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How prices look in Jan'24

BoB Essential Commodity Index (BoB ECI) has fallen by 1% in Jan'24, on a sequential basis. This is the sharpest drop since Sep'23. The moderation in the index was broad based with most contribution coming from correction in vegetable prices. Thus against this backdrop, we expect headline CPI to settle at ~4.7% in Jan'24. Favourable base would also provide the desired cushion to this number.

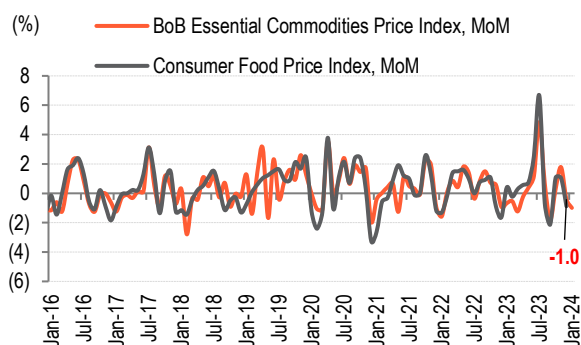
However, what needs to be closely watched is the evolution of these numbers especially vegetable prices. In Feb'24, it is already showing some tendency to return to its mean level, thus showing a slight uptrend. But overall outlook seems favourable for inflation from the standpoint of demand-supply dynamics, stable energy price and finely balanced revenue spending of the government, which in turn might be positive for inflation in the near term.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

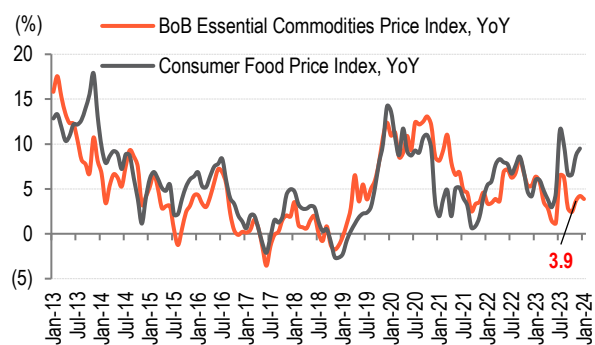
- On MoM basis, BoB ECI fell by 1% in Jan'24 from 0.4% decline seen in Dec'23. This is the sharpest pace of sequential decline in the index since Sep'23. 18 out of 20 commodities that is captured in the index have registered a decline in Jan'24 compared to Dec'23. Among them, sharpest correction was visible in case of Onion prices, which fell by 24.3% in Jan'24 from 14.8% decline seen in Dec'23. Other vegetables such as Tomato and Potato also continued its downward spiral, falling by 14.9% and 5.1%, respectively, in Jan'24. Retail prices of all categories of edible oils such as Groundnut, Mustard, Soya and Sunflower Oil, continued to soften. Even price of pulses saw a correction with Tur/Arhar prices falling the most among other categories of pulses, by 2.6% in Jan'24. Cereal prices moderated compared to last month. Prices of Sugar and Gur also inched down.
- **On YoY basis, BoB ECI softened to 3.9% in Jan'24.** 17 out of 20 commodities have registered softening of prices. Notable ones include Onion, Tomato, some items of pulses such as Tur/Arhar, Moong, cereals such as Atta (wheat) and other miscellaneous items of food such as milk, sugar, tea etc.
- For the first 5 days of Feb-24, BoB ECI has fallen by another 0.3% on MoM basis. However, as seen in the vegetable prices data, much of the correction has already happened and the difference between retail and wholesale price of these vegetables have also come down, which suggests that much of the pass through has occurred. So the evolution of price data for these volatile items, needs to be monitored carefully in the coming days.

