

15 November 2010

MF Global INDONOMICS

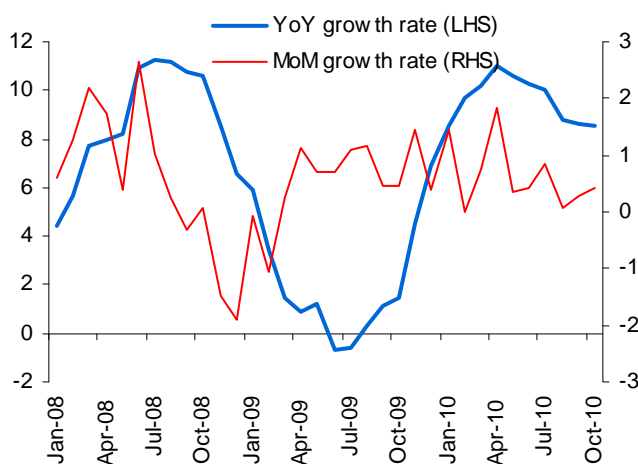
Inflation

| WPI up by 0.4%; Inflation remains stable at 8.6%

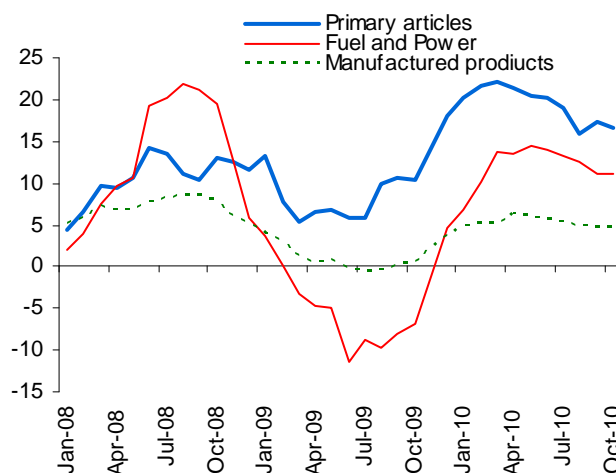
WPI inflation for Oct 2010 rose by 0.4% MoM, YoY inflation growth stood at 8.58% in line with our estimate and higher than the consensus estimate of 8.4%. August inflation data has been revised upward from 8.5% to 8.8%. For the month under consideration (on a MoM basis), maximum contribution to inflation came from manufactured products (0.2%), followed by primary articles (0.18%), and fuel and power contributed negatively at -0.04%. On an annual basis, primary article inflation continues to dominate, growing at 16.7%, average inflation rate for Apr-Oct '10 stood at 18.8% vs. 8% in the last year. Higher prices were recorded in food articles (0.6% MoM, led by higher prices of meat, fruits and vegetables and pulses) and non-food articles (2.7% MoM, led by fibers, raw cotton, raw rubber, etc.). Inflation in manufactured commodities rose by 0.3% MoM; higher prices were recorded in food products (up 0.5% MoM), beverages and tobacco (0.2%), textiles (0.8%), paper and paper products (1.1%), chemicals (0.3%), non-metallic mineral products (0.1%), basic metals (0.4%), and machinery (0.4%). Lower prices were seen in wood and wood products (0.7%), rubber and plastic products (0.6%), and transport equipment (1.1%). CPI for Sep'10 stood at 9.8% (0.6% MoM) vs. 11.6% for the same time last year.

We maintain our expectation of March-end inflation at 6%-6.5% and full-year estimate of 8.5%-9%. Inflation in the next month should likely drop to 7.3%-7.5% due to high base effect. Food inflation may continue to decline as the festive season ends and the kharif crop hits the market, but we don't expect it to be a sharp drop due to inefficient markets. Going ahead, inflation upside may come from fuel as the international crude oil prices have moved up and might rise further, as crude has underperformed in the commodity space and may attract capital flows. We maintain that the RBI is mostly done with the rate hikes for this financial year.

WPI – YOY AND MOM GROWTH RATE (%)



WPI COMPONENTS (YOY GROWTH RATE, %)



Source: OEA

INFLATION (WPI & CPI, %)

