CPI Inflation – February 25

Consumer Price Index (CPI) based inflation for February 2025 decelerated to 3.61% YoY, lower than the previous month's print of 4.31% YoY and below the market expectations of 3.98% YoY. The inflation fell below RBI's target of 4% YoY and is the lowest print on YoY basis since July 2024.

CPI inflation came in lower on the back of lower prices of Food. Food inflation in February 2025 was the lowest since May 2023.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) decelerated to 3.75% YoY in February 2025, a sharp 227 bps lower than 6.02% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) declined by 1.07% YoY in February 2025, as compared to the 11.41% YoY growth in the previous month, due to improved climatic conditions. Similarly, prices of Pulses and products (2.38% weight in CPI basket) declined by 0.35% YoY in February 2025 after rising by 2.59% YoY in January 2025, while prices of Egg (0.43% weight in CPI basket) declined by 3.01% YoY in February 2025 after going up by 1.22% YoY in January 2025, further contributing to the lower food inflation. However, the prices of Sugar and Confectionery (1.36% weight in CPI basket), Fruits (2.89% weight in CPI basket), and Non-alcoholic beverages (1.26% weight in CPI basket) accelerated to 2.16% YoY, 14.82% YoY, and 3.79% YoY, respectively in February 2025 as against 0.23% YoY, 12.15% YoY, and 3.39% YoY, respectively, in the previous month.

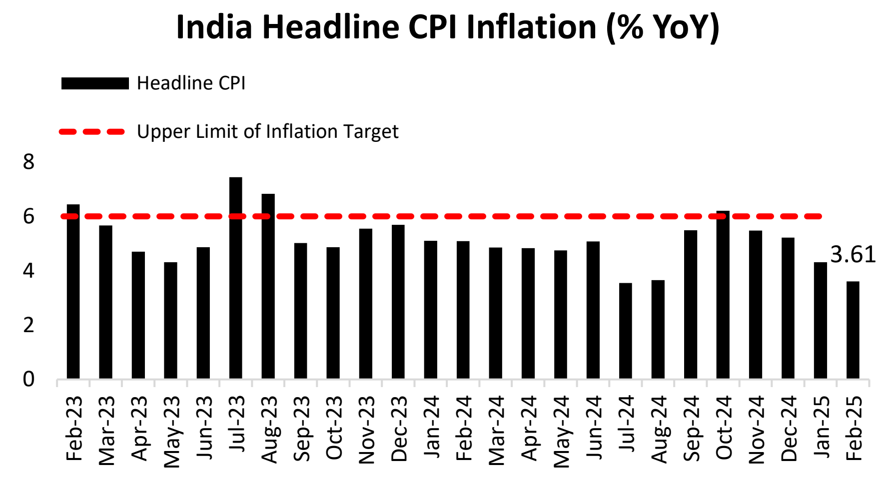
Core CPI inflation: (ex-Food and Fuel) increased by 3.99% YoY in February 2025 as against 3.66% YoY in the previous month.

Expectations:- The CPI inflation came in below market expectations as the food inflation continued its downward trend. Going forward, the market participants expect moderate inflation data for FY26, in line with the projections of the RBI.

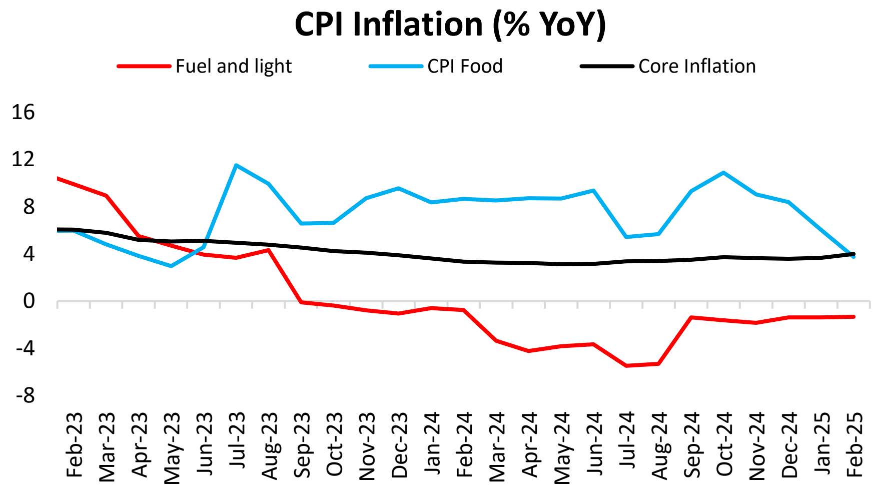
Implication on Monetary Policy:- The RBI had cut rates unanimously for the first time in nearly 5 years on 7th February 2025 by 25 bps and had kept the policy stance neutral. The overall system liquidity, despite being in deficit, has improved considerably on the back of RBI conducting host of liquidity measures. Going forward, with supportive inflation data and lower GDP growth, the RBI is expected to continue to boost liquidity and also cut the policy rates further to support economic growth. Any negative development on US tariff war front may affect the timing and depth of future rate cuts. Weather vagaries also needs to watched out for as there are predictions of rising temperature and early summer which may pose upside risk to food inflation.

Implication on Markets :- Given the improvement in inflation data, and with the increased probability of policy rate cuts, along with favourable demand-supply dynamics of Indian G-Secs, and strong FPI flows into the bond market, we may witness structurally lower interest rates over the long term.

Fixed Income Mutual Fund Investment Strategy :- With the recent cut in policy rate, along with favorable demand-supply dynamics of Indian G-Secs, and favourable CPI inflation, we may see structurally lower interest rates over the long term. Post the latest inflation & Q3 FY25 growth data and with the increased probability of policy rate cuts, it can bring about tactical opportunities in the Long Duration products. Improvement in liquidity conditions basis RBI measures could compress corporate bond yields at the shorter end in the medium term. With this backdrop, the inverted corporate bond yield curve may normalize, 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 can look at Dynamic Bond Funds. For a horizon of 3 months and above, investors can consider Arbitrage Funds or Money Market 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.



Source:-Ministry of Statistics and Program Implementation



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