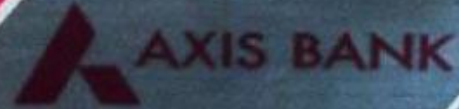


6th February 2019
Business and Economic Research

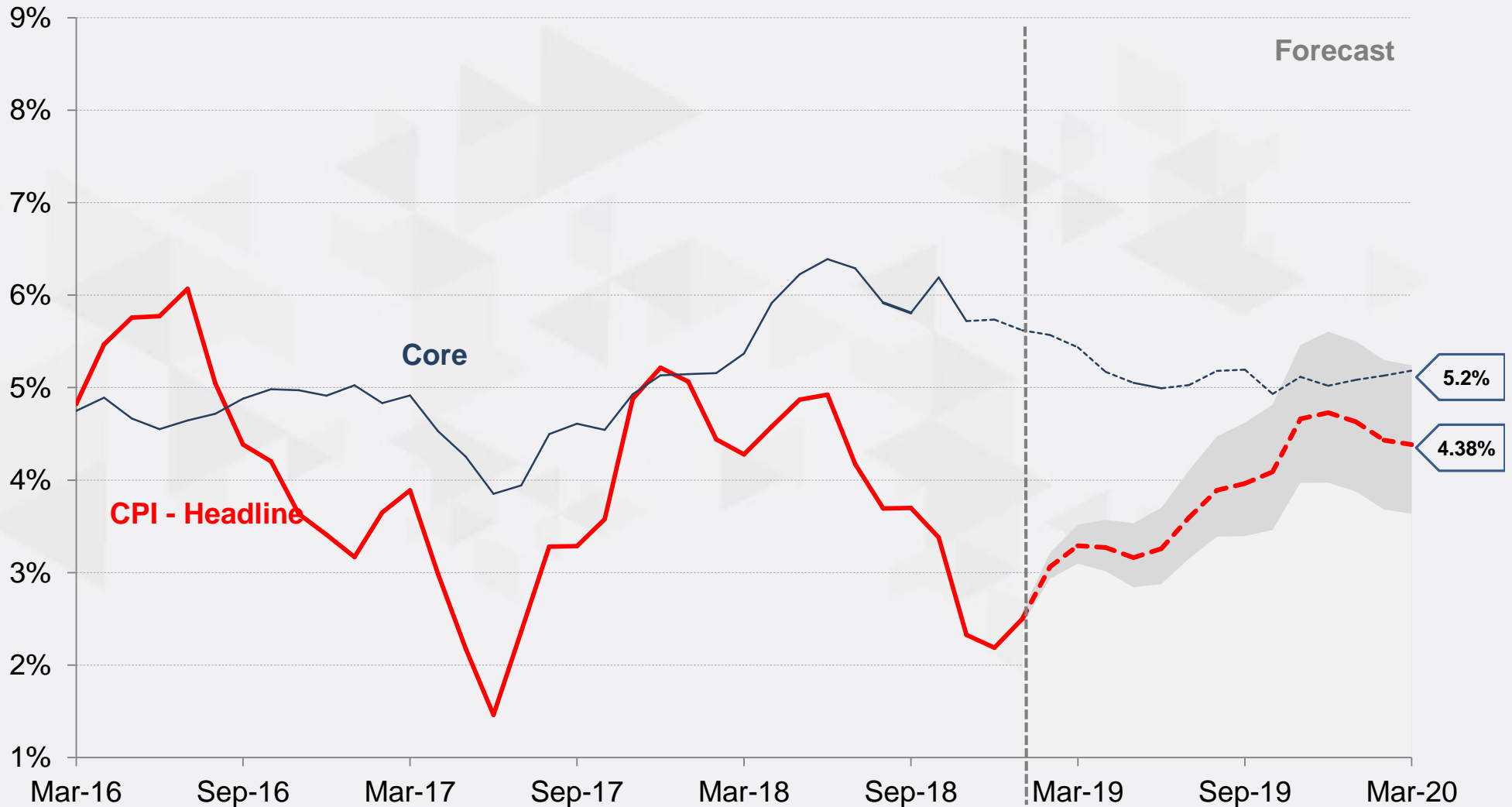


MPC preview:
Formal change of stance, easing now
in the long grass

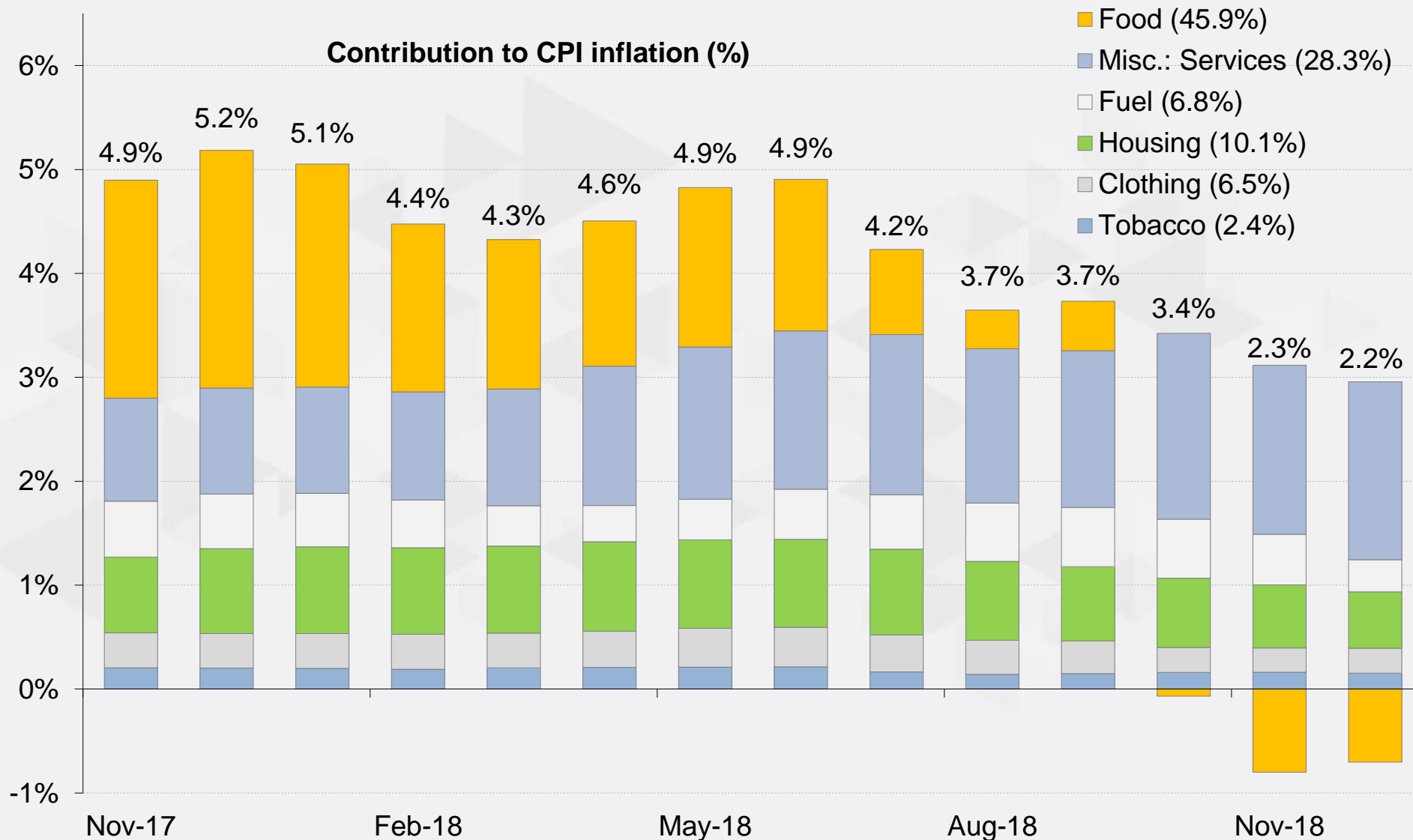
The December '18 MPC meet noted lower inflation with weak food, but multiple risks continued to be highlighted

	Comments	Status in the December'18 policy meet						Now
		CG	PD	RD	MDP	VA	URP	
Rate	Vote to keep the policy rate unchanged	✓	✓	✓	✓	✓	✓	✓
Stance	Vote to keep policy stance unchanged	✓	✓	✗	✓	✓	✓	✗
Growth	Economic activity sustained/Output-Gap closing		✓	✗	✓	✓		✓
Risk to Inflation	Revision in Minimum Support Prices (MSP)	?	✓				✓	✗
	Upward risk from Crude Oil price uncertainty	?	?	?		?	✓	✓
	Elevated Core inflation	✓			✓	✓		✓
	Rising input costs pressures	✓	✓		✓	✓		✗
	Fiscal Slippage at Centre and State level		✓	✗		✓	✓	✓
	Upward pressure from HRA revisions by State Governments		✓				✓	✗
	Elevated HH inflation expectations	?	?	✗	✓	✓	✓	✓
Global Factors	Trade war escalation/ volatility in global financial markets	✓	✓				✓	✓