	Y-O-Y GROWTH RATE					M-O-M GROWTH RATE				
	JUL10 (PROV)	AUG10	SEP10	OCT10	OCT09	JUL10 (PROV)	AUG10	SEP10	OCT10	OCT09
WPI	10.0	8.8	8.6	8.6	1.5	0.9	0.1	0.3	0.4	0.5
PRIMARY ARTICLES (WT. 20.12)	19.1	16.0	17.5	16.7	10.3	1.0	-0.3	1.4	0.8	1.5
FOOD ARTICLES (WT. 14.34)	18.5	15.0	15.7	14.1	12.5	1.6	-0.8	1.3	0.6	2.0
– CEREALS (WT. 4.41)	8.3	8.5	6.2	4.6	11.6	0.7	0.8	-0.1	0.0	1.6
– RICE (WT. 2.45)	9.6	7.4	4.6	3.2	10.5	1.0	-0.9	-0.2	0.4	1.6
– WHEAT (WT. 1.38)	6.5	10.2	8.7	5.5	12.8	-0.6	2.8	0.3	-0.4	2.6
– VEGETABLES (WT. 1.46)	-3.6	-4.5	6.0	3.7	3.3	-1.8	2.4	2.7	2.7	5.0
– FRUITS (WT. 1.46)	32.4	12.2	12.0	15.8	1.9	4.9	-12.2	0.7	4.7	1.3
– MILK (WT. 4.37)	26.1	26.9	24.0	21.7	19.0	1.6	1.1	0.2	0.7	2.6
NON-FOOD ARTICLES (WT. 4.26)	15.3	15.8	18.2	22.2	1.8	-0.5	1.1	2.2	2.7	-0.7
– FIBRES (WT. 1.52)	16.2	15.7	27.6	37.4	-4.5	-0.3	0.2	9.3	8.5	0.8
– OIL SEEDS (WT. 2.67)	2.2	2.5	5.2	7.4	-0.4	-0.4	0.9	1.4	-0.3	-2.3
– MINERALS (WT. 1.52)	31.6	23.8	28.5	25.4	11.5	0.0	0.9	0.1	-0.6	1.9
FUEL, POWER, LIGHT & LUBRICANTS (WT. 14.91)	13.3	12.6	11.1	11.0	-6.8	3.2	0.1	-0.3	0.3	0.4
MANUFACTURED PRODUCTS (WT. 64.97)	5.4	4.8	4.6	4.8	0.6	-0.2	0.2	0.3	0.3	0.2
FOOD PRODUCTS (WT. 9.97)	7.3	4.6	2.8	3.0	13.0	1.6	0.1	0.1	0.5	0.3
– EDIBLE OILS (WT. 2.76)	2.3	3.5	4.9	6.7	-7.9	1.1	1.5	0.5	0.8	-0.9
BEVERAGES & TOBACCO PRODUCTS (WT. 1.76)	7.3	6.8	5.9	6.1	6.4	-0.1	0.4	-0.3	0.2	0.0
TEXTILES (WT. 7.33)	10.1	10.4	9.7	9.9	2.4	0.2	0.3	-0.1	0.8	0.7
– COTTON TEXTILES (WT. 4.22)	14.5	14.7	14.9	14.8	4.1	-0.1	0.2	0.1	1.6	1.8
– MAN MADE TEXTILES (WT. 4.72)	9.9	9.5	9.4	10.5	-1.2	2.0	0.6	-0.3	0.6	-0.4
WOOD & WOOD PRODUCTS (WT. 0.59)	4.9	4.7	3.2	1.4	11.6	0.6	0.3	1.1	-0.7	1.0
PAPER & PAPER PRODUCTS (WT. 2.03)	4.6	5.1	3.4	4.7	1.4	1.1	1.8	-1.8	1.1	-0.1
LEATHER & LEATHER PRODUCTS (WT. 0.84)	0.0	0.1	-0.1	-1.4	5.0	0.7	0.1	-0.5	0.0	1.3
RUBBER & PLASTIC PRODUCTS (WT. 2.99)	5.0	4.6	5.3	5.4	-1.8	0.6	0.1	0.8	-0.6	-0.7
CHEMICALS & CHEMICAL PRODUCTS (WT. 12.02)	4.4	4.3	4.3	4.9	-2.1	-0.2	0.4	-0.1	0.3	-0.2
NON-METALLIC MINERAL PRODUCTS (WT. 2.56)	3.1	2.1	2.2	2.1	8.9	1.3	-0.8	0.2	0.1	0.1
– CEMENT & LIME (WT. 1.73)	2.5	1.3	1.7	1.1	10.8	2.1	-1.3	0.3	0.1	0.7
BASIC METALS ALLOYS & METAL PRODUCTS (WT. 10.75)	7.7	7.2	6.0	6.4	-11.0	-1.3	0.2	-0.1	0.4	0.0
MACHINERY & MACHINE TOOLS (WT. 8.93)	2.3	2.4	2.9	3.1	-0.4	0.1	0.2	-0.2	0.4	0.3
TRANSPORT EQUIPMENT & PARTS (WT. 5.21)	3.8	2.9	4.2	2.9	3.0	0.2	-0.9	1.3	-1.1	0.2
CPI (INDUSTRIAL WORKERS)	11.3	9.9	9.8	NA	11.5	2.3	0.0	0.6	NA	1.2
CPI (AGRICULTURAL LABOURERS)	11.2	9.9	9.3	NA	13.7	1.3	0.5	0.9	NA	1.6

Source: OEA, Ministry of Labour

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