

Economy

Exhibit: Monetary Policy

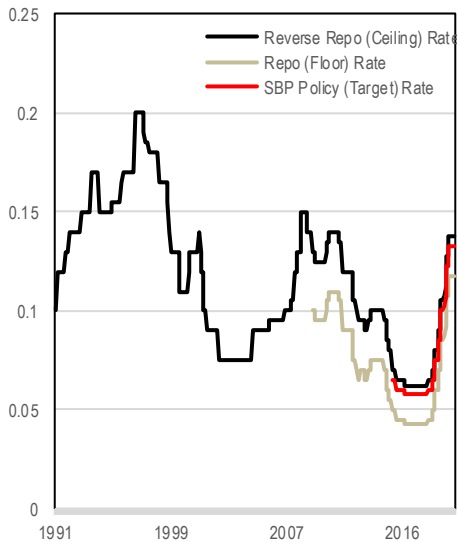
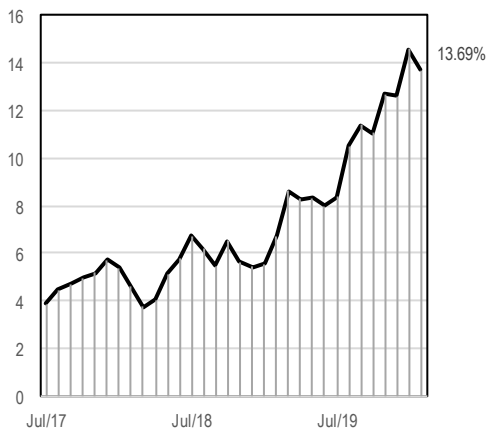


Exhibit: National CPI



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Inflation

Lower Feb-20 Inflation Expected At 13.7%Y/Y; which May Come as a Monetary Policy Relief

- ✓ For the month of Feb-20, we expect headline inflation to print a +13.7%y/y growth or +0.1%m/m compared to a +2.0%m/m growth in Jan-20
- ✓ We base our estimate on a) food prices to remain downward sticky despite some non-perishable items experiencing a downward price revision, b) personal goods including clothing and hoteling is expected to show slight uptick, whereas no change in house rental index and c) a slight uptick in energy prices.
- ✓ Feb-20 inflation holds a significant weight in monetary policy decision. However, lower Feb-20 inflation should come as a relief we do not expect a major change in monetary policy till Sept-20.

Monthly Inflation likely to recede to 13.7%y/y

For the month of Feb-20, we expect headline inflation to print a +13.7%y/y growth or +0.1%m/m compared to a +2.0%m/m growth in Jan-20. This brings 8m'2020 average inflation to +11.85% vs. +6.03% last year same period.

Exhibit: Feb-20, Inflation forecast

	Feb-20	m/m	y/y	8mFy20	8mFy19	8mFy20 (m/m average)	8mFy19 (m/m average)
N-CPI	133.1	0.1%	13.7%	11.9%	6.0%	1.1%	0.5%

- **Food Inflation:** For the month we expect food prices to remain downward sticky despite some non-perishable items experiencing a downward price revision. Sugar, edible oil, fresh vegetables and fruits with a combined weight of 5.2% have witnessed a price rise, whereas tomatoes, onions, eggs, and other perishable food items with a combined weight of 4.9% have shown a price decrease. Nevertheless, this based on our estimate could jack up food prices (30.42% weight) by around 0.11% m/m.
- **Non-food prices:** Clothing & footwear, along with hoteling and education should also witness an uptick in non-food prices. Whereas a slight uptick is expected in energy prices, household equipment and no change in house price index.

Feb-20 inflation will have a critical role to play on monetary policy outcome

Monthly yields have shown a mix trend rising to the end of January 2020, as headline inflation clocked in at +14.67% for the month, more than market expectation and flattening out by mid Feb-20. Nevertheless, lower Feb-20 compared to Jan-20 will come as a relief, with 3-month forward inflation as per our estimates comes to +12.6% translating into a 1.15% real rates. This should in our view keep monetary policy neutral at least till Sept-20 review. Having said that, extension in gas price hike till Jun-20, downward global oil price trend and subsidised food products could potentially bring our estimates further lower, which can prompt an earlier than expected rate cut.

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