

GROWTH REMAINS MORIBUND THOUGH BANK CREDIT SHOWS WELCOME JUMP IN SEP

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The consumer prices was up by 3.99% in September (2019) from last year's level of 3.70% and month before level of 3.28%. This is the highest CPI figure since July 2018. The spike, up from the Aug'19 numbers of 3.28%, is driven by higher food prices. The jump in food and beverages inflation in Rural and Urban areas is primarily driven by jump in vegetable and protein components. We believe such a jump is seasonal and though headline inflation has ticked up, there is wide expectation that the prices may soften in a couple of months, once the Kharif harvest arrives in the market. Going forward, we expect better supplies on the food front which may ease the pressure on food prices.

Meanwhile, WPI core inflation which plunged to negative territory in Aug'19 has deteriorated further and declined to 38-months low to (-) 1.07% in Sep'19. We believe that core WPI will remain in negative zone for next couple of months and this is bad news for economy as negative core WPI is eventually conveying lack of purchasing power which is a disturbing sign. Simultaneously, Core CPI is likely to decline below 4%, indicating weak demand conditions.

Market prices of most Kharif crops have ruled below MSP in many States during FY19 and to ensure remunerative prices to the farmers for their produce, procurement operations and market infrastructure need to be strengthened. For example, farmers should be encouraged and incentivized to store their produce in accredited warehouses and provided loans against Warehouse Receipt to meet cash flow needs without selling their produce when market prices are typically low at harvest-time.

Simultaneously, IIP de-growth(-1.1% in Jul'19) has again caused serious concerns about the decelerating economy. Electricity sector, which had been growing well, has shown a decline for the first time, since the new IIP series were released. The impact of insisting on Discoms opening Letters of Credit from August 1st for power purchases is having its expected effect - Power demand fell by 1.6% in August and now 4.5% in September. Load-shedding is now back reflecting Discom inefficiencies! Meanwhile, thermal coal imports has climbed upto rose to 61 million tonnes last fiscal and it may go 200 million tonnes in 2019-20. Thus, both the Electricity and Mining sector growth will remain weak in coming months. All this augurs for weak IIP prints going forward.

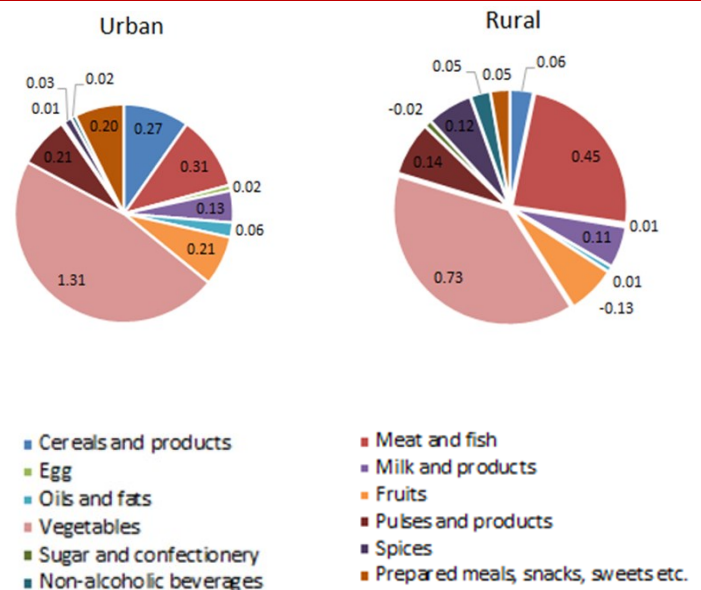
The fortnightly data of ASCBs indicate that there has been now a credit-pickup of Rs 90,618 crore in Sep'19. This is a welcome development, though we believe such credit growth may have largely from personal loan segment.

On a more cheerful note, on a day when Professor Abhijit Banerjee become the 2nd Indian to receive the Economics Nobel prize, we believe the time has now come to decisively debate over a demand support for bottom half of the Indians. The fiscal space may not permit that, but at least there is no harm in ensuring we make the current income support schemes for farmers more targeted and perhaps more enlarged as time progresses!

