Union Bank of India — Good people to bank with

08th April 2024

Data release	Due date	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24 (Proj.)
CPI (YoY %)	12th Apr'24	5.02	4.87	5.55	5.69	5.10	5.09	4.92
IIP (YoY %)	12th Apr'24	6.40	11.90	2.40	4.20	3.80	6.40 (Proj.)	-
Trade Balance (Bn $)	15th Apr'24	-19.4	-29.9	-20.6	-19.8	-16.5	-18.7	-18.0

CPI inflation likely eased to sub-5% in Mar'24

- Headline inflation likely to have decreased marginally on sequential basis to 4.92% in Mar'24 vs 5.09% in February. Food and beverages inflation probably eased to 7.6% in March vs 7.8% in February. Lag in seasonal correction in vegetables and sticky cereals inflation are likely to have kept inflation in the segment elevated. Seasonal correction in vegetable segment with lag and procurement of rabi crop especially wheat may ease some price pressure in the food segment in coming months. However, IMD has signalled risk of potential heat wave during April-June which poses risks to food inflation. Meanwhile, IMD stated that wheat production/harvesting unlikely to be impacted.
- In addition, the fuel inflation likely to edge lower on account of cut in subsidized LPG cylinder price by ₹ 100/ cylinder, i.e. c. 11% month on month. This likely led fuel CPI to slip deeper into deflation zone in March.
- Core inflation is estimated to stay nearly flat vs last month at 3.4%, however sequential momentum likely to be seen on account of recent rise in gold prices. Momentum in gold prices in recent month likely to have outweighed the impact of price reduction in diesel and petrol. Core ex transport inflation likely to edge up to 3.7% in March from 3.6% in Feb'24.

Going forward, we see inflation staying in the 4% handle in the coming months as seasonal drop in vegetables prices and fresh harvesting of rabi crops especially wheat help in cooling price pressures. However, movement in crude prices, seasonal corrections in vegetable inflation and heat wave development will be key to watch among others.

Fig 1: Headline CPI likely eased back below the 5% mark in Mar'24; % y/y

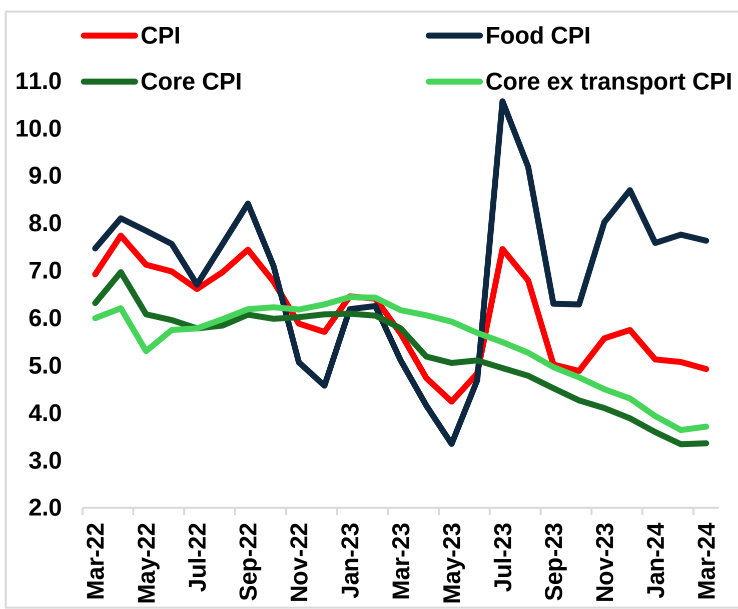


Fig 2: CPI ex veggies at 3.6% while seasonal correction in veggies yet to play out; % y/y

