

Tomato prices shift inflation higher in India

An increase in seasonal food (tomato) prices has pushed headline inflation higher again, but it remains well within the Reserve Bank of India's target range and is no threat to higher rates



4.81%

Headline inflation

Up from 4.25%

Higher than expected

Tomatoes to blame

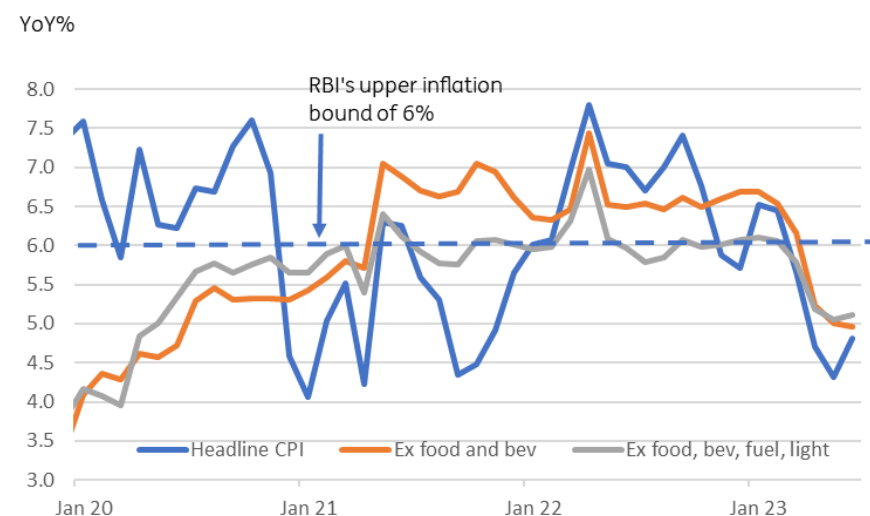
It seems a bit harsh to blame the humble tomato for India's inflation rise in June, but according to daily price data from India's Department of Consumer Affairs, the price per kg of tomatoes increased around 127% in June from May, and that was enough to result in an overall 2.18% month-on-month increase in food prices, and lift the overall CPI index by 1.01% MoM, pushing up the headline inflation rate to 4.81% YoY from 4.25%.

Such seasonal food spikes are not uncommon in India. If not tomatoes, then onion prices often surge when exports exceed production at certain times of the year and result in shortages. And what we know from past experience is that these price surges tend to correct themselves within a few months.

It also does not appear that there are many other worrying signs in this CPI release, except for a 1.1% increase in education, where prices normally rise in July but seem to have been brought forward a month this year. This, too, will pass and most likely drop out of the index next month.

To emphasise this point, core measures of inflation remained fairly close to May rates, and well within the RBI's target range.

Indian headline and core inflation



Source: CEIC, ING

Nothing to worry about

Of course, seasonal anomalies, especially relating to climate change are getting more frequent and so there tend to be more positive price shocks like these than usual these days. But for the moment, there doesn't appear to be anything too alarming going on here, with the shortage of food highly concentrated in one crop. As such, this has no real bearing on the outlook for the RBI's monetary policy.

Even at 4.81%, the gap between the RBI's policy rates of 6.5% and inflation is large, and the case for some easing before the end of the year is strong. For sure, this month, such thoughts will largely disappear, but we expect the RBI's room to manoeuvre to increase later in the year, when a weaker US dollar may make the prospects of a rate cut look less risky than they do while the currency is strong.

Author

Robert Carnell

Regional Head of Research, Asia-Pacific

robert.carnell@asia.ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.