



Wholesale Price Index (WPI) - May'11

Current Scenario:

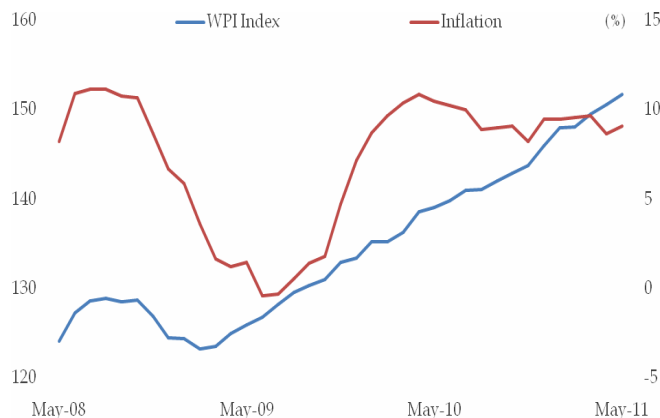
- ✘ WPI for May'11 rose as per expectations to 9.06% YoY as compared to 8.66% in Apr'11 and 10.48% in May'10; contributed largely by demand led pressures
- ✓ Primary inflation slowed to 11.3% YoY as compared to 12.0% in Apr'11 despite of rise in food articles, potatoes, oil seeds and minerals
- ✓ Fuel Index declined to 12.3% YoY growth as compared to 14.4% in the last year; contributed mainly led by higher prices in petrol of 4.4% MoM
- ✘ Manufacturing Index rose by 1.03% MoM on the back of higher prices in cotton textiles, chemical and chemical products and transport equipments and parts
- ✘ Inflation for Mar'11 is revised upwards sharply by 64 bps to 9.68%

Outlook:

- ✘ WPI inflation in 1HFY12 is expected to remain elevated due to rising commodity prices and demand led pressures which is expected to continue to augment the prices
- ✘ We expect FY12 average Inflation to be at 7-8.5% despite of higher base and tightening measures undertaken by RBI
- ✘ Inflation has re-emerged as a grave concern for the policy makers across the globe
- ✓ Despite of fall in input prices the manufactured product prices have increased indicating stronger demand in the economy
- ✓ High core inflation along with impending fuel price hike is expected to remain dominant concern for RBI. We expect RBI to hike Repo rate by another 25 bps in the Jun'11 policy despite slowdown in production momentum

WPI

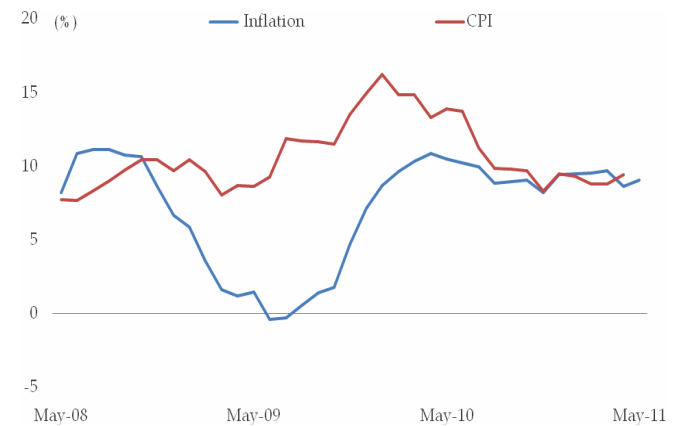
Inflation continued to remain sticky at 9.06%, but stayed in line with RBI's expectations, as compared to 8.7% in Apr'11. Index steadily rose by 0.7% MoM at a constant rate compared to last month.



Source: Khandwala Research, Bloomberg, CSO

WPI vs CPI

CPI rose sharply to 9.4% YoY for Apr'11 as compared to 8.8% YoY for Mar'11, we expect CPI to rise further in May'11 as food inflation which constitute major component in CPI has increased for May'11.



