

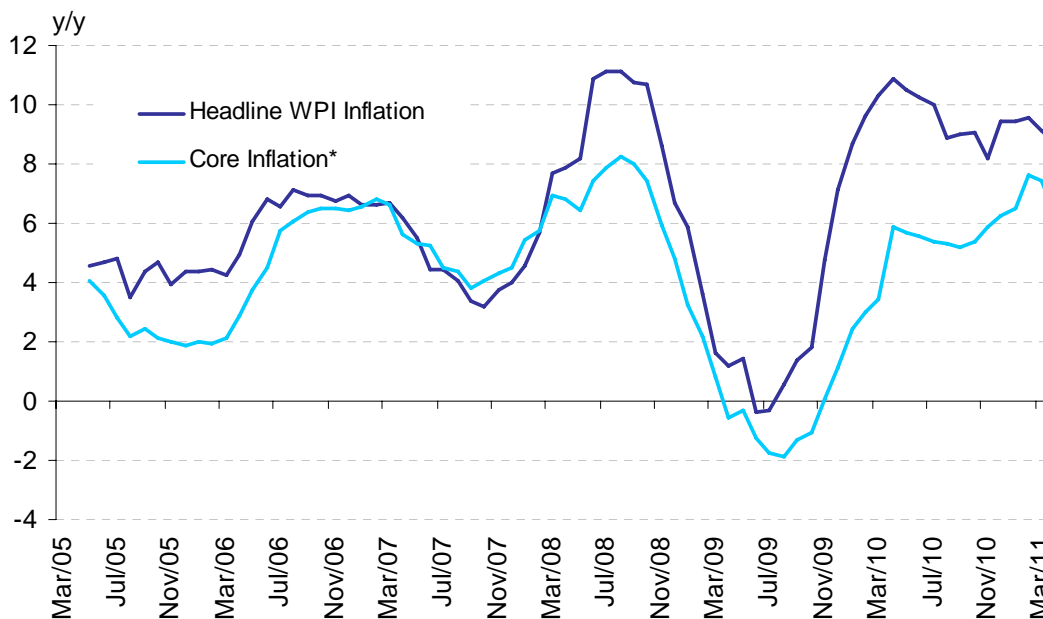


India: April WPI inflation eases marginally, but risks remain on the upside

April WPI inflation came in at 8.7% y/y, slightly above consensus (8.5% y/y), but lower than the revised 9.1% y/y outturn in March, mainly due to favourable base effects. On a sequential basis, headline inflation gained 1.3% m/m (non-seasonally adjusted), higher than the 0.3% m/m rise in March. The latest data print gives further credence to the central bank's anti-inflation drive. We expect the RBI to hike policy rates by another 50 bps in 2011 in a bid to quell inflationary expectations. On this basis, inflation should ease in the second half of the year, and to around 6% y/y at the end-2011.

- **Pressure on core persists.** Core inflation rose 1.1% m/m, following a 0.3% m/m increase in March. On a y/y basis, core rises were up 6.2% in April, lower than 7.4% previously, mainly due to base effects. On examining core inflation at a more granular level we find that considerable input cost pressures were visible in three major groups, namely chemicals, metals and textiles, mirroring the rise in global prices of petroleum products, metals and cotton.
- **Imminent fuel price hikes raise upside risks to headline inflation:** Fuel prices rose 1.1% m/m, reflective of price hikes of unregulated mineral oils, including Naphtha and Lubricants. Fuel prices have risen 13.32% over last year, its largest increase since June 2010. Given the recent revision in petrol prices, an imminent hike in diesel prices along with possible hikes in electricity and coal prices suggests upside risks to inflation in the coming months.
- **Pressure on food prices continues:** Food prices rose 1.7% m/m, after declining successively in the previous two months. The key driver of high food inflation was prices of manufactured food products, which rose 5.65% y/y, its steepest increase since July 2010. While partly attributed to a lower base, it is also reflective of tight supplies due rising demand pressures. The extent of spill over impact of rising global food prices has been minimal on India given the dominant role of domestic supply conditions and government's pricing policy in influencing food prices. However, the high global prices restrict authorities from using imports as a measure for controlling food prices, thereby adding to supply constraints.

Chart: Inflation persists in high levels...



Source: Haver Analytics and BBVA Research

Table: India's inflation

India WPI Inflation for April 2011						
% Change Y/Y	Apr/11	Mar/11	Feb/11	Jan/11	Dec/10	Nov/10
Headline	8.7	9.1	9.5	9.5	9.4	8.2
Primary Articles	12.0	13.0	15.9	18.4	18.4	14.7
Food	7.6	6.8	6.8	10.3	9.9	6.8
Fuel	13.3	12.9	12.4	11.4	11.3	10.3
Manufactured Non-food (Core)	6.2	7.4	7.6	6.5	6.2	5.9
% Change M/M						
Headline	1.3	0.3	0.1	1.4	1.5	0.6
Primary Articles	2.2	-1.2	-2.9	1.7	3.6	1.0
Food	1.7	-0.8	-3.8	1.3	3.4	0.5
Fuel	1.1	3.1	1.5	0.7	1.1	0.3
Manufactured Non-food (Core)	1.1	0.3	1.3	1.5	0.6	0.5

Source: Haver Analytics and BBVA Research