January 2021 Inflation Flash

Headline inflation rate jumps to 16.47% y/y in January-2021

United Capital
The Intelligent Choice

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Economics | Data Reaction

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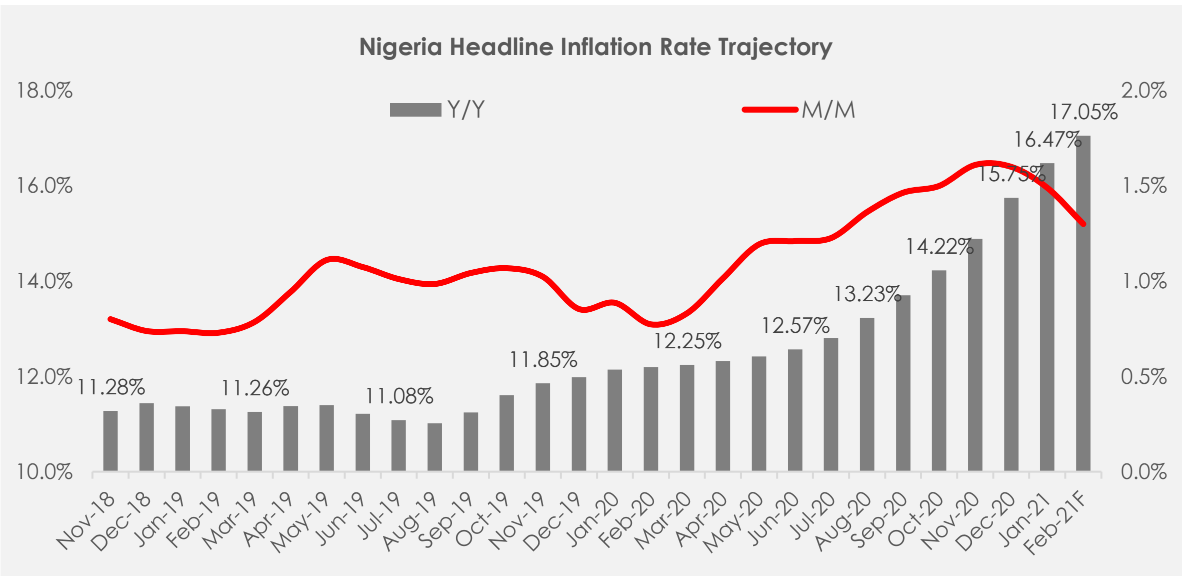
Food sub-index	core sub-index	Headline Index
20.6%	**11.9%**	**16.5%**

Earlier today, the National Bureau of Statistics (NBS) released the inflation report for Jan-2021. Notably, the headline rate rose from 15.8% y/y in Dec-2020 to 16.5% y/y – faster than our estimate of 16.2% and the highest rate since Apr-2017. On a m/m basis, inflation rate climbed by 1.5% in Jan-2021(vs. 1.6% m/m in Dec-2020), decelerating for the first time since Feb-2020. Price increases were observed across all index components with the rise in food prices being the major driver amid domestic supply shortages.



Sources: NBS, United Capital Research

On a segmented basis, the food inflation sub-index rose from 19.6% y/y in Dec-2020 to 20.6% y/y in Jan-2021, a record high since the NBS started compiling the data (last record high was 20.3% in Oct-2017). Food prices increased by 1.8% m/m (vs. 2.0% in Dec-2020) decelerating for the first time since Feb-2020. In our view, while food prices remain elevated, improved supply of key food items (particularly from the northern markets), as well as re-opening of the land borders placed some downward pressure on food prices in January. Elsewhere, the core inflation sub-index inched up to 11.9% y/y (vs. 11.4% y/y in Dec-2020) while m/m price changes increased to 1.3% (vs. 1.1% in Dec-2020). Notably, across the core inflation sub-index components, the highest increases were recorded in the prices of Health and Transport services.

Inflation Outlook

Looking ahead, we maintain our upward bias for inflation rate. Our outlook is predicated on the already elevated level of food prices despite the recent moderation in some key food items. Also, we note that as we approach the planting season, supply shortages are expected to resurface, which could consequently place further pressure on prices. Also, we anticipate upward adjustments to the price of petrol in line with the deregulation theme as crude oil prices have continued to strengthen towards pre-covid levels. That said, we note that the deceleration in m/m inflation rate signifies some downward pressure on price levels over the past month. As a result, we note that the high base effect for 2020 may also start to set-in in latter months. We forecast a 1.3% m/m increase in aggregate price level while we expect y/y inflation rate to print at 17.05%. For the financial market, we expect the sustained surge in inflation to further accelerate the reversal in the yield environment considering the huge divergence between macroeconomic realities and the yield curve.

Disclaimer

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