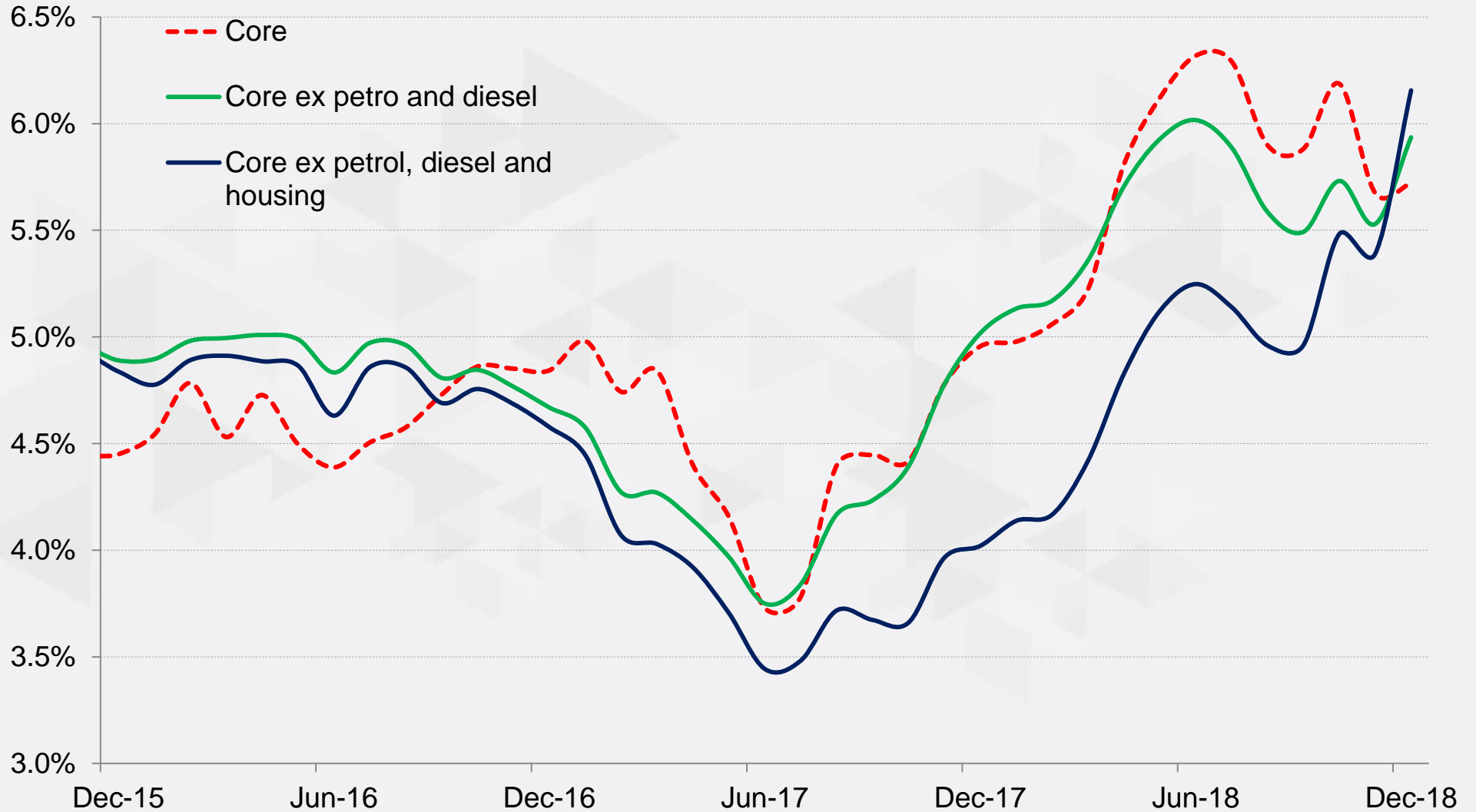
Projections of inflation continue to converge to 4% in the medium term as the high base of early 2018 fades



Since then, inflation remains lower, but services inflation is ticking higher



In fact, core inflation ex petro, diesel and HRA (7CPC effect) is the highest in years (and rising)

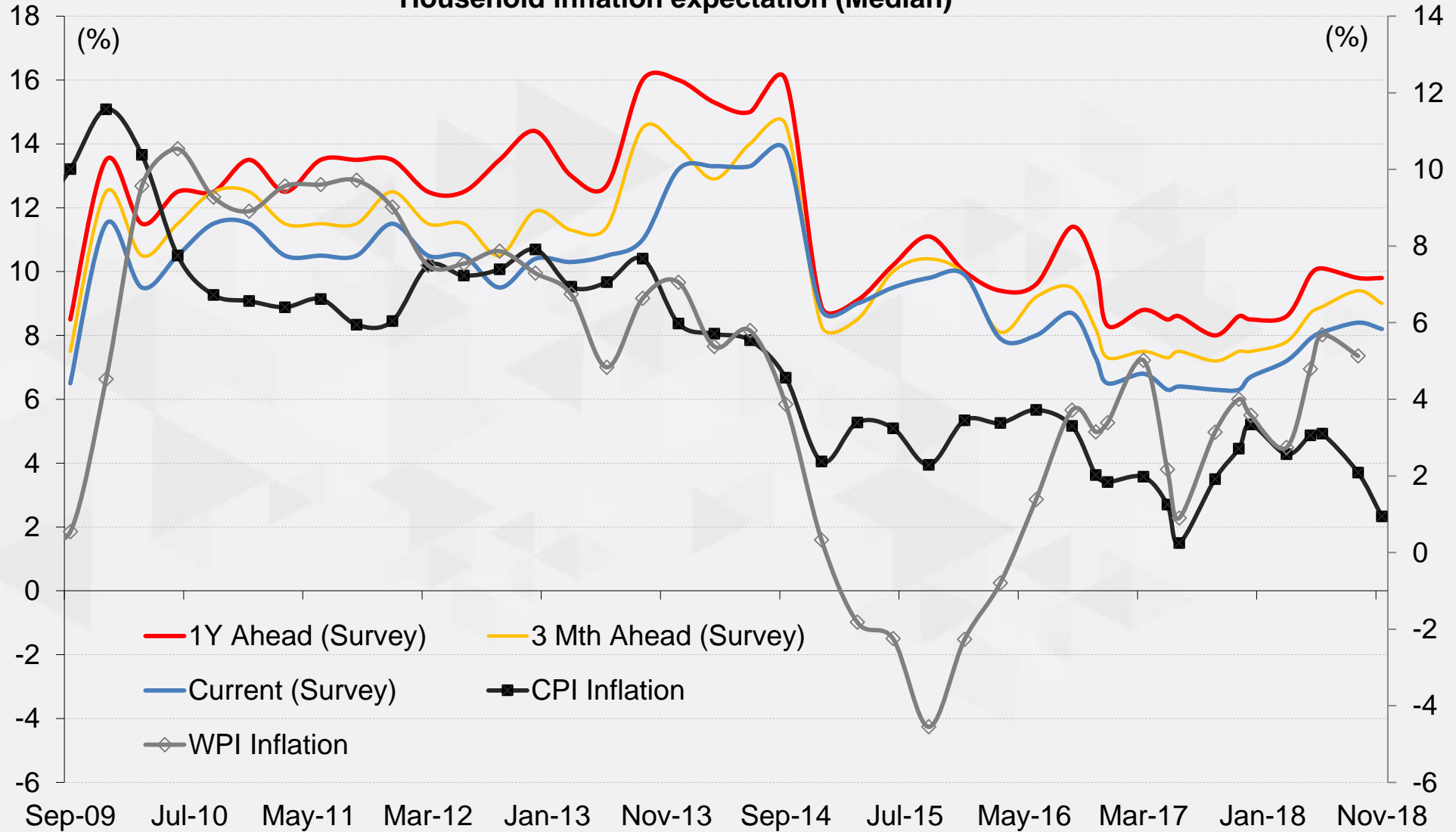


... and the rising core inflation is restricted to a couple of services and a very concentrated geography

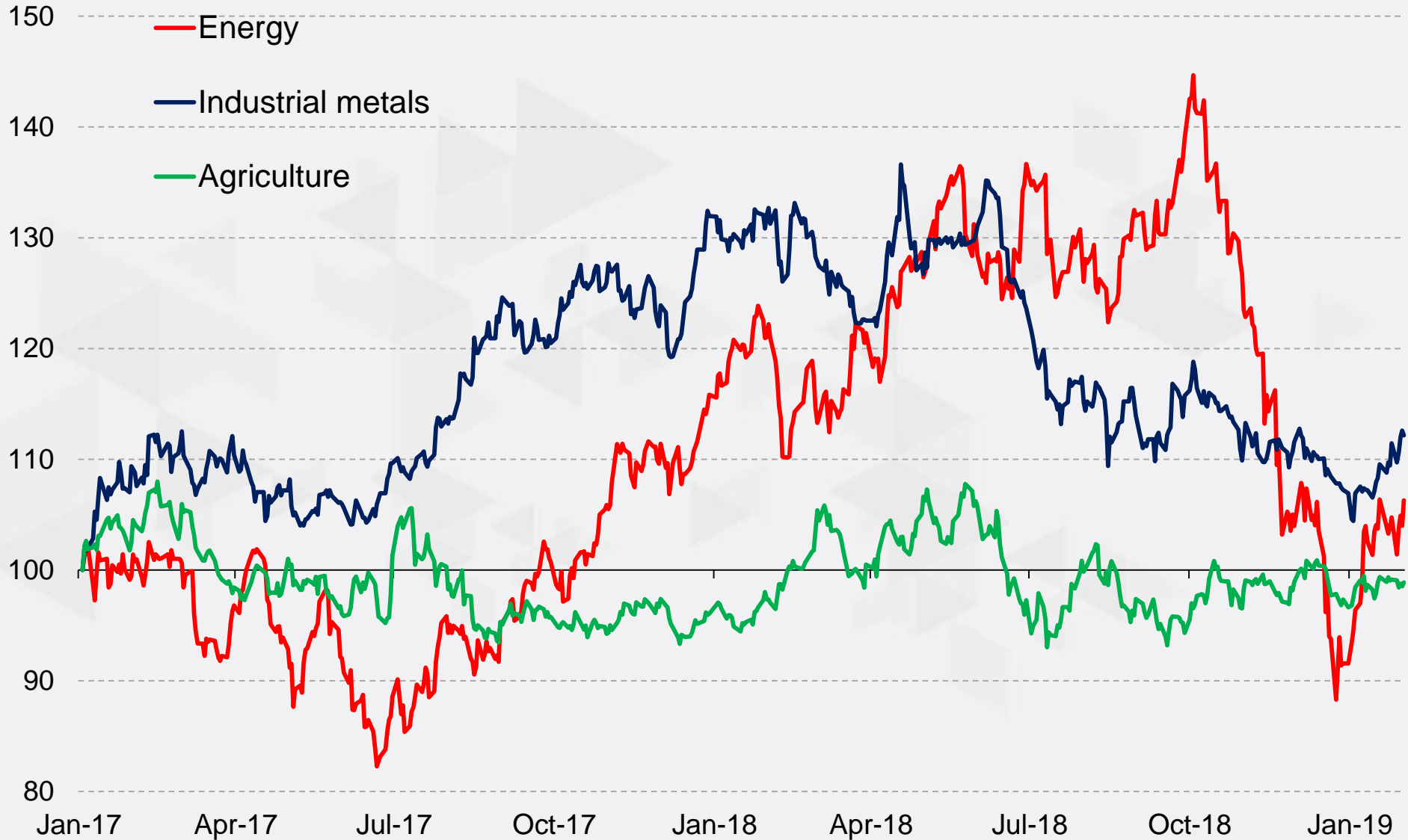
YoY% Dec'18	IN	OD	MP	BR	UP	WB	AP	JH	GJ	KA	MH	RJ	TN	PB	KL
Cereals+	1.3%	-0.4%	4.1%	4.4%	4.6%	-0.6%	-8.8%	3.0%	-0.4%	1.9%	2.3%	7.0%	-4.3%	3.5%	-4.6%
Fruits	-1.4%	-4.7%	4.8%	2.1%	2.2%	-3.7%	-5.9%	-2.6%	-1.8%	-2.3%	3.4%	-3.6%	-3.8%	3.6%	-6.1%
Vegetables	-16.1%	-18.3%	-16.5%	-8.6%	-11.5%	-14.7%	-26.7%	-16.0%	-12.0%	-20.2%	-16.1%	-21.1%	-22.1%	-16.7%	-20.0%
Pulses	-7.1%	1.6%	-7.0%	-7.5%	-5.2%	-10.5%	-9.9%	-13.1%	-6.0%	-2.6%	-6.6%	-3.5%	-8.5%	-9.1%	-4.6%
Food & beverages	-1.5%	-2.7%	-1.5%	1.3%	-0.7%	-1.1%	-5.8%	-1.8%	-1.7%	-0.1%	-0.4%	-2.5%	-2.8%	-1.2%	-2.2%
Clothing & footwear	3.5%	0.1%	2.6%	8.7%	2.6%	3.5%	-1.5%	2.8%	5.2%	5.6%	3.1%	4.4%	3.4%	3.1%	5.4%
Fuel and light	4.5%	4.9%	2.1%	10.2%	4.0%	7.5%	-0.3%	7.4%	3.0%	7.6%	2.7%	0.6%	5.3%	5.1%	6.5%
HH Goods & Services	6.4%	4.2%	7.7%	9.9%	3.1%	7.7%	1.9%	5.8%	5.2%	6.2%	9.0%	9.7%	6.8%	7.9%	8.5%
Health	9.0%	7.6%	10.1%	14.1%	9.3%	7.7%	2.7%	7.7%	8.1%	10.0%	6.6%	11.6%	6.5%	12.0%	15.1%
Transport & Communicat	4.3%	5.5%	2.8%	3.2%	3.5%	7.2%	1.3%	4.7%	4.0%	3.5%	1.8%	3.2%	15.5%	3.1%	5.5%
Education	8.4%	6.2%	9.0%	13.9%	7.9%	15.6%	6.9%	5.2%	9.8%	6.6%	7.3%	8.8%	7.5%	9.2%	11.5%
Personal care+	4.6%	4.1%	4.0%	11.8%	2.2%	5.3%	1.3%	4.6%	4.6%	5.4%	4.7%	1.2%	4.7%	7.4%	9.1%
Misc. (mostly Services)	6.5%	5.5%	6.3%	10.7%	5.8%	8.7%	2.7%	5.7%	5.8%	6.1%	5.2%	6.8%	9.1%	7.6%	9.5%
CPI - Headline	2.2%	0.6%	2.2%	4.7%	2.4%	2.9%	-2.0%	2.2%	1.8%	3.9%	2.2%	1.7%	2.5%	3.1%	4.1%

