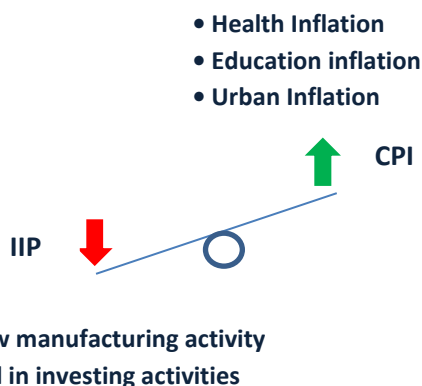


Macro data clears path for a rate cut in April

Key Highlights -

- ❑ Index of Industrial Production for the month of January dropped to 1.7%, falling below our estimated growth rate
- ❑ The drop in the industrial production is on account of a slowdown in the manufacturing and electricity activity. Manufacturing growth stood at 1.3% as compared to 8.69% a year ago, Electricity stood at 0.80% as compared to 7.63% in Jan 2018 whereas Mining growth grew from 0.26% to 3.90% YoY.
- ❑ The month of January also witnessed a sharp drop in investing activities as the use based classification data suggests, Consumer durables, consumer non durables and capital goods all have seen a YoY degrowth and stood at 1.80, 3.80 and -3.20% respectively. Infrastructure goods on the other hand have showed positive signs of growth, growing at 7.9% in January.
- ❑ In the manufacturing sector only 11 out of the 23 segments witnessed positive numbers. Manufacturing of food products (17%) and wearing apparel (16.4%) grew the most. Manufacturing of furniture (-12%) on the other hand contracted the most on a higher base.
- ❑ Consumer Price Index on the other hand spiked up to 2.57%, a four month high figure, but still below RBI's comfortable level of 4%.
- ❑ The rise in the CPI has been on the back of a marginal rise in food inflation. The food price index rose from 135 in January to 135.2. Vegetables continued seeing deflationary pressure whereas fruits saw a trend reversal
- ❑ The much debated health inflation being termed as a one off by the monetary policy has again inched up in February.
- ❑ Urban inflation stood at 3.43 percent against rural inflation of mere 1.81 per cent.
- ❑ Views -
 - ❑ With an adverse base the IIP is poised to be around 3-4% levels for the month of February.
 - ❑ Consumer Price Index inching upwards shows an uptick in the food inflation which was long due. We believe the inflation for the next 6 months will stay below the RBI's 4% levels.
 - ❑ Given the bleak estimates of CPI and IIP in the forthcoming months and a 5 quarter low GDP the future rate cut path for the MPC has been cleared out as the governor believes in going by the factual data in hand keeping in mind the growth outlook.