CPI INFLATION JUMPS ON THE BACK OF FOOD PRICES

- ◆ CPI inflation rose to 3.99% in Sept'19 as against 3.28% in the month of August'19 on account of higher food prices. The jump in September's CPI reading was led by higher prices of food items as food inflation rose to 5.11% as compared to 2.99% in previous month. Prices of vegetables including onion rose significantly in the previous month. Core CPI has declined both in Urban as well as Rural centres.
- ◆ CPI inflation has remained comfortably within the Reserve Bank of India's target level of 4%(+/-2%). Retail inflation remained well within the RBI's comfort level of 4% for about 12 months now. We expect FY20 CPI to average at 3.5%.
- ◆ WPI core inflation which plunged to negative territory in Aug'19 (-0.49%) deteriorated further and declined to 38-months low to (-) 1.07% in Sep'19. We believe that core WPI will remain in negative zone for next couple of months and this is a bad news for economy as negative core WPI is eventually conveying lack of purchasing power which is a disturbing sign. Simultaneously, Core CPI is likely to decline below 4% , indicating weak demand conditions.
- ◆ The jump in inflation in Rural and Urban areas is primarily driven by jump in vegetable and protein components. We believe such a jump is seasonal.

Rural & Urban Food CPI: what is driving what (%)



Source: SBI Research

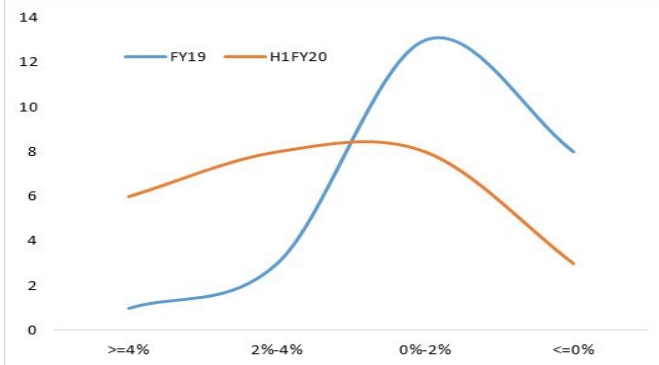
PROCUREMENT OF FOODGRAINS KEY TO FOOD PRICES TRAJECTORY

- ◆ In the case of cereals, FCI and other designated State Agencies would continue to provide price support to the farmers whereas NAFED and other designated Central agencies would continue to undertake procurement of pulses and oilseeds. Data on procurement of pulses and oilseeds by NAFED during 2019-20 Kharif season shows the procurement is yet to pick up as many States have not yet started the procurement process. However, two successive years of bumper production and higher procurement have led to significant increase in stocks of rice and wheat in central pool. As against the buffer stock norm of 41.12 million tonnes of rice and wheat, total central pool stocks 45.41 million tonnes as on 1st Jan'19.
- ◆ In order to liquidate excess stocks, Government has started sale of wheat and rice in the open market through Open Market Sale Scheme. But, the reserve price for sale of grains in open market is below the economic cost as low prices discourage private players to procure directly from farmers during procurement season. Therefore, the open ended procurement policy need to be reviewed.
- ◆ In addition to it, market prices of most Kharif crops ruled below MSP in many States during FY19 and to ensure remunerative prices to the farmers for their produce, procurement operations and market infrastructure need to be strengthened.
- ◆ For example, farmers should be encouraged and incentivized to store their produce in accredited warehouses and provided loans against Warehouse Receipt to meet cash flow needs without selling their produce when market prices are typically low at harvest-time. This arrangement will allow the farmers to delay the sale of produce until more favourable market conditions emerge.