Fall in salient food prices had little effect on inflation expectations, which are still high ...

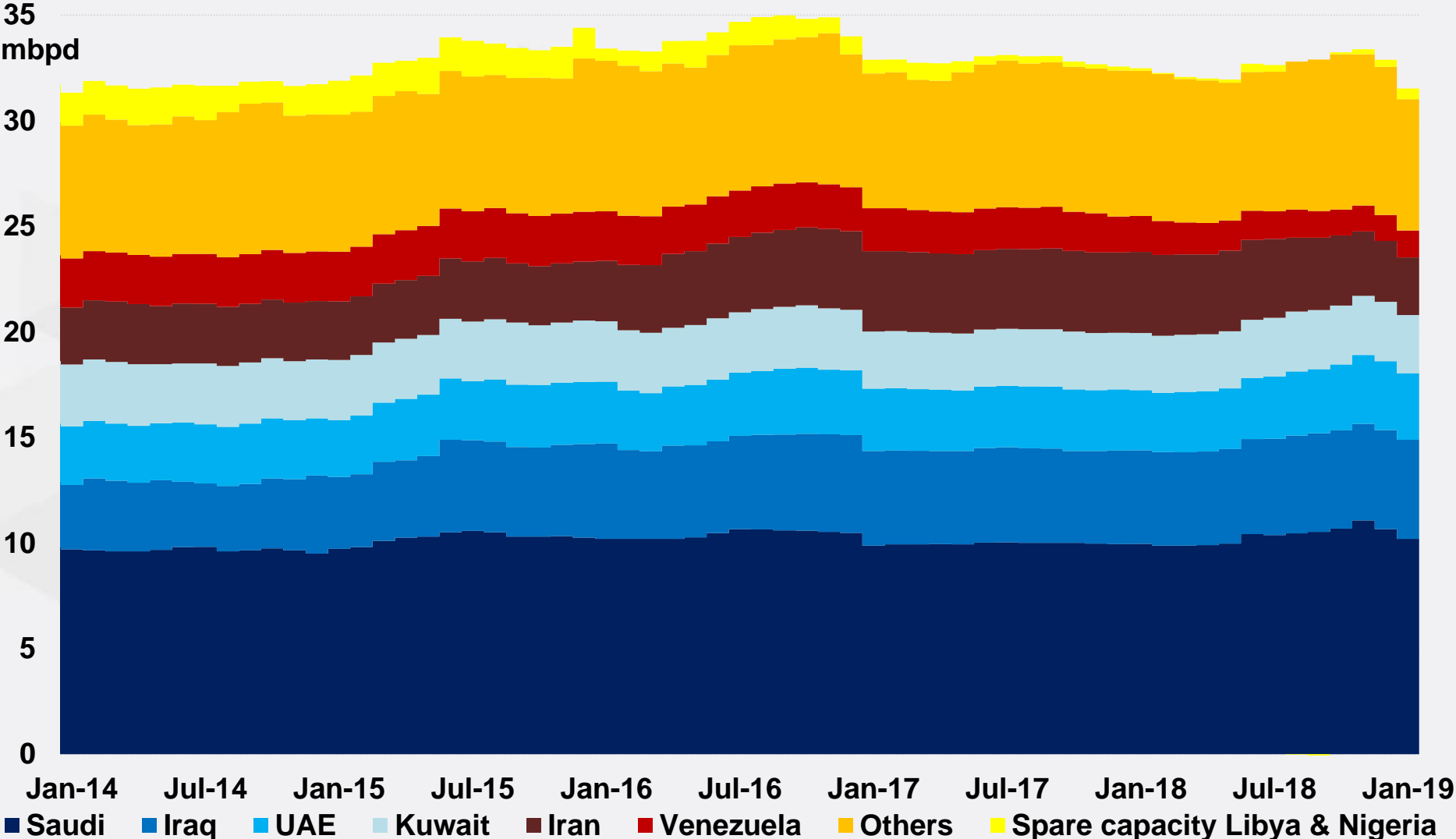
Household inflation expectation (Median)



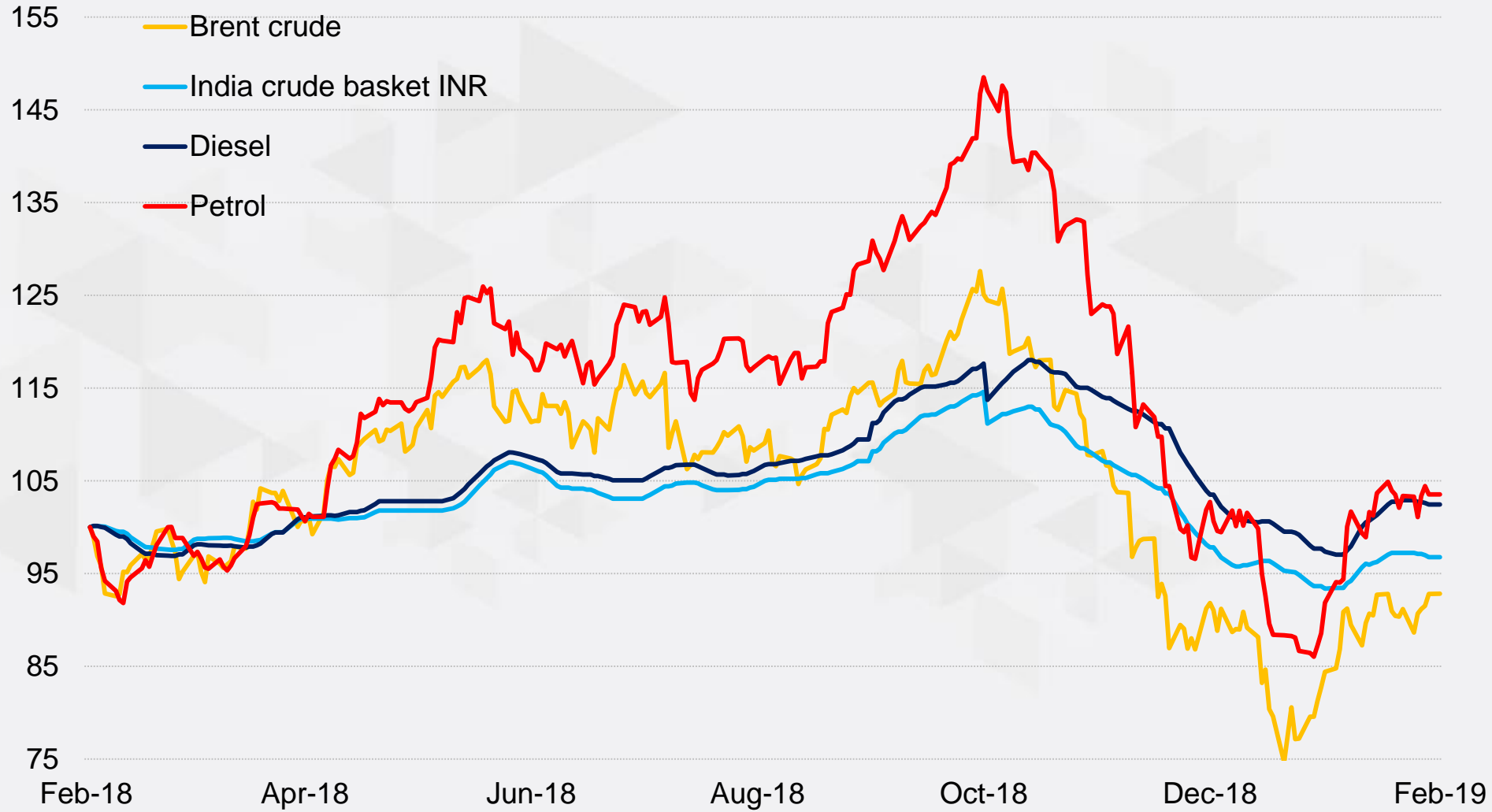
Oil and metals are sharply lower from late 2018 levels...



