CPI Inflation – April 25

Consumer Price Index (CPI) based inflation for April 2025 decelerated to 3.16% YoY, lower than the previous month's print of 3.34% YoY and below the market expectations of 3.27% YoY. The inflation remained below RBI's target of 4% YoY for the third consecutive month and is the lowest print on YoY basis since July 2019.

CPI inflation came in lower on the back of continued softening of Food prices.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) decelerated to 1.78% YoY in April 2025, 91 bps lower than 2.69% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) declined by 10.98% YoY in April 2025, as compared to the 7.04% YoY decline in the previous month, due to improved climatic conditions. Similarly, prices of Pulses and products (2.38% weight in CPI basket) declined by 5.23% YoY in April 2025 after declining by 2.68% YoY in March 2025, while prices of Meat and fish (3.61% weight in CPI basket) declined by 0.31% YoY in April 2025 after rising by 0.36% YoY in the previous month. On the other hand, the prices of Sugar and Confectionery (1.36% weight in CPI basket) accelerated to 4.67% YoY after increasing by 3.89% YoY in the previous month, Egg (0.43% weight in CPI basket) rose by 0.88% YoY in April 2025 after declining by 3.16% YoY in the previous month, and Spices (2.50% weight in CPI basket) declined by 3.40% YoY after declining by 4.92% YoY in the previous month.

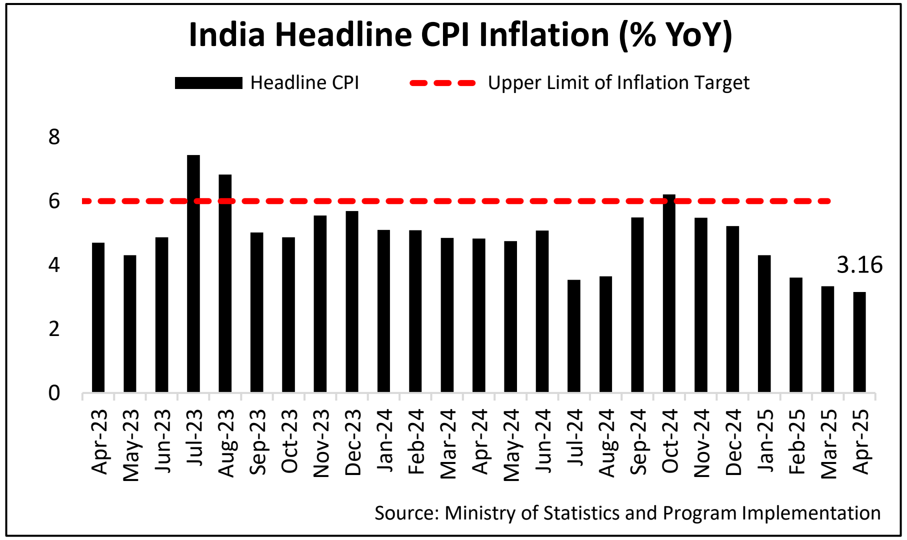
Core CPI inflation: (ex-Food and Fuel)came in marginally higher at 4.10% YoY in April 2025 as against 4.09% YoY in the previous month.

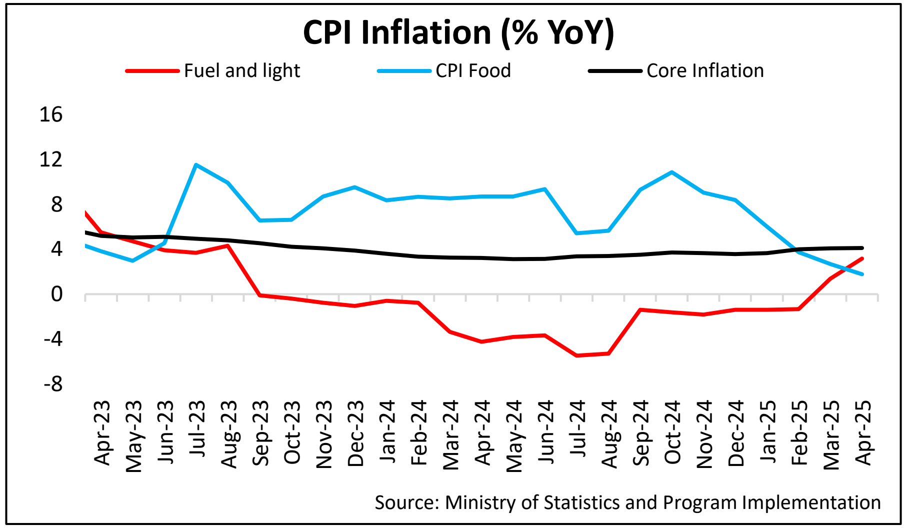
Expectations:- The CPI inflation came in below market expectations as the food inflation continued its downward trend. Going forward, While core inflation may remain sticky, headline inflation growth is expected to be muted and forecast to be at 4% YoY for FY26 as per projections by the RBI.

Implication on Monetary Policy:- As the Inflation number came in lower than expected, market participants will continue to expect further rate cuts. The above average rainfall during upcoming monsoon as forecasted by IMD can support food inflation hence keep the headline inflation muted. Going forward this can provide central bank both confidence and space to cut rates further and remain growth supportive.

Implication on Markets :- With continuous and decisive improvement in inflation data, along with favorable demand-supply dynamics of Indian G-Secs, and strong FPI flows into the bond market, we expect structurally lower interest rates over the long term.

Fixed Income Mutual Fund Investment Strategy :- RBI's MPC has taken a pro-growth approach by cutting the policy rates for a second time in succession. This was already factored in by the bond market, leading to substantial decline in G-sec yields across the curve. Hence, incremental opportunity in long duration seems limited at this juncture. Easing liquidity conditions basis RBI measures has started normalizing the corporate bond yield curve at the shorter end. Further easing of liquidity may steepen corporate bond yield curve, making the case for investment into corporate bonds at the 1-4-years segment of the curve. Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoF. For a horizon of 3 months and above, investors can consider Arbitrage Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors can also look at Multi-asset allocation funds for a horizon of 36 months and above. Investors should invest in line with their risk profile and product suitability.





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