Figure 1: On MoM basis, BoB ECI has fallen by 1% in Jan'24 from 0.4% decline seen in Dec'23



Source: CMIE, Bank of Baroda Research

Figure 2: On YoY basis, it has moderated to 3.9%



Source: CMIE, Bank of Baroda Research

Table 1. Price pressure seen easing in Jan'24

Price of major essential commodities (% YOY)	Wts in CPI	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24
Milk	6.4	10.8	10.9	10.7	10.7	10.7	8.8	7.7	6.4	5.4	4.8	4.2
Rice	4.4	8.6	8.9	9.4	11.2	11	11.1	11.8	13.5	14.2	14.6	13.8
Atta (Wheat)	2.6	6.5	4.3	2.7	2.7	0.3	-1.4	-1.1	-1.1	-1.6	-3.1	-3.3
Mustard oil (Packed)	1.3	-17.3	-19.4	-20.8	-20	-18.6	-17.9	-17.6	-18.6	-18.6	-18.7	-17.2
Sugar	1.1	1.7	2.2	2.4	3.4	3.1	2.6	3.5	4.7	5.9	6.5	6.5
Tea loose	1	-3.2	-3.7	-3	-2.2	-1.5	-1.3	-1.2	-0.3	0.8	1.2	1.6
Potato	1	-8.7	-9.7	-13.3	-10.6	-11.3	-12.6	-13.7	-13.2	-7.7	-1.8	5.4
Tur/Arhar dal	0.8	13.1	16.1	23.8	29.6	27.3	31.5	35.7	37.6	38.1	35.1	33.7
Soya oil (Packed)	0.7	-15.2	-20.1	-21.7	-20	-17.6	-17.5	-17.3	-19.8	-18.9	-18.4	-16.9
Sunflower oil (Packed)	0.7	-20.5	-25.7	-28.7	-29.1	-28.2	-26.3	-25.6	-27	-25.9	-24.6	-22.6
Onion	0.6	-13.6	-6.4	-4.6	4.7	17.6	29.5	36.6	90.6	81.9	41.3	31.9
Tomato	0.6	-13.2	-45.1	-37.5	177.4	195.9	-3.9	-35.4	3.6	28	31.7	42.6
Urad dal	0.3	3.3	4.4	7	8.9	7.6	8.4	9.8	12.7	14.1	14.5	15.2
Moong dal	0.3	4.3	5.6	7.1	8.8	9.2	10.7	12.1	12.5	12.8	12.4	11.4
Masoor dal	0.3	-3.4	-4.1	-4.6	-4.4	-5	-3.2	-1.4	-1.5	-0.8	-0.5	0.4
Groundnut oil (Packed)	0.3	2.7	1.1	0.9	1.2	1.9	2.7	2.4	1.7	1.9	1.4	1.1
Salt pack	0.2	14.1	12.8	11.2	11.1	10.9	7.2	4.2	3.2	3.7	4.6	3.9
Gram dal	0.1	-1.3	-0.1	1.2	2	4.4	9.8	12.9	13.6	14.6	14.6	13.9
Vanaspati (Packed)	0.1	-15.7	-19.4	-20.6	-18.5	-15.6	-14.5	-12.9	-12.5	-10.6	-9.7	-8.7
Gur	0.1	1.3	2.1	3.9	5.6	5.1	4.6	4.7	4.3	6.7	8.8	8.9

Source: CMIE, Bank of Baroda Research, Note: Commodities where price change is more than 6% on YoY basis, have been marked in red, green shaded areas are the recent drop in prices, data for Feb'24 till 5th Feb

So where is CPI print headed?

Based on the price dynamics, we expect CPI to be at ~4.7% in Jan'24. This month the moderation in prices have been broad based, with most significant correction visible in the vegetable prices. This coupled with a favourable base of ~80bps will provide the desired comfort to inflation. For Q2FY24, we expect CPI to settle below the 5% print.

However, since most of the correction in vegetable prices has already happened, as again in Feb'24 (first 5 days), prices are reverting to their normal level. Thus, it is important to look out for the evolution of its trajectory. As for now, comfort on inflation comes from a favourable demand-supply dynamics and stable input prices. Government's adherence to fiscal prudence will also be positive on part of inflation, as revenue spending has been finely managed.

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