OPEC production is lower again as targets take effect

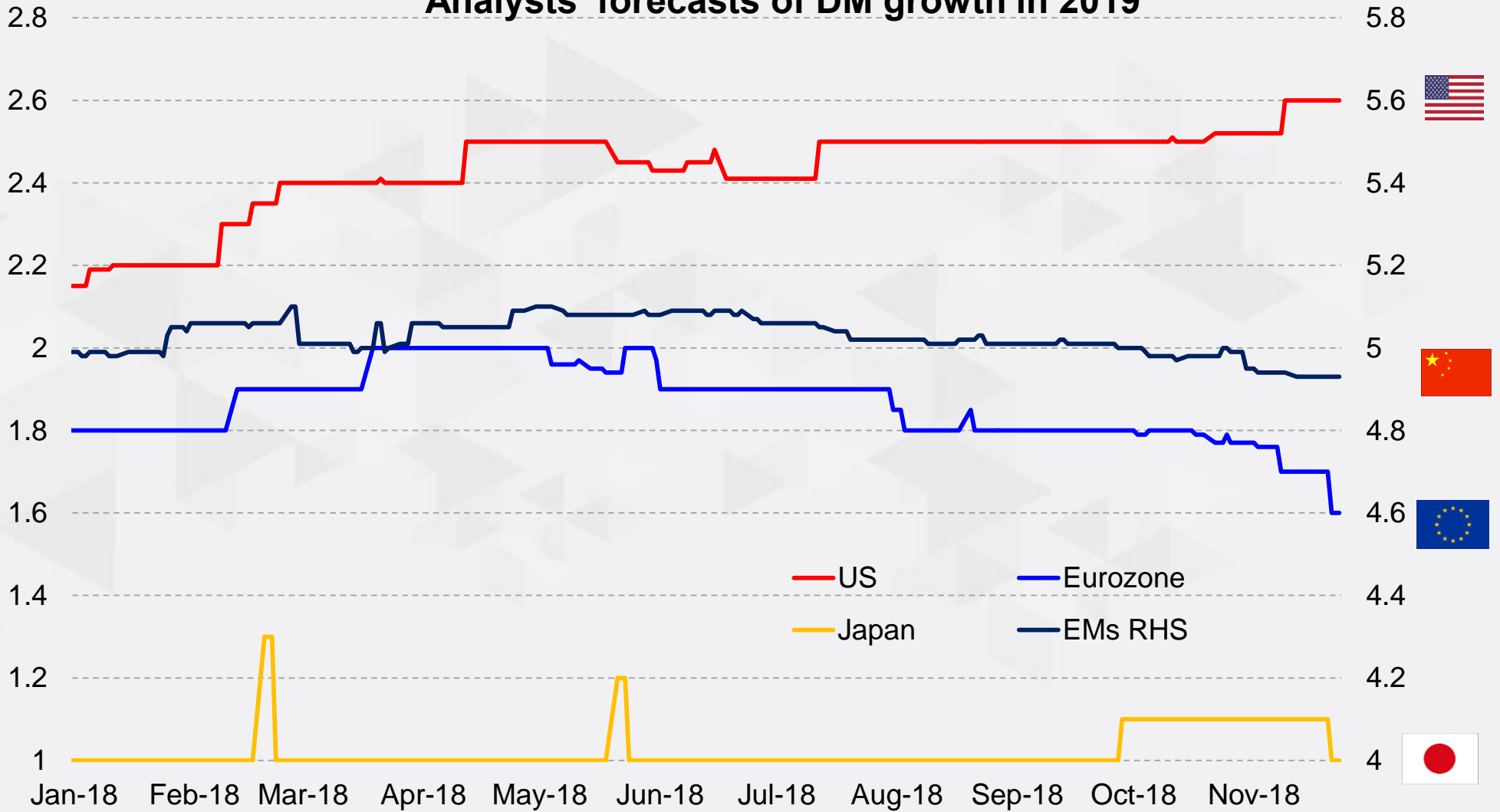


Moreover, the fall in crude oil prices is moderated domestically by the weaker INR

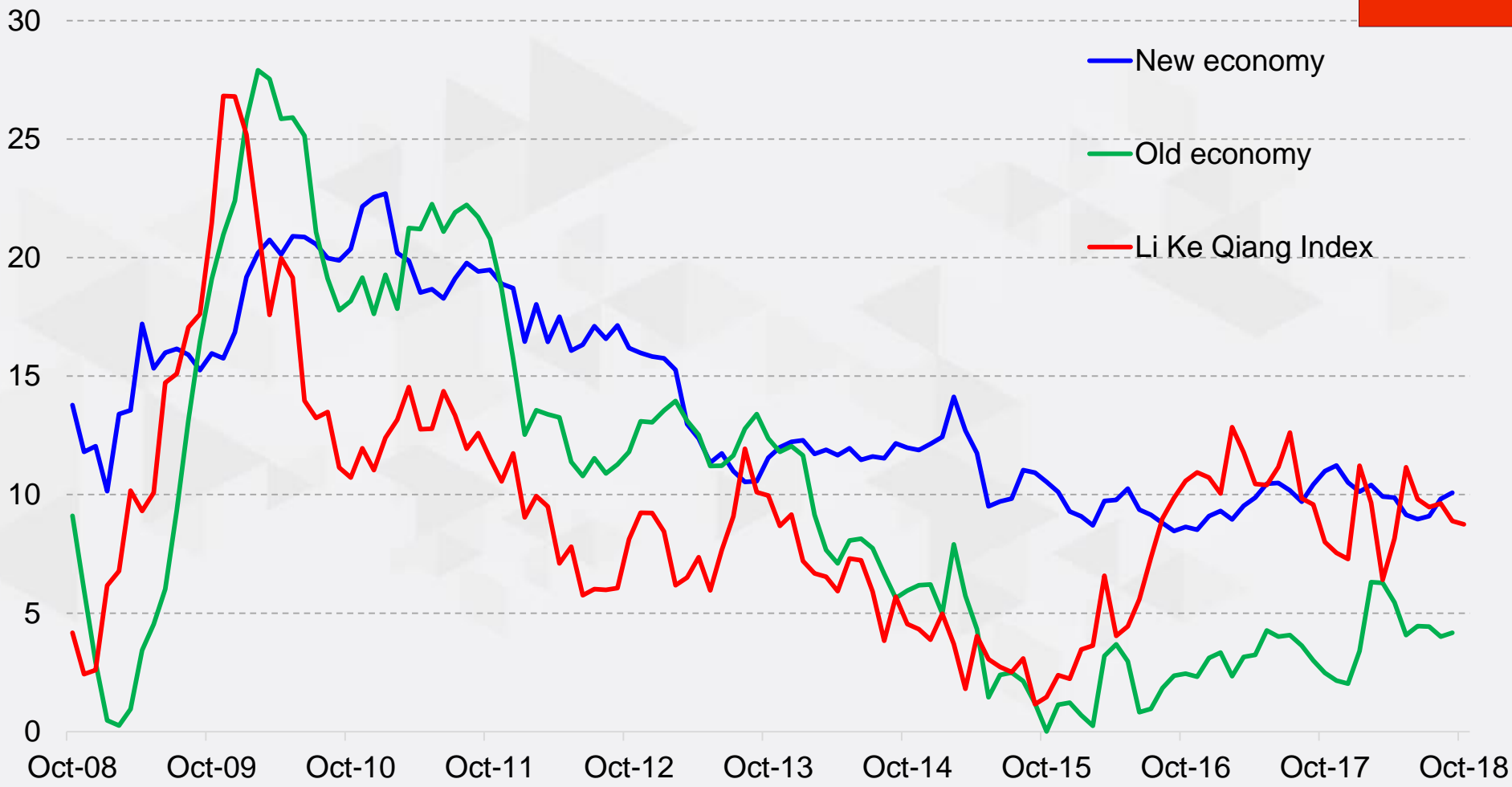
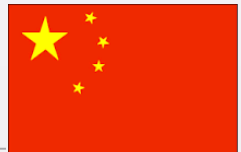


Forecasters downgrading growth expectations across, except in US where fiscal stimulus supports

Analysts' forecasts of DM growth in 2019

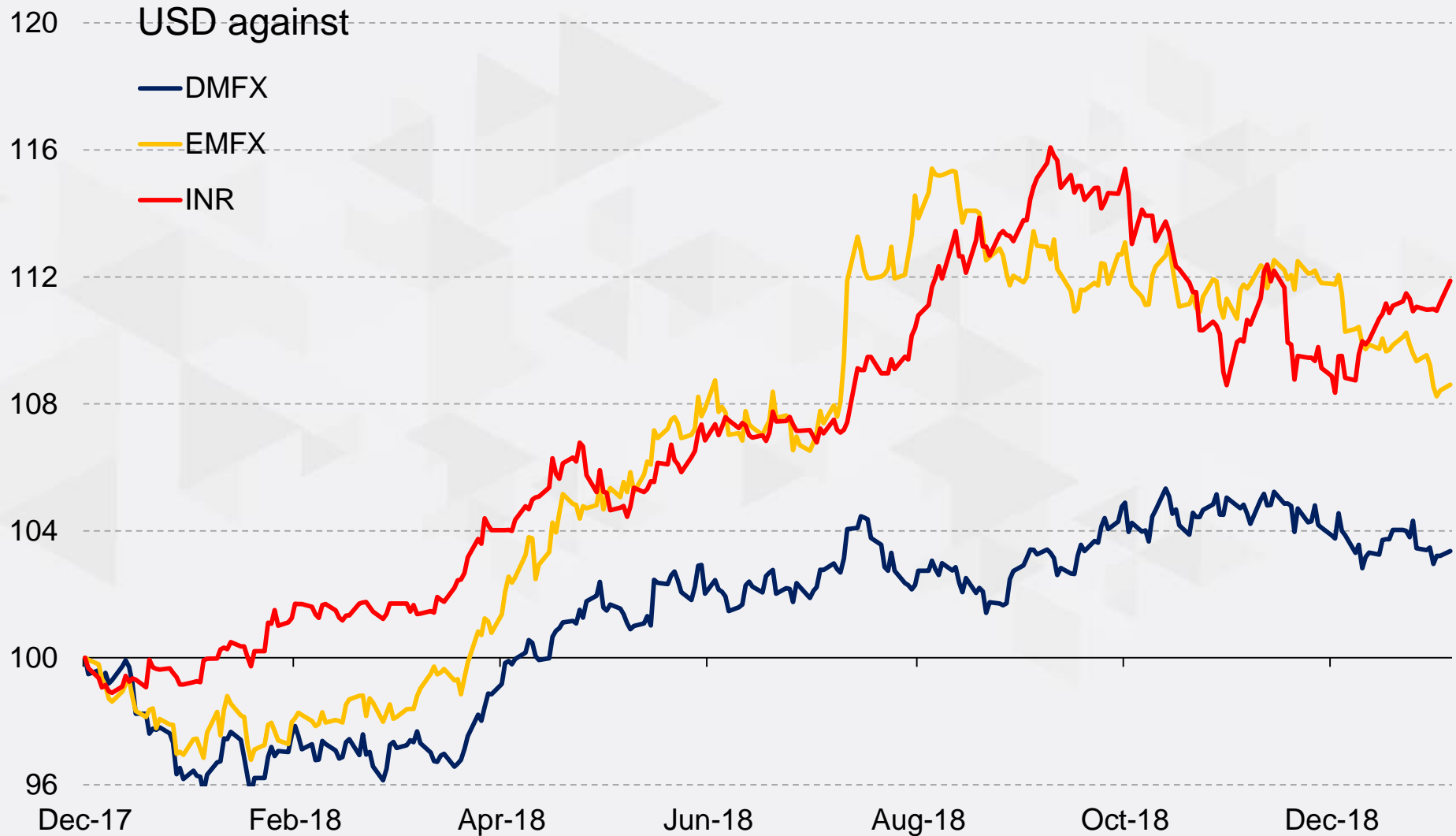


China: Distrust in official figures have led to the development of alternate indices