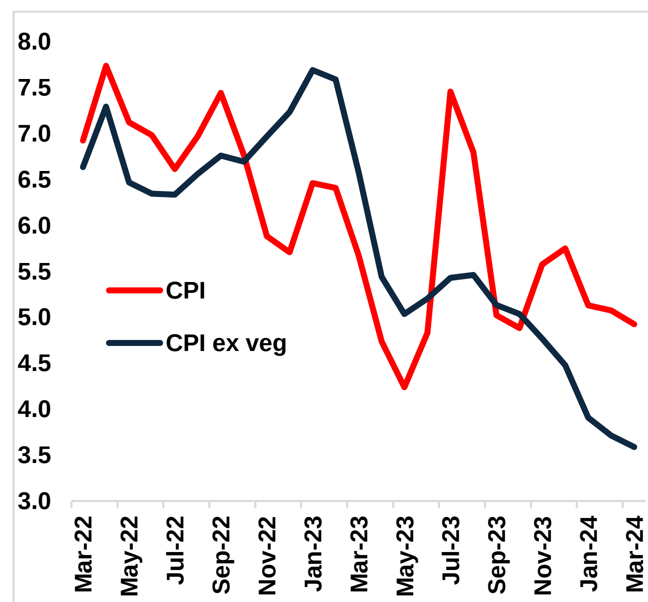
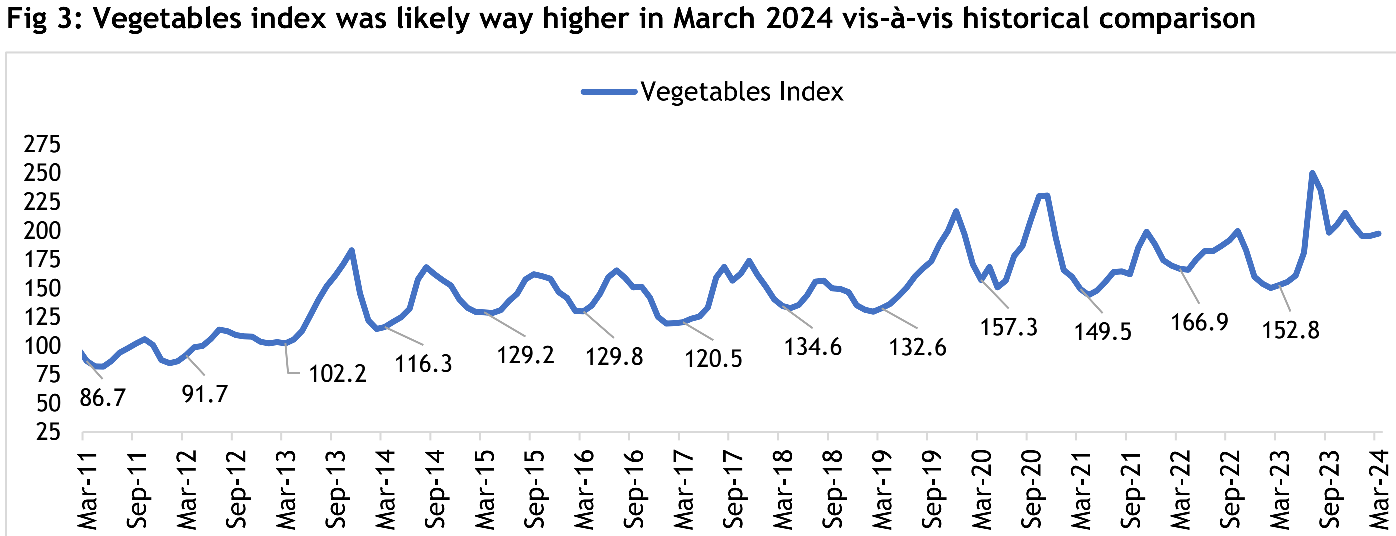


Fig 3: Vegetables index was likely way higher in March 2024 vis-à-vis historical comparison



Note: Figure for March is our estimate *Sources: CEIC, UBI research*

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Industrial Production likely jumped in Feb’24

- Industrial production as indicated by IIP growth is expected to be at 6.4%, on a broad-based growth uptick.
- Manufacturing is also set to improve in Feb’24, as against previous three months. This was corroborated by the uptick in Manufacturing PMI which had hit a five-month high in February, driven by a sharp uptick in orders and lower input costs.
- Core sector growth in Feb’24 was boosted by a sequential improvement being recorded by six of its eight constituents, other than fertilizers and steel. Three of the eight core industries displayed double-digit growth in Feb’24, namely, coal, cement, and natural gas.
- Apart from core sector, other lead indicators like exports and auto production also recovered well in March with double digit growth.
- Given the healthy improvement in core sector growth, we expect the IIP growth at 6.4% in Feb’24.

