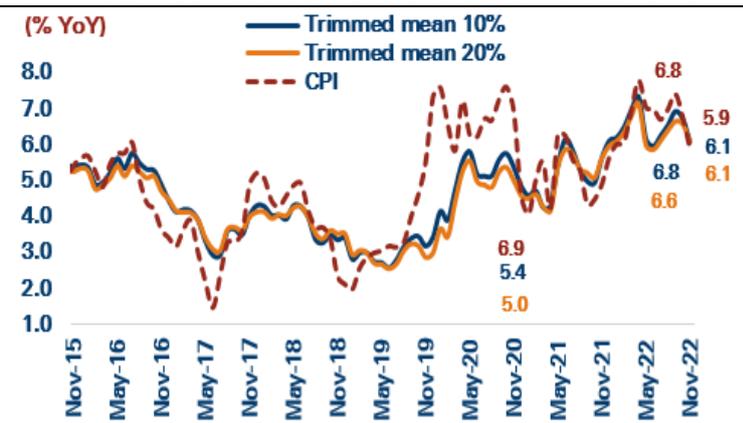
% YoY	weight	Nov-21	Oct-22	Nov-22	FYTD22	FYTD23
Headline	100.0	4.9	6.8	5.9	5.2	7.0
CPI: Food & Beverages	45.9	2.6	7.1	5.1	3.5	7.3
Cereals	9.7	1.5	12.1	13.0	-1.0	8.7
Vegetables	6.0	-13.6	7.8	-8.1	-11.5	11.6
Protein items	13.0	3.9	5.1	5.8	5.4	4.8
Oils & fats	3.6	29.7	-2.2	-0.6	31.8	6.2
Fruits	2.9	6.0	5.2	2.6	7.9	4.7
Sugar & confectionery	1.4	6.2	0.0	-0.2	0.8	3.0
Spices	2.5	4.0	18.1	19.5	5.1	14.2
Non-alcoholic beverages	1.3	9.7	4.1	4.1	13.4	4.6
Prepared meals	5.6	6.5	7.8	7.9	6.0	7.5
CPI: Fuel & light	6.8	13.3	9.9	10.6	12.4	10.5
CPI: Core	47.3	6.1	6.0	6.0	5.9	6.1
Pan, tobacco & intoxicants	2.4	4.0	1.9	2.0	5.5	1.9
Clothing & footwear	6.5	7.9	10.2	9.8	6.4	9.8
Housing	10.1	3.7	4.6	4.6	3.7	4.1
Household goods & services	3.8	6.4	7.6	7.7	5.0	7.5
Health	5.9	7.3	5.7	5.8	7.7	5.8
Transport & communication	8.6	10.0	4.6	5.3	10.8	6.7
Recreation & amusement	1.7	7.6	6.1	5.4	6.3	6.5
Education	4.5	3.1	5.8	5.8	2.7	5.1
Personal care & effects	3.9	3.2	7.0	7.0	3.7	6.9

Source : CEIC , ICICI Bank Research

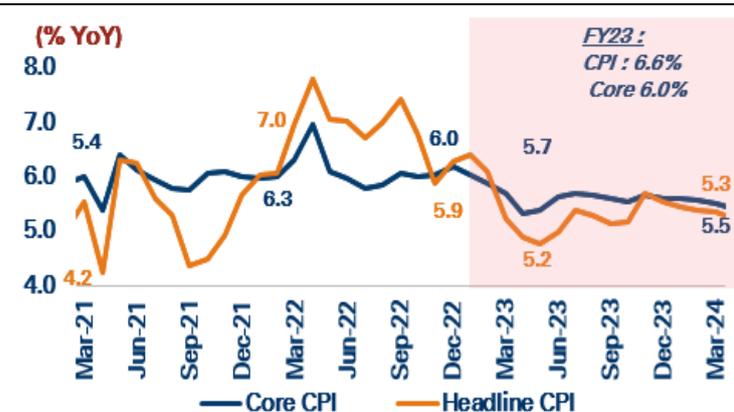
CPI inflation eased to 5.9% YoY vs. 6.8% last month