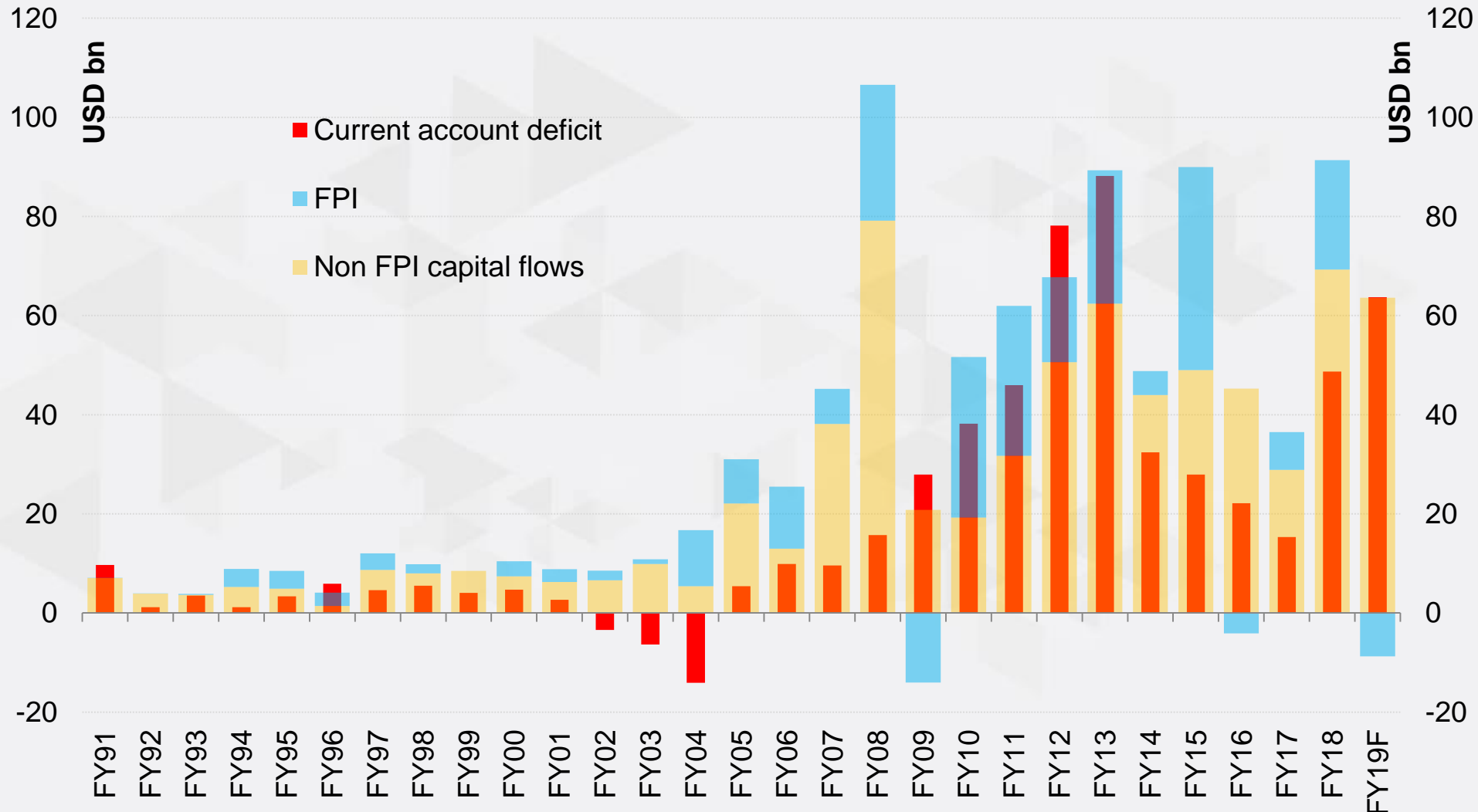


Old industry: Real estate, textiles & yarn, thermal electricity, ferrous metals, state owned enterprises
New industry: Medicine, vehicles, clean energy, communication, computers, private sector

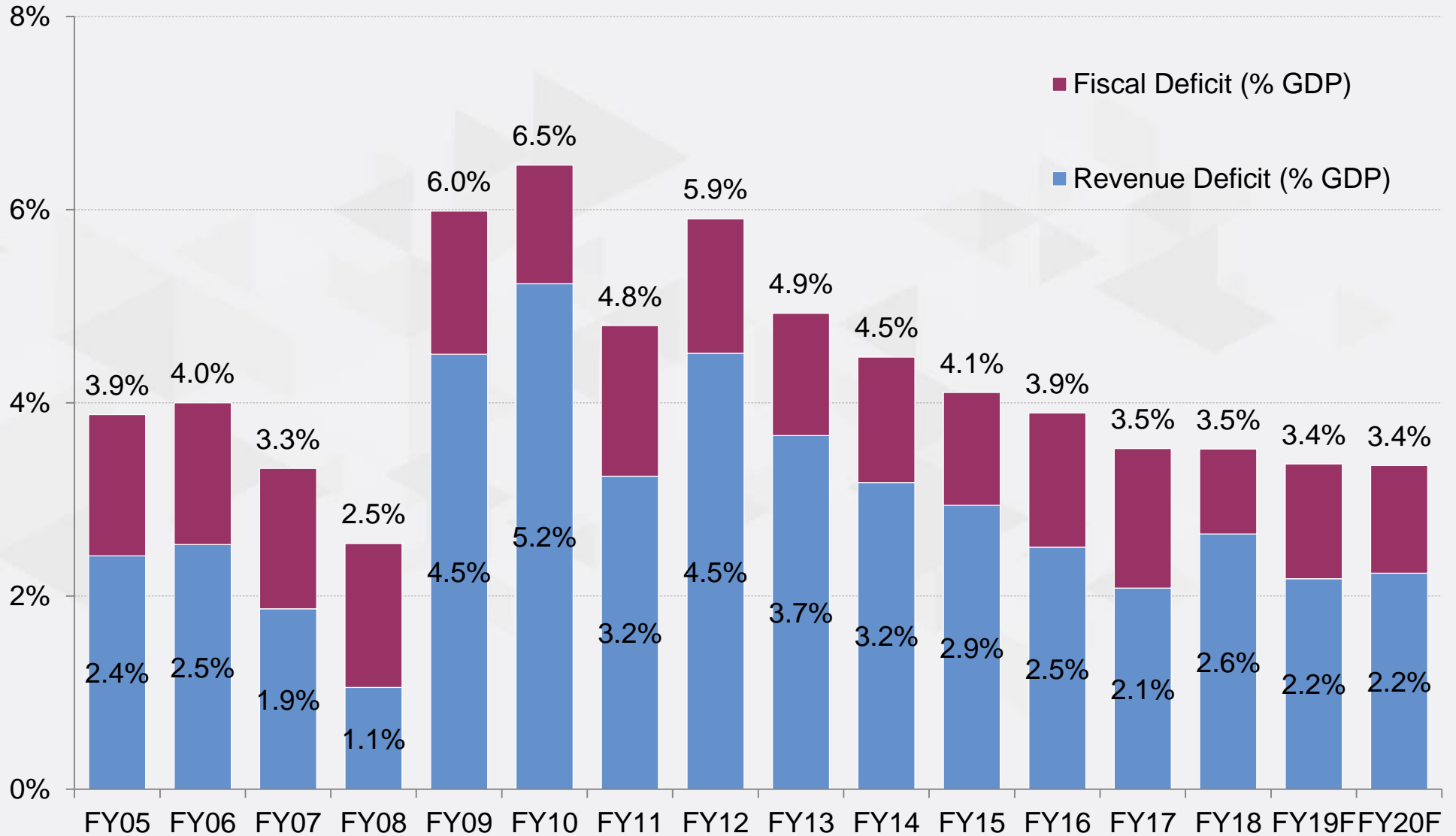
INR has depreciated more than EM peers given rebound in oil and fiscal slippage concerns...