Fig 4: IIP likely to be tad-up in Feb’24; % y/y

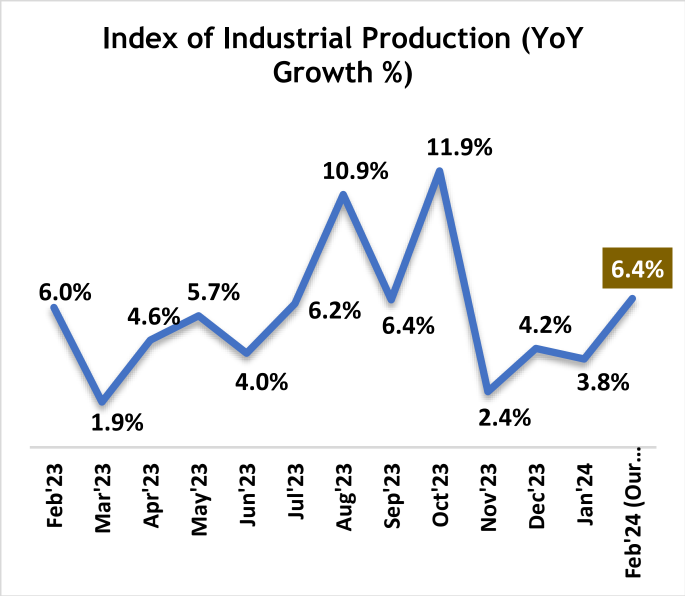


Fig 5: Mining to lead Feb’24 IIP growth; % y/y

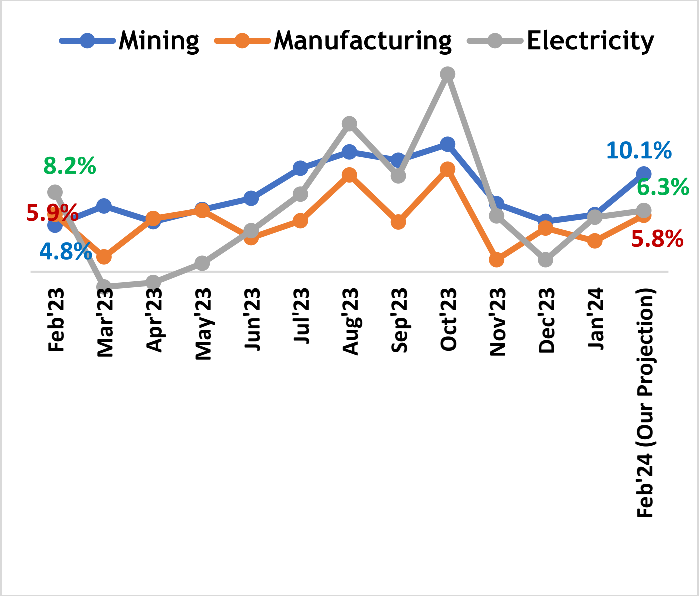


Fig 6: Infrastructure/ Construction goods to rebound in February 2024 vis-à-vis previous months

Industrial Production: Sectoral				
Sector	Weight	YoY Growth %		
		Dec'23	Jan'24	Feb'24 (P)
Mining	14.4	5.2%	5.9%	10.1%
Manufacturing	77.6	4.5%	3.2%	5.8%
Electricity	8.0	1.2%	5.6%	6.3%
Industrial Production: Use-based				
Primary goods	34.0	4.8%	2.9%	7.6%
Capital goods	8.2	3.6%	4.1%	4.1%
Intermediate goods	17.2	3.9%	4.8%	6.7%
Infrastructure / Construction Goods	12.3	5.1%	4.6%	7.2%
Consumer durables	12.8	5.3%	10.9%	8.7%
Consumer non-durables	15.3	2.4%	-0.3%	2.2%