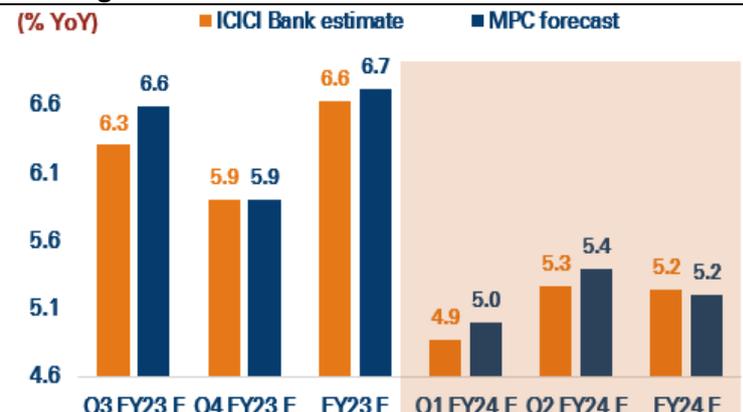
Trimmed mean at both 10% and 20% moved lower



CPI inflation estimated at 6.6% YoY vs. 6.7% earlier



...as against RBI's estimate at 6.7% YoY for FY23



Source : CEIC , ICICI Bank Research

Economic Research Group			
Economics Research			
Sameer Narang	Head-Economic Research Group	(+91-22) 4008-1414 (ext. 6220)	sameer.narang@icicibank.com
Shivom Chakravarti	Senior Economist Global Markets	(+91-22) 4008-1414 (ext. 6273)	shivom.chakravarti@icicibank.com
Anagha Deodhar	Senior Economist India Markets	(+91-22) 4008-1414 (ext. 7525)	anagha.deodhar@icicibank.com
Debomitra Sen	Research analyst	(+91-22) 4008-1414 (ext. 6280)	debomitra.sen@icicibank.com
Aniket Gaiwad	Research Analyst	(+91-22) 2653-1414 (ext. 8161)	aniket.gaiwad@icicibank.com
Kaushal Aryan	Research Analyst	(+91-22) 2653-1414 (ext. 7525)	kaushalkumar.aryan@icicibank.com
Asha Sasikumar	Research Analyst	(+91-22) 2653-1414 (ext. 8236)	asha.sasikumar@icicibank.com
Jyoti Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 7275)	sharma.jyoti@icicibank.com
Tanisha Ladha	Research Analyst	(+91-22) 2653-1414 (ext. 6386)	tanisha.ladha@icicibank.com
Aditya Sharma	Research Analyst	(+91-22) 2653-1414 (ext. 6386)	sharma.adi@icicibank.com
Dhairya Modi	Research Analyst	(+91-22) 2653-1414 (ext. 6386)	dhairya.modi@icicibank.com
Ashish Halder	Research Analyst	(+91-22) 2653-1414 (ext. 6763)	halder.ashish@icicibank.com

Treasury Desks			
Treasury Sales	(+91-22) 6188-5000	Currency Desk	(+91-22) 2652-3228-33
Gsec Desk	(+91-22) 2653-1001-05	FX Derivatives	(+91-22) 2653-8941/43
Interest Rate Derivatives	(+91-22) 2653-1011-15	Commodities Desk	(+91-22) 2653-1037-42
Corporate Bonds	(+91-22) 2653-7242		

Disclaimer

This document is issued solely by ICICI Bank Limited ("ICICI Bank"). Any information in this email should not be construed as an offer, invitation, solicitation, solution or advice of any kind to buy or sell any securities, financial products or services offered by ICICI Bank) or any other entity, unless specifically stated so. The contents of this document do not take into account your personal circumstances. Before entering into any transaction, you should take steps to ensure that you understand the transaction and have made an independent assessment of the appropriateness of the transaction in light of your own objectives and circumstances, including the possible risks and benefits of entering into such transaction and should seek your own financial, business, legal, tax and other advice regarding the appropriateness of investing in any securities. ICICI Bank (including its branches, affiliates of ICICI Bank) do not provide any financial advice, and is not your fiduciary or agent, in relation to the securities or any proposed transaction with you unless otherwise expressly agreed by us in writing.