Rise in CAD means less volatile non-FPI flows now no longer enough

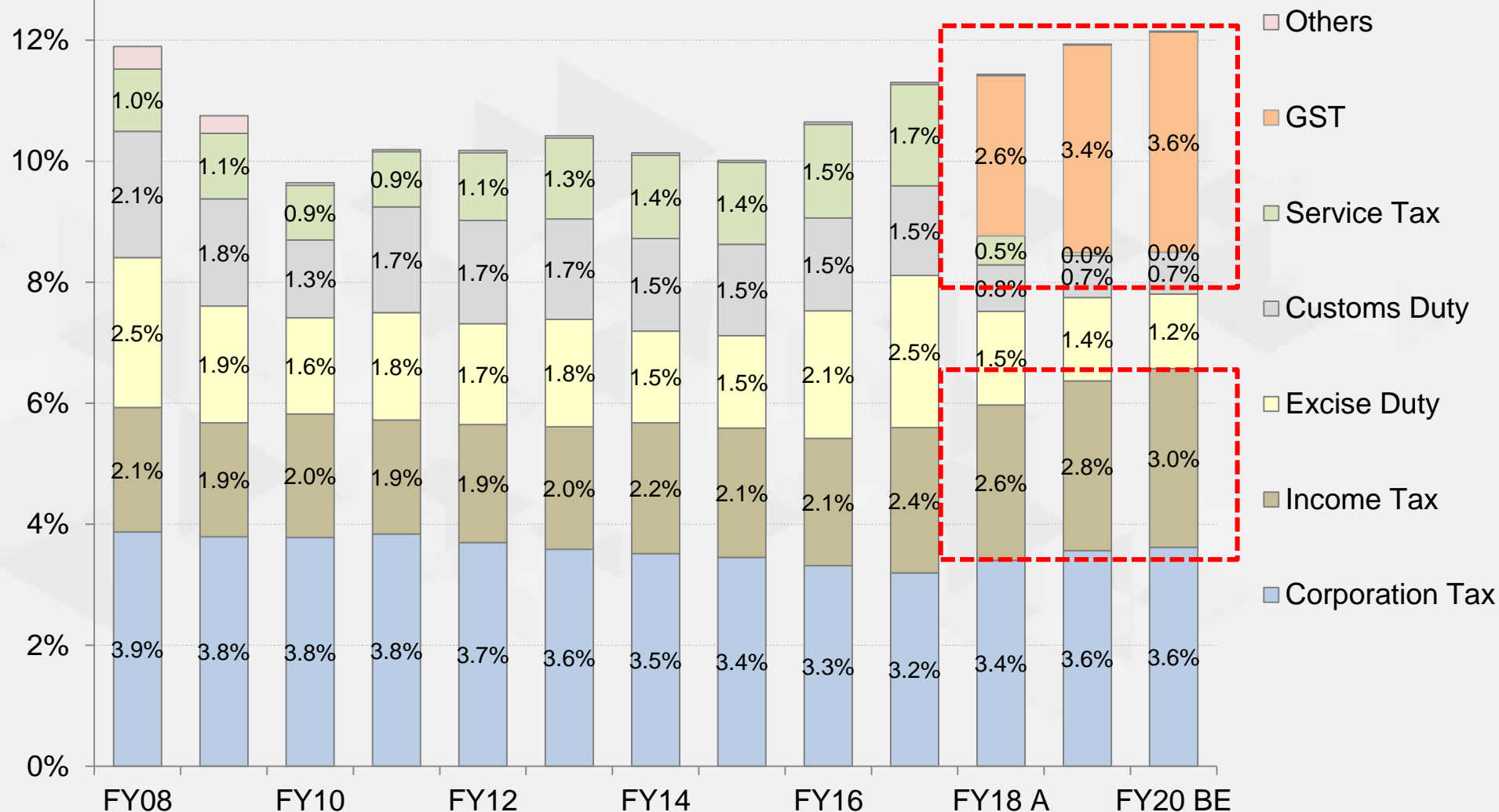


Fiscal consolidation appears to be on pause ...

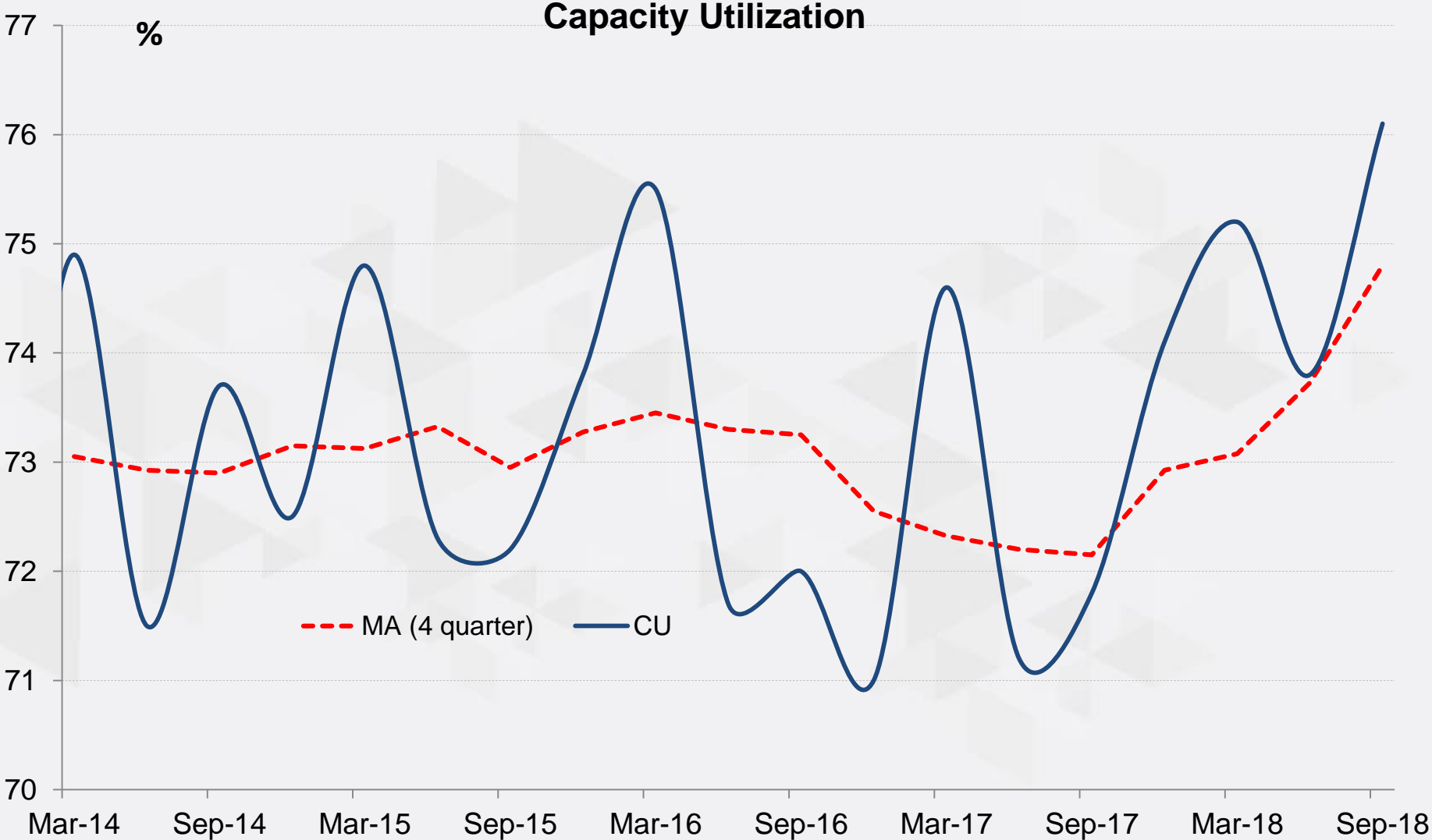


... with doubts around achievability of FY19 and FY20 numbers on GST and income tax

Tax Revenue Break-up (as % of GDP)



... and survey inputs like rising capacity utilisation



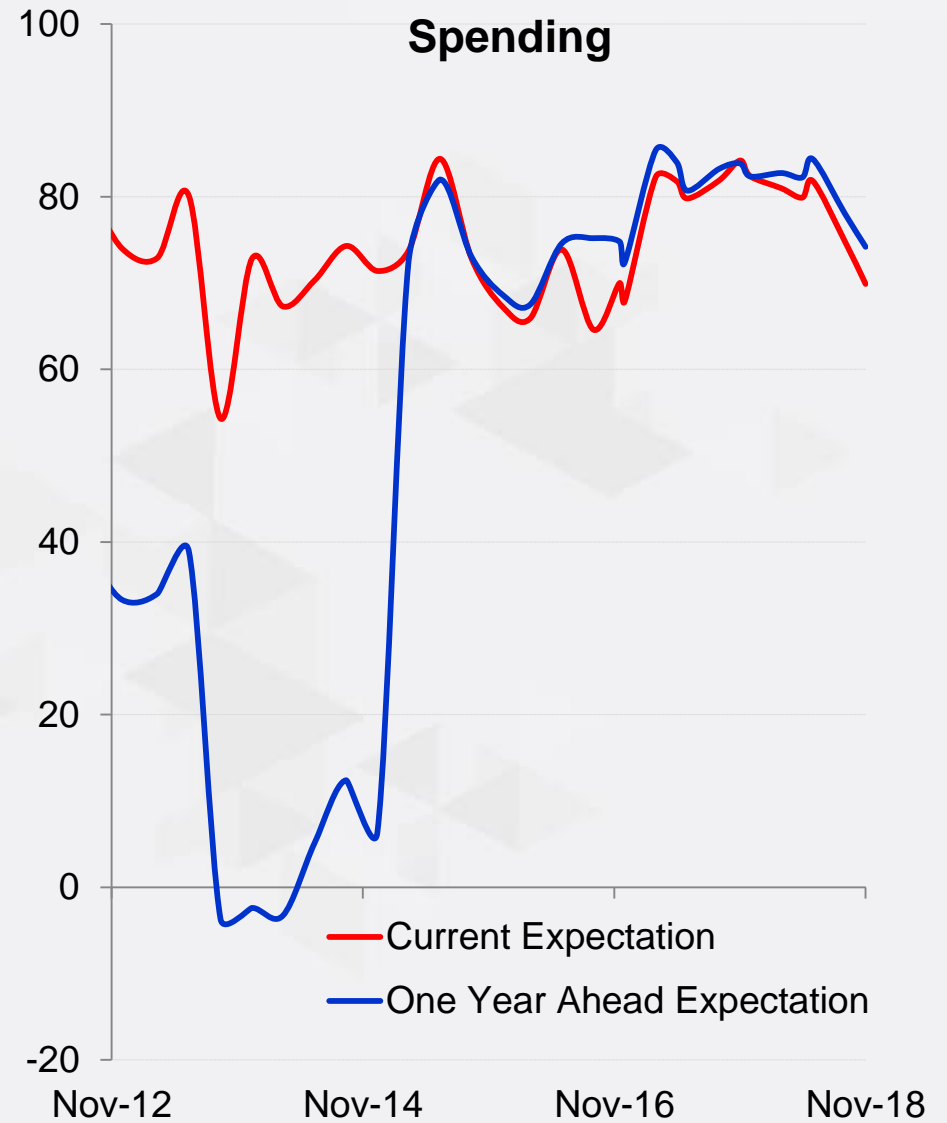
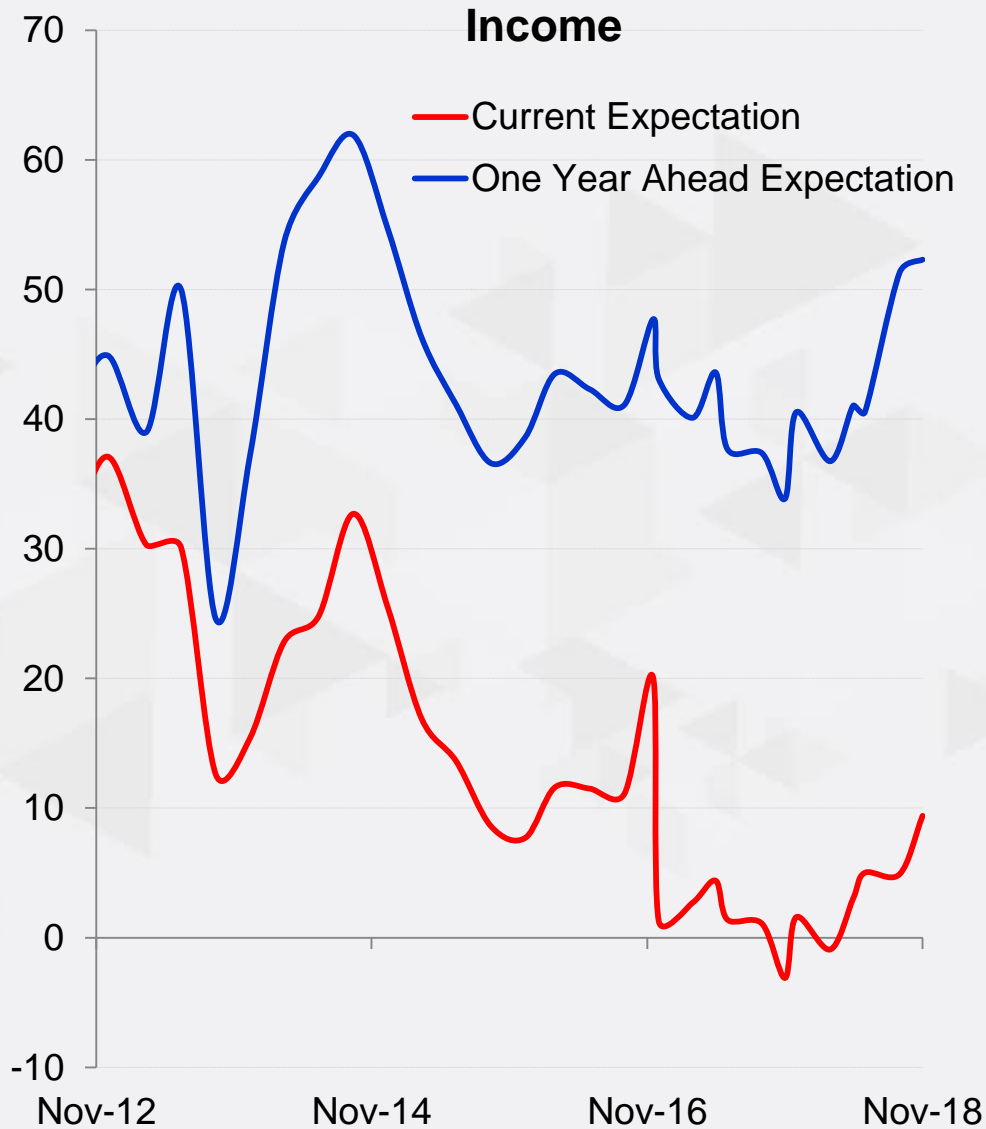
At the same time, upward revision to GDP for FY17 and FY18 indicate growth on a firmer footing