IIP DE-GROWTH WORRIES

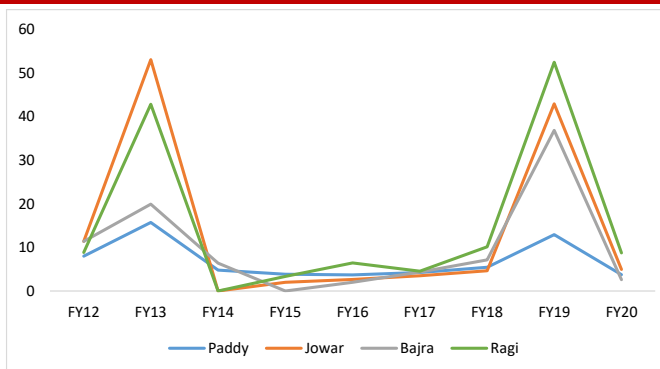
- ◆ IIP de-growth (-1.1% in Jul'19) has again caused concerns about the decelerating economy. Electricity sector, which had been growing well, has shown a decline for the first time, since the new IIP series were released. Thus the weighted contribution of electricity has come down to -0.1, pulling the IIP growth down even further due to decelerating manufacturing. The electricity sector is already struggling.
- ◆ The impact of insisting on Discoms opening Letters of Credit from August 1st for power purchases is having its expected effect - Power demand fell by 1.6% in August and now 4.5% in September. Load-shedding is now back reflecting Discom inefficiencies!
- ◆ Around 2014-15, due to the exceptional operational turnaround of Coal India, there was the expectation that India's coal imports could go to zero. The scenario is different now. Thermal coal imports rose to 61 million tonnes last fiscal and it may go 200mt in 2019-20. The mining sector IIP growth has also turned flat. All this augurs for weak IIP prints going forward.

Headline CPI frequency distribution across states (%)



Source: SBI Research

Growth in MSP Prices (%)



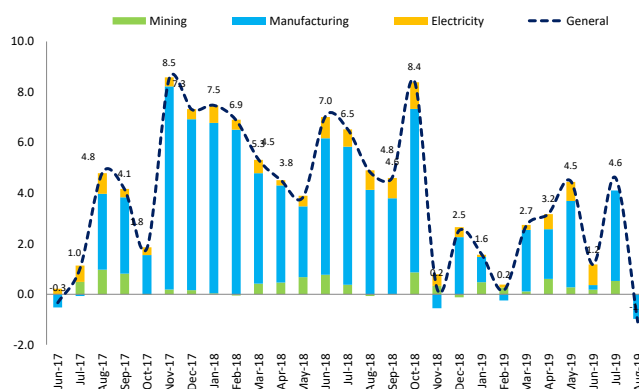
Source: SBI Research

Consolidated Status of PSS Procurement during Kharif 2019-20 season

States	Commodity	Qty Sanctioned (MT)	Qty procured by NAFED (In MT)	% Proc. of Sanctioned Qty.	Remarks
Tamil Nadu	Moong	3,000	25.8	0.9	Proc. In progress
	Urad	7,275	6.9	0.1	
Telangana	Moong	10,378	3258.4	31.4	Procurement will be commenced shortly.
	Soyabean	58,608	-	-	
Maharashtra	Moong	30,000	24.7	0.1	Procurement in progress
Karnataka	Moong	12,226	-	-	Procurement will be commenced shortly.
	Urad	6,448	-	-	
Total	-	1,27,935	3,315.8	2.6	-

Source: NAFED, SBI Research

IIP Weighted Contribution %

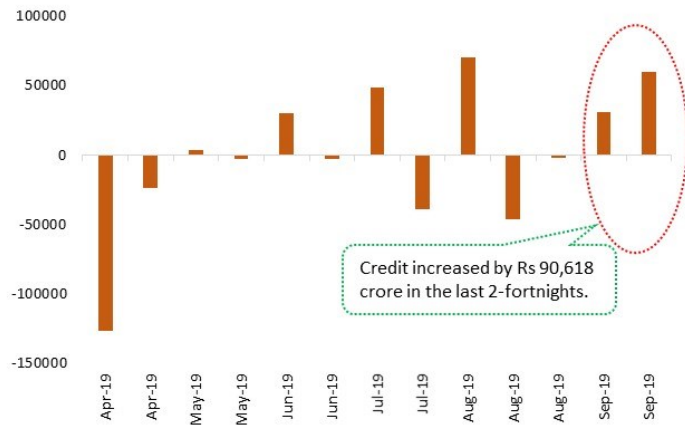


Source: SBI Research

AT LAST A SILVER LINING IN BANK CREDIT PICK UP?

- ◆ The fortnightly data of ASCBs indicate that the YoY bank credit growth is at 8.8% in 27 Sep'19, lowest since Nov'17 and on YTD basis there is a de-growth of Rs 412 crore, compared to last year growth of 3.5 lakh crore. However, the YTD growth trend indicate that there has been now a credit-pickup of Rs 90,618 crore in Sep'19.
- ◆ This is a welcome development, though we believe such credit growth may have largely from personal loan segment. We continue to watch this development with interest!

ASCBs Fortnightly Credit Growth jumps (Rs crore)



Source: SBI Research

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