The information, opinions and material in this document (i) are derived from sources that ICICI Bank believes to be reliable but the reliability or accuracy of which have not been independently verified (ii) are given as part of ICICI Bank's internal research activity and not as manager of or adviser in relation to any assets or investments and no consideration has been given to the particular needs of any recipient; and (iii) may contain forward looking statements, which may be materially affected by various risk, uncertainties and other factors. The opinions contained in such material constitute the judgment of ICICI Bank in relation to the matters which are the subject of such material as at the date of its publication, all of which are expressed without any responsibility on ICICI Bank's part and are subject to change without notice. ICICI Bank has no duty to update this document, the opinions, factual or analytical data contained herein. ICICI Bank and/or its affiliates makes no representation as to the accuracy, completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability with regard to the same. The recipient of the information should take necessary steps as they deem necessary prior to placing reliance upon it. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/purchase or as an invitation or solicitation to do so for any securities or financial products/ instruments of any entity.

This document is intended solely for customers of ICICI Bank and may contain proprietary, confidential or legally privileged information. No part of this report may be copied, disseminated or redistributed by any recipient for any purpose without ICICI Bank's prior written consent. If the reader of this message is not the intended recipient and has received this transmission in error, please immediately notify ICICI Bank, Economic Research Group, E-mail: erg@icicibank.com or by telephone at +91-22-2653-7233 and delete this message from your system.

Please also note that ICICI Bank (including its branches, and affiliates) is unable to exercise control or ensure or guarantee the integrity of/over the contents of the information contained in e-mail transmissions and / or attachments and that any views expressed in this e-mail and / or attachments are not endorsed by/binding on ICICI Bank. Before opening any attachments please check them for viruses and defects and please note that ICICI Bank accepts no liability or responsibility for any damage caused by any virus that may be transmitted by this email and/ or attachments thereto.

DISCLAIMER FOR DUBAI INTERNATIONAL FINANCIAL CENTRE (“DIFC”) CLIENTS:

This marketing material is distributed by ICICI Bank Limited., Dubai International Financial Centre (DIFC) Branch, a category 1 Authorized Firm and regulated by the Dubai Financial Services Authority. This marketing material is intended to be issued, distributed and/or offered to a limited number of investors who qualify as ‘Professional Clients’ pursuant to Rule 2.3.3 of the DFSA Conduct of Business Rulebook, or where applicable a Market Counterparty only, and should not be referred to or relied upon by Retail Clients and must not be relied upon by any person other than the original recipients and/or reproduced or used for any other purpose.

DISCLOSURE FOR RESIDENTS IN THE UNITED ARAB EMIRATES (“UAE”):

Investors should note that any products mentioned in this document, any offering material related thereto and any interests therein have not been approved or licensed by the UAE Central Bank or by any other relevant licensing authority in the UAE, and they do not constitute a public offer of products in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

DISCLOSURE FOR RESIDENTS IN HONGKONG

This document has been issued by ICICI Bank Limited in the conduct of its Hong Kong regulated business (i.e. type 1 license) for the information of its institutional and professional investor (as defined by Securities and Future Ordinance (Chapter 571 of Laws of Hong Kong) (the “SFO”)) customers; it is not intended for and should not be distributed to retail or individual investors in Hong Kong. Any person who is not a relevant person should not act or rely on this document or any of its contents. This document has not been reviewed, authorized or approved by any regulatory authority.

ICICI Bank and/or its affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. As a result, you should be aware that a conflict of interest may exist. In accordance with the regulatory requirements and its own conflicts of interest policies, ICICI Bank has in place arrangements, internal policies and procedures to manage conflicts of interest that arise between itself and its clients and between its different clients. Where it does not consider that the arrangements under its conflicts of interest policies are sufficient to manage a particular conflict, it will inform you of the nature of the conflict so that you can decide how to proceed.

DISCLOSURE FOR RESIDENTS IN SINGAPORE

ICICI Bank Limited, India (“ICICI India”) is incorporated under the laws of India and is regulated by the Reserve Bank of India. ICICI Bank Limited, Singapore branch (“ICICI”) is regulated by the Monetary Authority of Singapore.

As mentioned, ICICI India is regulated by the Reserve Bank of India. Hence, in relation to your dealing with ICICI India, you understand that your interest will be subject to protection of local laws and regulations in India, which may offer different or diminished protection than available under Singapore laws and regulations. You also understand that the Monetary Authority of Singapore will be unable to compel the enforcement of the rules of the local regulators.

For more detailed disclaimer, please visit <https://www.icicibank.com/disclaimer/disclaimertnc.html>