YoY%	Share	Revised Estimates		Previous Estimates		Change	
		FY17	FY18	FY17	FY18	FY17	FY18
Sector	FY18	2nd RE	1st RE	1st RE	PE	2RE-1RE	1RE-PE
Agriculture	14.9%	6.27%	4.98%	6.29%	3.37%	(0.02%)	1.61%
Industry	23.2%	8.33%	6.06%	8.70%	5.48%	(0.37%)	0.59%
Mining	3.0%	9.47%	5.05%	12.97%	2.94%	(3.50%)	2.12%
Manufacturing	18.0%	7.94%	5.93%	7.90%	5.74%	0.05%	0.19%
Electricity	2.2%	9.96%	8.61%	9.25%	7.17%	0.71%	1.44%
Services	61.9%	8.12%	7.75%	6.67%	7.64%	1.45%	0.11%
Construction	8.0%	6.06%	5.60%	1.35%	5.74%	4.71%	(0.13%)
Trade, Hotels, Transport, Communication	19.1%	7.66%	7.77%	7.20%	7.98%	0.46%	(0.21%)
Financial services, Real estate, Professional Services	21.9%	8.70%	6.20%	6.00%	6.65%	2.70%	(0.45%)
Public Admin, Defence & Other Services	12.9%	9.20%	11.90%	10.68%	10.02%	(1.48%)	1.88%
Real GVA	100.0%	7.88%	6.94%	7.09%	6.48%	0.80%	0.46%
GDP		8.17%	7.17%	7.11%	6.68%	1.06%	0.49%

However, high frequency data show deceleration, partly on GOI expenditure control

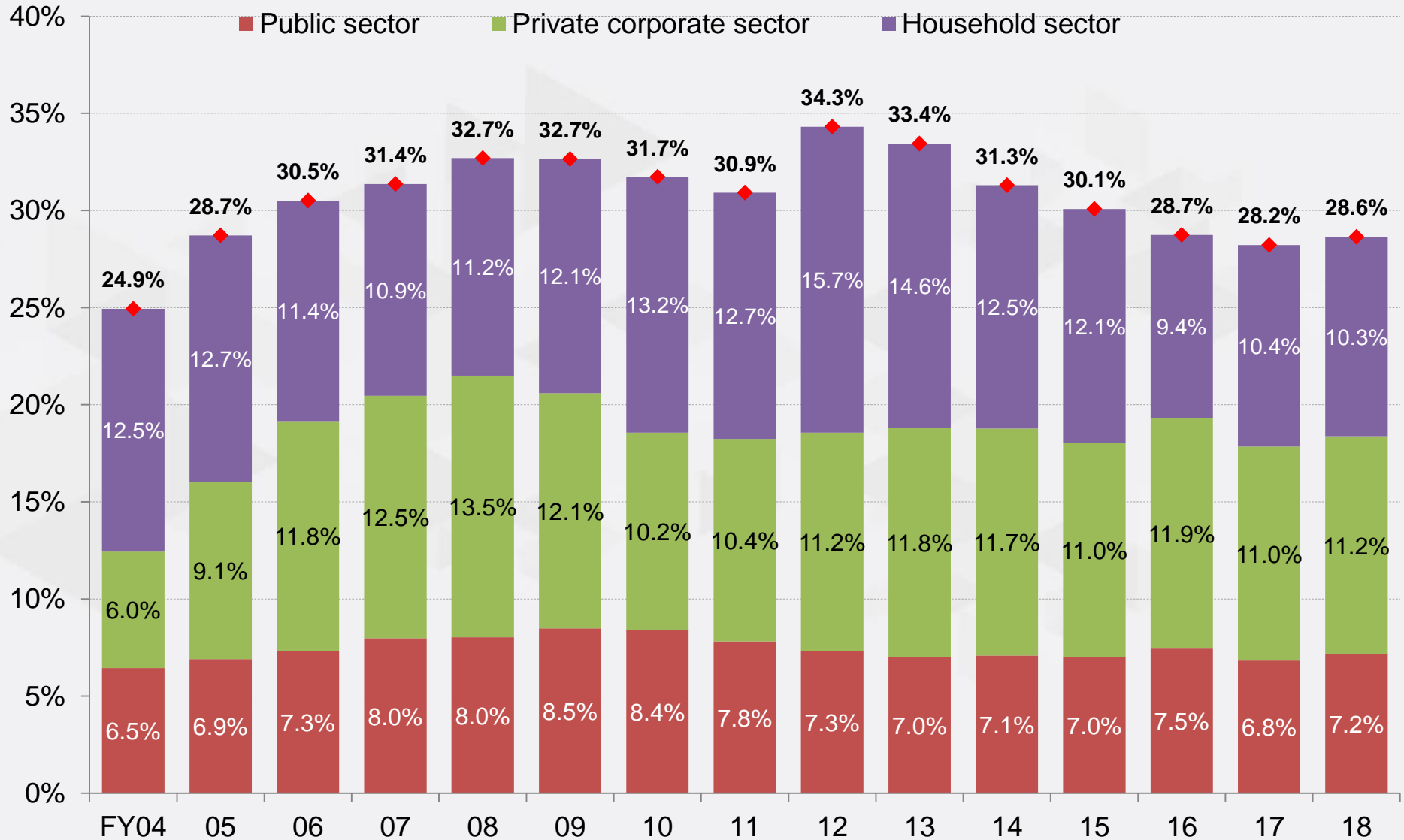
% Y-o-Y Growth	Latest	FY19 Latest	FY19 Q3	FY18 Q3	FY19 YTD	FY18 YTD	FY18	FY17
● GoI Spends (Ex. Interest)	Dec-18	-6%	-10%	22%	6%	16%	8%	4%
● Port Traffic	Dec-18	-4%	1%	5%	4%	4%	5%	7%
● Rail Freight	Dec-18	3%	6%	4%	6%	5%	4.8%	0.3%
● PMI Services	Jan-19	52.2	53.2	50.9	52.2	51.7	50.4	51.5
● Exports	Dec-18	0%	6%	14%	10%	12%	10%	5%
● Exports (Ex Oil, Gold)	Dec-18	1%	3%	15%	8%	14%	11%	4%
● Imports (Ex Oil, Gold)	Dec-18	1%	4%	12%	10%	16%	16%	1%
● Cement Prodn	Dec-18	12%	13%	11%	14%	2%	6%	-1%
● Steel Prodn	Dec-18	13%	7%	8%	5%	6%	6%	10%
● Coal Prodn	Dec-18	1%	5%	2%	8%	1%	2%	5%
● IIP	Nov-18	0.5%	-31.6%	5.9%	5.0%	3.2%	4.4%	4.6%
● PMI Manufacturing	Jan-19	53.9	53.2	54.7	53.9	52.4	51.0	52.5

