CPI Inflation – January 25

Consumer Price Index (CPI) based inflation for January 2025 fell to 4.31% YoY, lower than the previous month's print of 5.22% YoY which was below the market expectations of 4.60% YoY and lowest on YoY basis since August 2024. However, the inflation remained above the RBI's target of 4.00% YoY.

CPI inflation came in lower on the back of lower prices of Food and support from healthy Kharif crop output.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) fell to 6.02% YoY in January 2025, a sharp 237 bps lower than 8.39% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) eased drastically to 11.35% YoY in January 2025 as compared to 26.56% YoY in the previous month due to improved climatic conditions. Similarly, price growth of Sugar and Confectionery (1.36 weight in CPI basket) fell to 0.31% YoY in January 2025 after going up by 0.38% YoY in December 2024, while price growth of Pulses and products (2.38 weight in CPI basket) fell to 2.59% YoY in January 2025 after rising by 3.83% YoY in December 2024, further contributing to the lower food inflation. However, the prices of Fruits (2.89% weight in CPI basket), Non-alcoholic beverages (1.26% weight in CPI basket), and Oils and fats (3.56% weight in CPI basket) accelerated to 12.15% YoY, 3.39% YoY, and 15.64% YoY, respectively in January 2025 as compared to 8.43% YoY, 3.06% YoY, and 14.60% YoY, respectively, in the previous month.

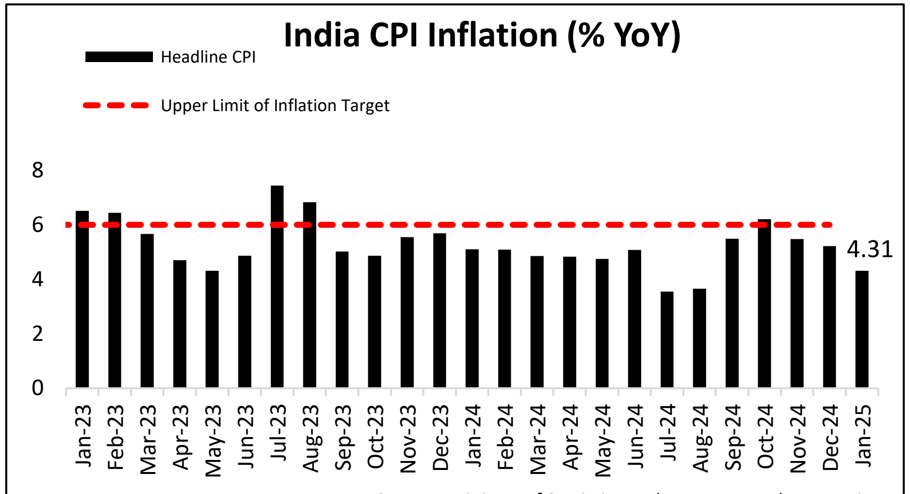
Core CPI inflation: (ex-Food and Fuel) increased to 3.66% YoY in January 2025 as against 3.58% YoY in the previous month.

Expectations:- The CPI inflation came in below market expectations as the food inflation cooled down and is expected to cool down further in the near term on the back of softer food inflation during winter months. Going forward, assuming a normal monsoon, inflation may continue its downward trajectory, post which we need to keep an eye on the incoming data.

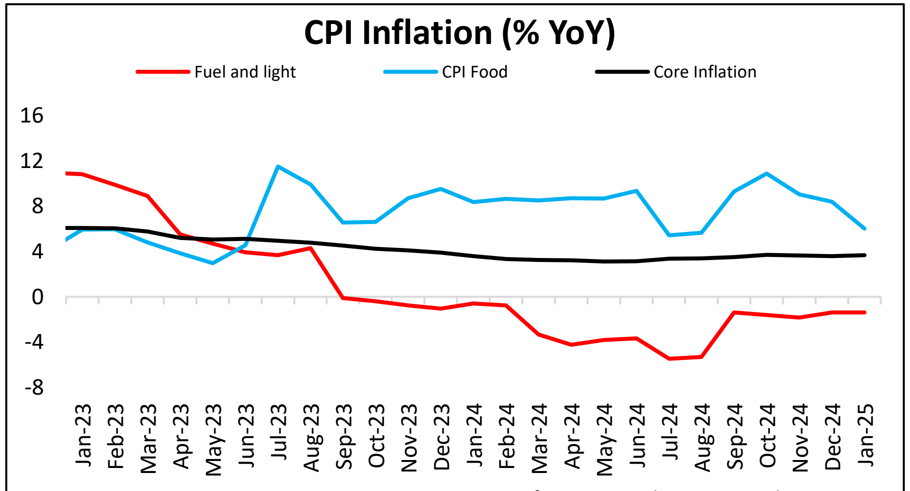
Implication on Monetary Policy:- RBI has cut rates unanimously for the first time in nearly 5 years on 7th February 2025 by 25 bps and kept the policy stance neutral. The overall system liquidity has remained in deficit despite the inflation data remaining supportive. Going forward, the RBI's monetary policy decision is likely to be influenced by system liquidity, the movement of the Indian currency, future GDP growth projections, along with the inflation trajectory which is has shown significant deceleration. Any negative development on US tariff war front may influence the timing and depth of future rate cuts.

Implication on Markets :- While the inflation data was better than expectations, the yield trajectory may depend on system liquidity in the near term. With policy rate cut in India, along with favourable demand-supply dynamics of Indian G-Secs, strong FPI flows into the bond market, and supportive inflation data, we may witness structurally lower interest rates over the long term.

Fixed Income Mutual Fund Investment Strategy :- At current levels, there is a case for tactical duration play. Additionally, 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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