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CPI INFLATION COULD GO BELOW 6% IN MARCH 2020

CPI inflation declined sharply to 6.58% in Feb'20 as against the 68-month high of 7.59% in Jan'20, due to the decline in food & beverages inflation, which has declined by 2.26%. **Inflation is expected to slide below 6% in March 2020 and is likely to be close to 5% in August. Interestingly, CPI using the NAS food weights is at 4.88% in February, clearly indicating the incorrect estimation methodology of CSO using the current CES survey to estimate CPI.**

However, the irony is that at a time when food inflation is still in double digits there are still many crops who are trading below their MSP in wholesale market severely impacting farmers income. As crop price data shows, 43 % crops out of the 23 rabi and kharif crops for which MSP announced (2019-20 season) are still trading below their MSP. This figure was higher than the previous month figure where 30% crops were below MSP and it supports the fact that farmers are not getting better remuneration despite higher MSP.

IIP growth in Jan'20 came at 2.0% yoy as against the revised 0.1% growth in Dec'19. Mining, Manufacturing and Electricity all registered positive growth compared to Jan'19, 4.4%, 1.5% and 3.1% respectively. When we look at the export oriented industries under manufacturing, textiles and apparel continue to suffer. In case of manufacture of computer, electronic and optical products and electrical equipment, their growth has turned modestly positive in IIP, while the exports growth of electronics continue to remain robust. With imports from China getting stalled, domestic manufacturing activity could fill the gap. **However, non-availability of inputs can significantly dent IIP going forward.**

Co-ordinated fiscal and monetary easing is the current prescription across the world over the rising pace of Covid-19 infections outside of China. After US Fed has cut its benchmark policy rates by 50 bps to 1 to 1-1.25%, a few central banks (Canada, Mauritius, UK, etc.) also cut their key rates by 50 bps. The countries that are affected severely from Covid-19 are also providing fiscal stimulus. Australia provided $17.6 billion, Italy ($28 billion), UK ($39 billion), EU (€25 billion) to weather coronavirus impact. RBI has indicated that it stands ready to safeguard the country's banking system from financial and market risks stemming from the spread of COVID-19, citing expectations of "coordinated policy action" by Central Banks.

The RBI announced its first step to calm the Indian markets by announcing sell-buy swaps of willing to provide $2 dollars to banks in exchange for an offsetting transaction. This is a welcome move as it will address $ shortage and also push up the forward premia in the process. This could discourage speculation and clearly address the pounding of Indian markets with FII selling around $6.7 bn beginning Feb 20. The total portfolio capital outflow on March12'2020 was at a a record $1.5 bn, a single day outflow not even witnessed during taper tantrum days. We expect RBI to announce more liquidity enhancing measures in coming days. A rate cut at this stage could only happen as a by product of global synchronized rate easing cycle.

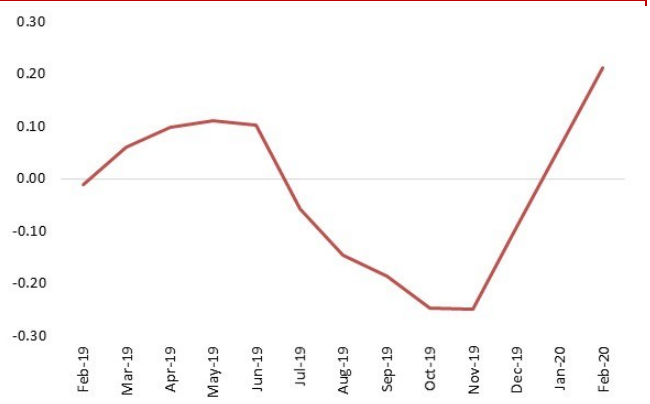
CPI INFLATION EASED TO 6.58% IN FEB'20

- CPI inflation declined sharply to 6.58% in Feb'20 as against the 68-month high of 7.59% in Jan'20, due to the decline in food & beverages inflation, which has declined by 2.26%. The prices of vegetables declined to 31.61% in Feb'20 from 50.04% in Jan'20, inflation in fruits also declined to 3.96% from 5.76%. However, in all other segments inflation has increased sequentially, though marginal. Inflation in Pan, Tobacco, and Intoxicants increased to 4.10% (3.68%), Clothing & Footwear 2.05% (1.98%) and Housing at 4.24% (4.20).
- Fuel & Light inflation has increased by 270 bps to 6.36% in Feb from 3.66% in Jan'20, which primarily due to the rise in LPG prices. LPG contribution has increased by 15 bps to 0.21%. Despite decline in prices of egg, meat and fish, protein inflation fell marginally to 8.98% due to the rise in milk & milk product prices.
- Core CPI declined to 4.08% in Feb'20 from 4.16% in Jan'20.