Consumer confidence is weaker, internals show divergent trends

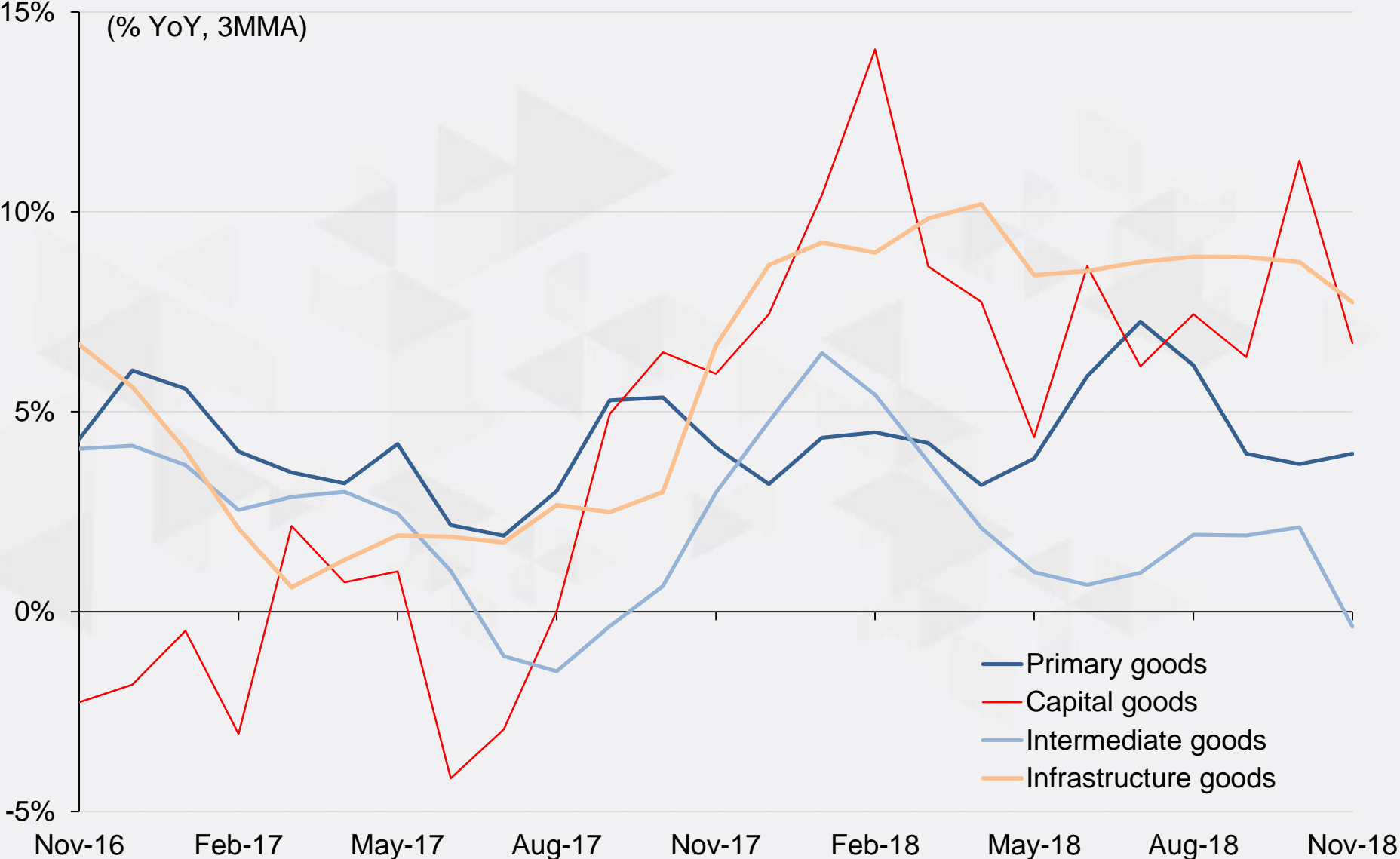


Stronger fixed investment corroborates other indicators of a capex recovery...

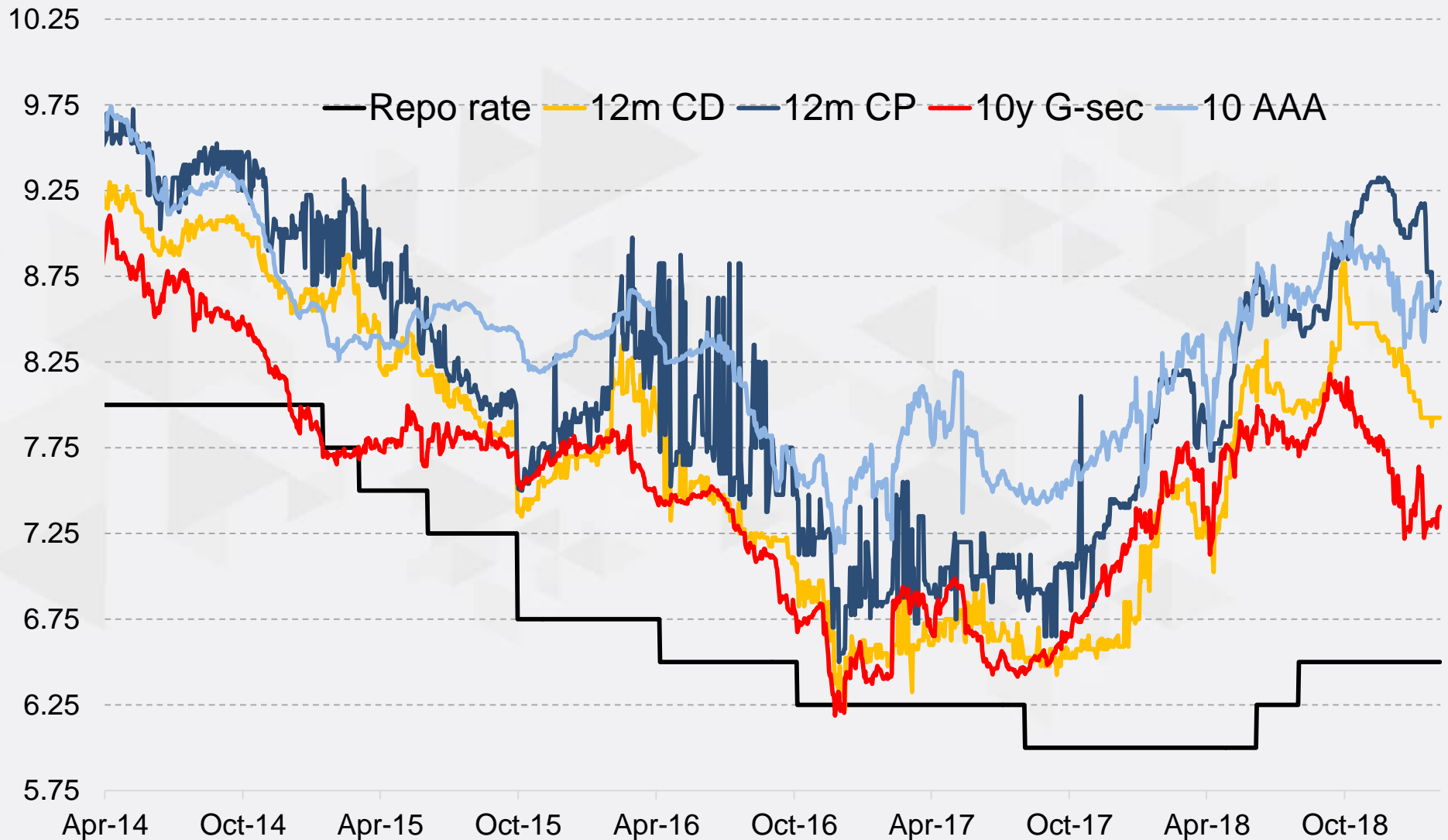
Fixed Capital Formation as % GDP



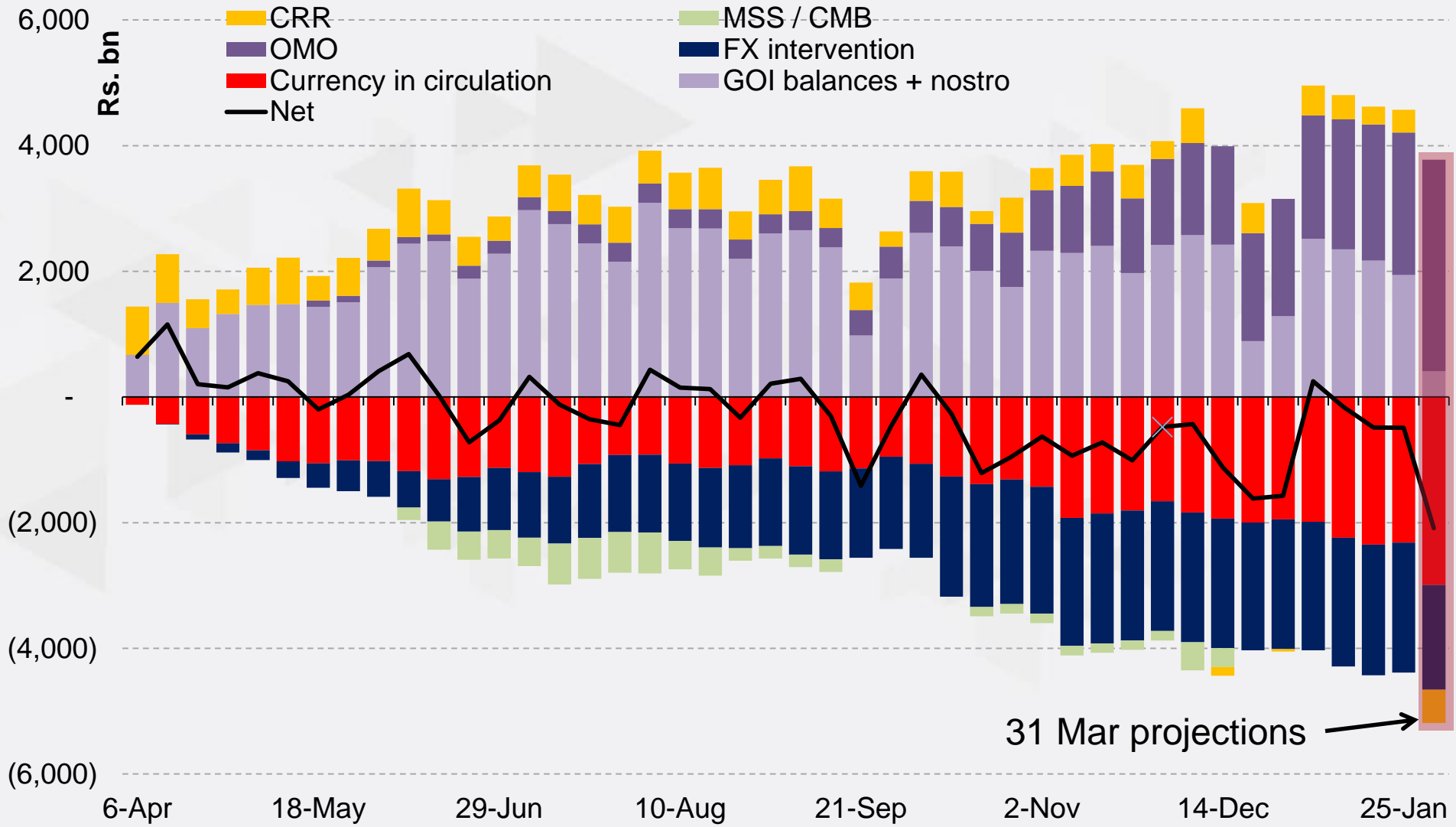
... supported by IIP capital goods production data



Hints of a softer RBI stance and comfortable liquidity lead near end rates lower, but supply keeping far end high



Liquidity is neutral only because of extraordinarily low GOI balances (with WMA)



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