Note: Figure for Feb is our estimate *Sources: CEIC, UBI research*

Trade Deficit likely to have improved in Mar’24

- Merchandise Trade Deficit is expected to have improved in the month of Mar’24 to $18 bn from $18.7 bn in Feb’24 led by narrowing in gold deficit after spiking to record highs last month.
- As per media reports, due to spike in gold prices, import volumes dropped to c.10-15 tonnes in March vs c.110 tonnes in Feb’24.
- Oil deficit likely remained elevated as avg Brent crude prices remained near $85/b in March vs $82/b in Feb’24.
- In the non-oil non-gold segment, deficit is likely to have worsened from last month due to uptick in commodity prices (world bank total commodity price index rising in March to 105.9 from 103.7 in Feb). However, positive seasonality witnessed in Jan to Mar quarter likely limited the impact.
- Impact of Red Sea crisis likely stayed limited for the month of March month as well, in our view. About 48.7% of India’s merchandise exports and 30.4% of imports are estimated to be exposed to the Red sea route, according to RBI monthly bulletin.
- Apart from trade, we will also watch out for the services exports data, given that the strong performance in the latter has driven C/A surplus consistently for the months of Jan and Feb’24.

Going forward, trade deficit is likely to remain elevated with surge in commodity prices especially oil, expected to weigh on the overall deficit. Seasonality witnessed in the Jan-Mar quarter is also likely to phase out which may drive trade deterioration in the coming months. Also, persistent geo-political tensions and Red sea crisis may also have a bearing on the trade deficit going forward.

Fig 7: Gold deficit likely narrowed in March after rising to record highs Feb

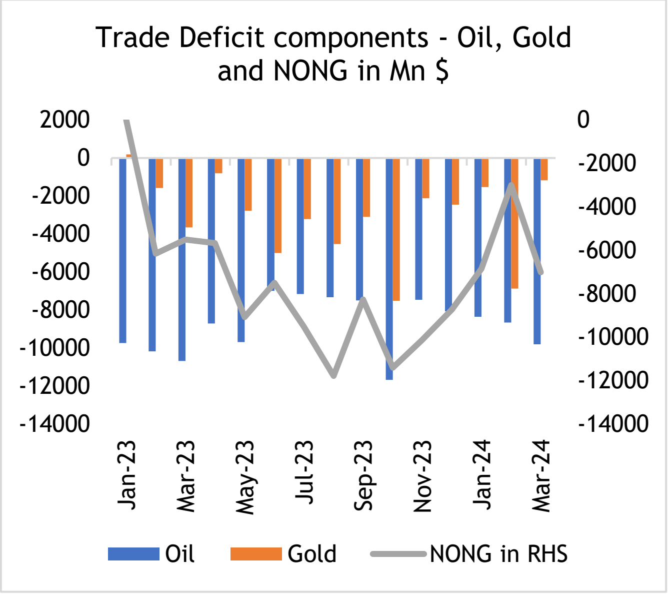
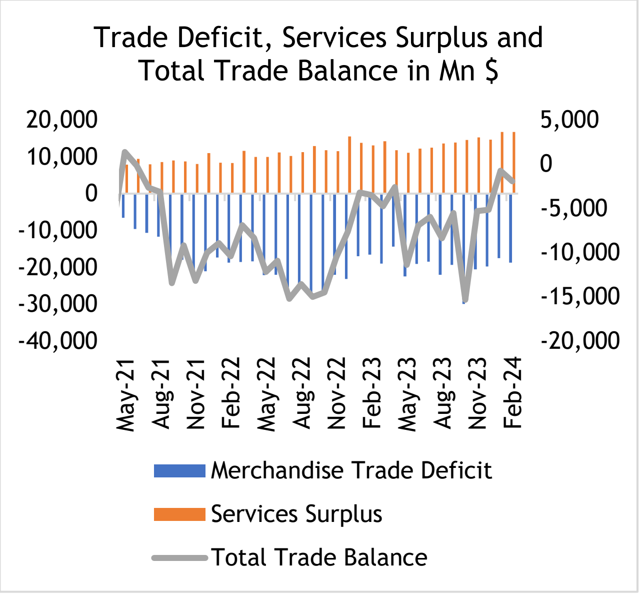


Fig 8: C/A Balance has switched to surplus in Jan-Feb’24



Note: Figure for March is our estimate
Sources: RBI, Ministry of Commerce, CEIC, UBI research

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