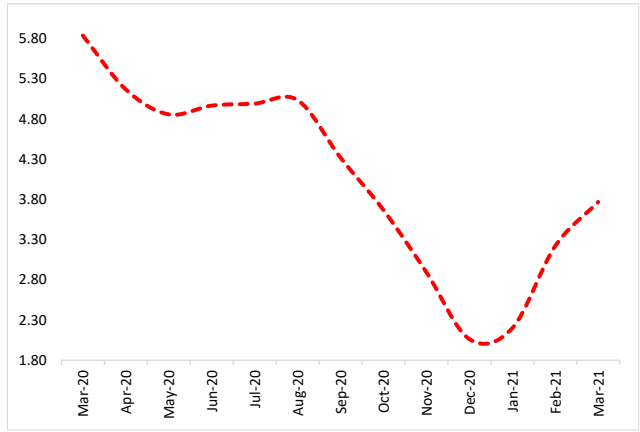
INFLATION TRAJECTORY AND RATE ACTION

- Inflation is expected to remain above 5% in the next two months, thus averaging to 6.67% for Q4 FY20. The inflation in meat , egg and fish has declined and expected to moderate further.
- **Inflation will slide down gradually in FY21 and will be closer to 2% by Dec'21. Good vegetable production will have a dampening effect on inflation while milk and pulses inflation are expected to remain elevated.**
- Co-ordinated fiscal and monetary easing is the current prescription across the world over the rising pace of Covid-19 infections outside of China. After US Fed has cut its benchmark policy rates by 50 bps to 1 to 1-1.25%, a few central banks (Canada, Mauritius, UK, etc.) also cut their key rates by 50 bps. The countries that are affected severely from Covid-19 are also providing fiscal stimulus. Australia provided $17.6 billion, Italy ($28 billion), UK ($39 billion), EU (€25 billion) to weather coronavirus impact.
- RBI has indicated that it stands ready to safeguard the country's banking system from financial and market risks stemming from the spread of Covid-19, citing expectations of "coordinated policy action" by Central Banks.

LPG Contribution to CPI Inflation



CPI Trajectory (%)



Source: SBI Research

PROCUREMENT IS IMPROVING

- Paddy procurement by Food Corporation of India (FCI)/ State agencies for Kharif Marketing Season (KMS) has started from Oct'19. The procurement data available in FCI portal shows that at all-India level till 11th March, 567.6 lakh metric tonnes (LMTs) of paddy has been procured (which is almost 86% of KMS 2018-19 procurement).
- Two successive years of bumper production and higher procurement have led to significant increase in stocks of rice and wheat in central pool. The storage capacity is fast getting exhausted. As against the buffer stock norm of 30.7 million tonne of rice and wheat, total central pool stock was 56.4 million tonne as on 31st Dec'19.

MSP PASSTHROUGH

- At a time when food inflation is still in double digits there are still many crops who are trading below their MSP in wholesale market severely impacting farmers income . The MSPs for kharif 2019 crops were raised by 1-9% from the year-ago season and in line with the principle of fixing the MSPs at a level of at least 1.5 times of the cost of production. This was expected to improve the prevailing market prices through procurement mechanism.
- However, crop price data shows, out of 23 major kharif and rabi crops, for which minimum support prices (MSPs) are fixed every year, farmers have sold ten crops namely Jowar, Bajra, Ragi, Gram, Arhar, Moong, Mustard, Cotton and Nigerseed below their benchmark prices in the wholesale market during Feb'20.
- The wholesale prices were about 16% lower than MSPs in the case of Ragi, 12% in case of Arhar and 12% in mustard while cereals crops such as wheat and paddy ruled above their MSPs.
- Further, the data shows, 43 % crops out of the 23 rabi and kharif crops for which MSP announced (2019-20 season) are still trading below their MSP. This figure was higher than the previous month figure where 30% crops were below MSP and it supports to the fact that farmers are not getting better remuneration despite higher MSP.

IIP REGISTERS GROWTH

- IIP growth in Jan'20 came at 2.0% yoy as against the revised 0.1% growth in Dec'19. Mining, Manufacturing and Electricity all registered positive growth compared to Jan'19, 4.4%, 1.5% and 3.1% respectively.
- In case of industries, 11 out of 23 industry groups in the manufacturing sector have shown positive growth during Jan'20 as compared to Jan'19, with 'tobacco products' witnessing maximum increase (22.8%), followed by 'basic metals' (14.1%) and 'furniture'(9.0%).
- Looking at the use based classification, Capital goods (-4.3%) and Infrastructure/ Construction Goods (-2.2%) both have registered negative growth. The Consumer durables and non-durables both are in red (-4.0% and -0.3% respectively).
- When we look at the export oriented industries under manufacturing, textiles and apparel continue to suffer. Exports of cotton yarn/fabrics, handloom products; man-made yarn, fabrics and made-ups; and ready-made garments all have registered negative or very low growth (-9.1%, -2.3% and 0.2% respectively) this fiscal. Even the manufacturing of textile and wearing apparel have shown de-growth in the past few months.
- Another major export component is vehicles other than railway and tramway whose growth which has declined around 6% during Apr'19-Jan'20. And the same time in IIP, manufacture of motor vehicles, trailers and semi-trailers has been negative this fiscal. In case of manufacture of computer, electronic and optical products and electrical equipment, their growth has turned modestly positive in IIP, while the exports growth of electronics continue to remain robust. Diverging trend is visible in manufacture of leather and related products whose IIP growth has improved significantly in Jan'20 while its exports continue to decline.