Source: Khandwala Research, Bloomberg, CSO

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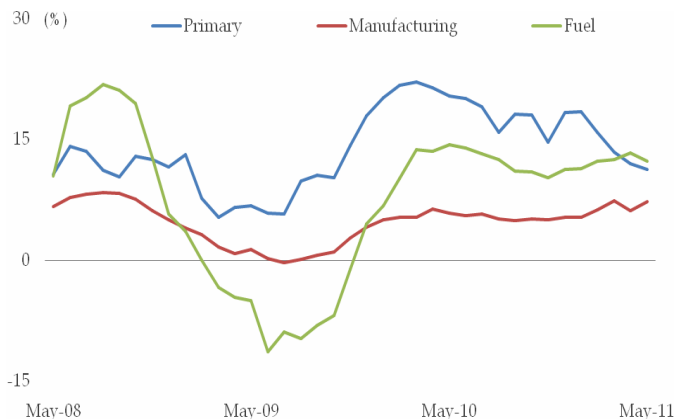
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Composition of WPI

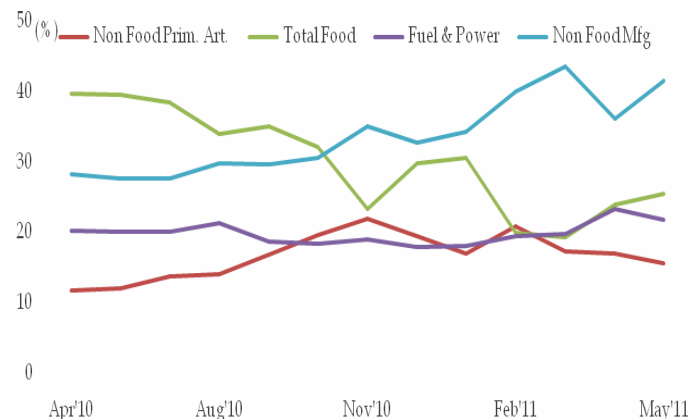
Manufactured products prices rose sharply by 1.0% MoM led by growth in prices of cotton textiles of 5.5%, Chemical & chemical products of 1.0% and food products of 1.2%.



Source: Khandwala Research, Bloomberg, CSO

Contribution to WPI

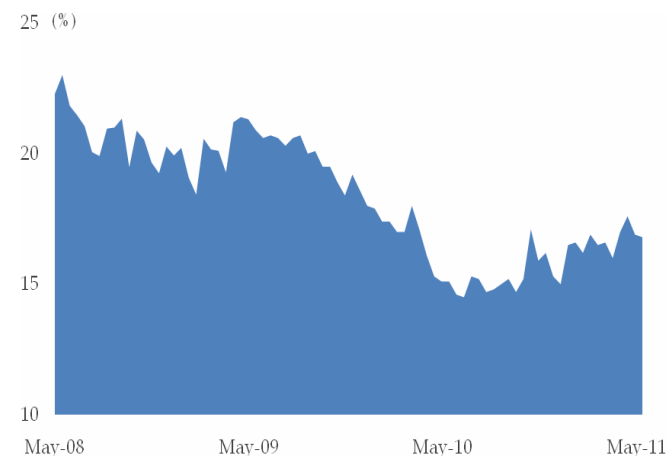
Core Inflation as represented by Non Food Manufacturing contribution to inflation rose to 41.6% in May'11 as compared to 36.2% respectively in last month.



Source: Khandwala Research, Bloomberg, CSO

Money Supply (M3)

M3 rose to 16.8% for the last fortnight of May'11 as compared to 15.1% in the corresponding period in the last year. Liquidity conditions in 1st quarter of FY12 are expected to remain tight on the back of higher Govt borrowing.



Source: Khandwala Research, Bloomberg, CSO

Breakdown by Component

Description (%)	Weight	YoY			MoM
		May-11	Apr-11	May-10	May-11
All Commodities	100.0	9.1	8.7	10.5	0.7
Primary Articles	20.1	11.3	12.1	20.5	0.3
(a) Food Articles	14.3	8.4	8.7	21.4	1.6
(b) Non Food Art.	4.3	22.3	27.3	14.8	-4.4
(c) Minerals	1.5	11.9	7.4	25.3	1.1
Fuel & Power	14.9	12.3	13.3	14.4	0.3
(a) Coal	2.1	13.3	15.9	7.9	-2.3
(b) Petrol	1.1	27.3	21.8	17.9	4.4
(c) HS Diesel Oil	4.7	5.5	5.5	15.8	0.0
Manufact' d Prod	64.9	7.3	6.2	5.9	1.0
(a) Food Products	9.9	7.8	5.7	7.1	1.2
(b) Non Food Prod	55.0	7.2	6.7	5.7	1.0

Source: Khandwala Research, Bloomberg, CSO



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