Index of Industrial Production marginally dropped to 1.7%

Research Analyst

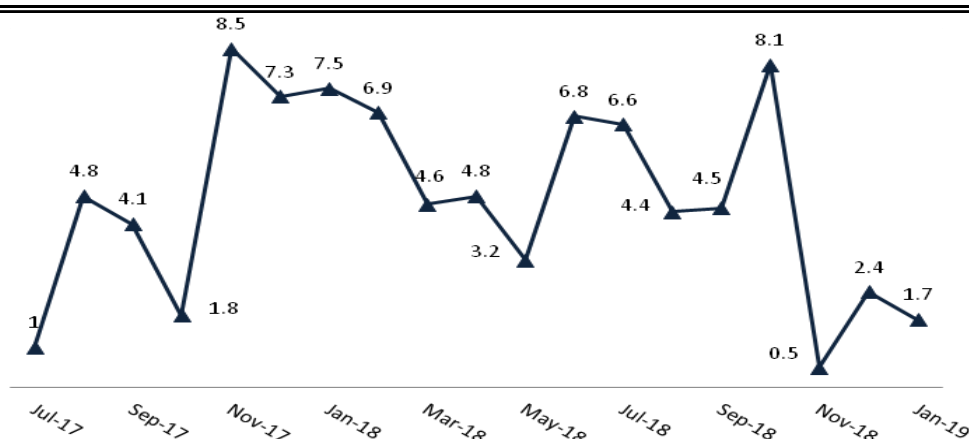
Deepak Kumar

Deepak.Kumar@narnolia.com

Dhwanik Shah

Dhwanik.Shah@narnolia.com

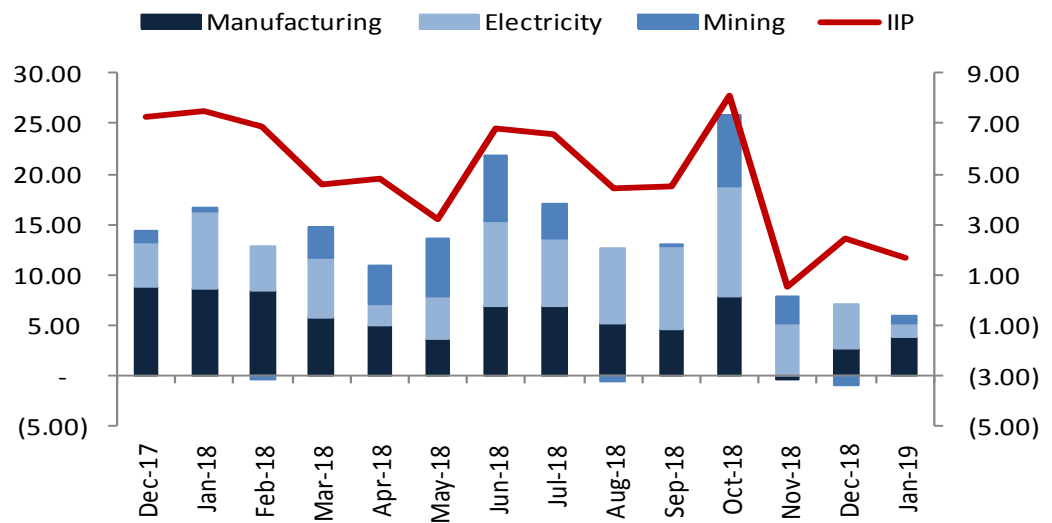
Exhibit: Index of Industrial Production



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Exhibit: Sectoral IIP

When we compare the sectoral IIP the decline was predominantly on the backdrop of poor manufacturing performance.



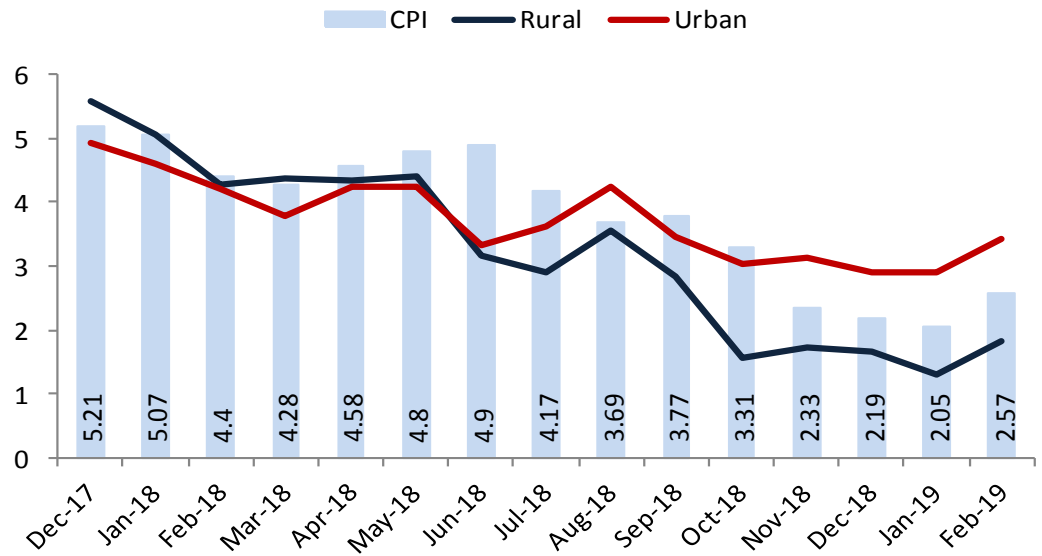
Contribution to IIP

High Positive Contributors		Weights(%)	Contribution to IIP
Mining		14.37	0.4489
Sunflower oil		0.07	0.4158
Sugar		0.76	0.3367
Cement		2.16	0.26
Bars & Rods		0.57	0.2334
High Negative Contributors			
Copper bars, rods		0.64	-0.3144
Diesel		5.71	-0.2634
Printing machinery		0.46	-0.2466
Pig Iron		0.4	-0.1816
Air filter		0.19	-0.1367

Use Based(YoY %)	Jan-18	Nov-18	Dec-18	Jan-19
Primary goods	5.9	3.2	-1.2	1.4
Capital goods	12.5	-3.4	5.9	-3.2
Intermediary goods	5.4	-4.5	-1.5	-3.0
Infrastructure goods	7.5	5.0	10.1	7.9
Consumer durables goods	7.6	-0.9	2.9	1.8
Consumer non-durables goods	10.7	-0.6	5.3	3.8

Exhibit Consumer Price Index

CPI for the month of February rose to 2.57 from 2.05 in January



Impactful contributors

Description	Feb-18	Jan-19	Feb-19	Inflation rate
Vegetables	135	141	130	-8%
Pulses & Products	126	126	121	-4%
Sugar & Confectionery	117	117	109	-7%
Pan,tobacco & intoxicants	155	155	163	5%
Clothing & footwear	143	143	147	3%
Housing	141	141	149	5%
Fuel & Light	137	137	138	1%
Health	134	134	146	9%
Education	139	139	150	8%

The RBI in their recent monetary policy have also downgraded the inflation projection going forward. After the recent cut in the repo rate in the February monetary policy the RBI has stated that the interest rates will be a factor of the headline inflation going forward and any move in the monetary policy will be purely data driven signaling an inevitable rate cut in the monetary policy in the month of April.

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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