Procurement of Paddy (Fig. in LMTs)

	2018-19	2019-20 (till 13 Jan)	2019-20 (till 10 Feb)	2019-20 (till 11 Mar)	During 13 Jan to 11 Mar	Share (Compared to 2018-19)
AP	71.7	20.9	36.5	45.9	24.9	64.0%
Telangana	77.5	42.2	47.1	47.1	4.9	60.8%
Bihar	14.2	0.8	3.8	7.9	7.1	55.5%
Chhattisgarh	58.4	37.8	71.6	59.2	21.4	101.3%
Haryana	58.8	64.2	64.2	64.2	0.0	109.2%
Jharkhand	2.3	0.1	0.6	1.5	1.4	63.6%
Kerala	6.9	1.7	1.8	2.5	0.8	36.0%
Madhya pradesh	20.8	12.4	22.9	22.9	10.5	110.0%
Maharashtra	8.7	3.6	6.1	8.9	5.3	102.2%
Odisha	65.4	23.6	39.7	49.8	26.2	76.1%
Punjab	169.2	162.3	162.3	162.3	0.0	95.9%
Tamil nadu	19.0	0.6	3.3	15.7	15.1	82.5%
Uttar Pradesh	48.3	45.3	51.1	55.5	10.2	115.0%
Uttrakhand	6.9	9.2	9.3	10.2	0.9	147.5%
West Bengal	29.1	0.00	0.03	12.53	12.5	43.0%
Total	**660.1**	**425.2**	**521.4**	**567.6**	**142.4**	**86.0%**

Source: FCI; SBI Research

Difference in MSP and Wholesale Prices of major crops during Feb'20

Crops		Weight in CPI	MSP 2019-20 (₹ per quintal)	Average Mandi Prices Feb'20 (₹ per quintal)	Feb'20 Prices over MSP (%)
Cereals	Wheat*	2.73	1925	2239	16
	Paddy	4.75	1815	2274	25
Coarse Cereals	Barley*	0.05	1525	2032	33
	Jowar	0.23	2550	2384	-6
	Bajra	0.11	2000	1795	-10
	Maize	0.06	1760	1752	0
	Ragi	0.05	3150	2635	-16
Pulses	Gram*	0.29	4875	4638	-5
	Masur*	0.3	4800	6705	40
	Arhar	0.80	5800	5111	-12
	Moong	0.36	7050	6945	-1
	Urad	0.27	5700	6377	12
Oilseeds	Mustard*	1.33	4425	4263	-12
	Soyabean	0.30	3710	3910	5
	Groundnut	0.33	5090	5379	6
	Seasamum	0.01	6485	9813	51
	Nigerseed	0.01	5940	5684	-4
	Cotton	0.05	5255	5087	-3

Source: SBI Research, Agmarknet, * MSP 2020-21

CORPORATE RESULTS – Q3FY20

- As per the published results of around 4000 listed entities, for Q3FY20 results, we observe top line de-growth of 1.40%, whereas bottom line degrowth by 19%.
- However, excluding Banking, Finance, Insurance and Refineries, around 3400 entities, reported de-growth across parameters i.e. top line by around 3.4% and both bottom line and EBIDTA degrew by 46% and 17% respectively. Telecom service sector which reported a loss of more than Rs 25,000 crore in Q3FY20. Excluding telecom bottom line de-grew was 22%.
- Some of the sectors reporting all-round growth includes Healthcare, Agro-Chemicals, IT Software etc. whereas sector reported negative growth across key parameters includes Steel, Automobile, Auto Ancillaries, Telecom, Textile, Capital Goods Electricals Equipment etc.

Sectors reporting positive growth in key parameters in Q3FY20 vis-à-vis Q3FY19

Sector	No of Companies	Net Sales	EBIDTA	PAT
Healthcare	34	15.4	45.2	121.0
Agro Chemicals	22	11.0	52.8	65.5
IT - Software	195	9.5	18.6	8.4
Leather	17	6.5	42.5	17.9
Alcoholic Beverages	21	4.5	15.0	17.5

Source: Cline; SBI Research

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