CPI Inflation – March 25

Consumer Price Index (CPI) based inflation for March 2025 decelerated to 3.34% YoY, lower than the previous month's print of 3.61% YoY and below the market expectations of 3.60% YoY. The inflation remained below RBI's target of 4% YoY and is the lowest print on YoY basis since September 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 2.69% YoY in March 2025, 106 bps lower than 3.75% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) declined by 7.04% YoY in March 2025, as compared to the 1.07% 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 2.68% YoY in March 2025 after declining by 0.35% YoY in February 2025, while prices of Meat and fish (3.61% weight in CPI basket) decelerated to 0.36% YoY in March 2025 from 2.06% YoY in the previous month. On the other hand, the prices of Sugar and Confectionery (1.36% weight in CPI basket) accelerated to 3.89% YoY after increasing by 2.16% YoY in the previous month, Fruits (2.89% weight in CPI basket) rose by 16.20% YoY in March 2025 after increasing by 14.82% YoY in the previous month, and Non-alcoholic beverages (1.26% weight in CPI basket) accelerated by 4.07% YoY after rising by 3.79% YoY in the previous month.

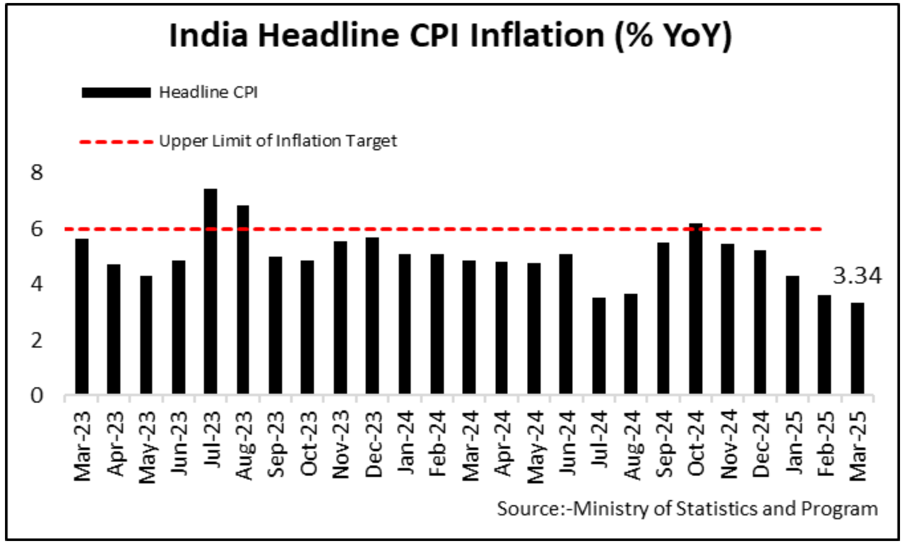
Core CPI inflation: (ex-Food and Fuel) increased by 4.09% YoY in March 2025 as against 3.99% YoY in the previous month.

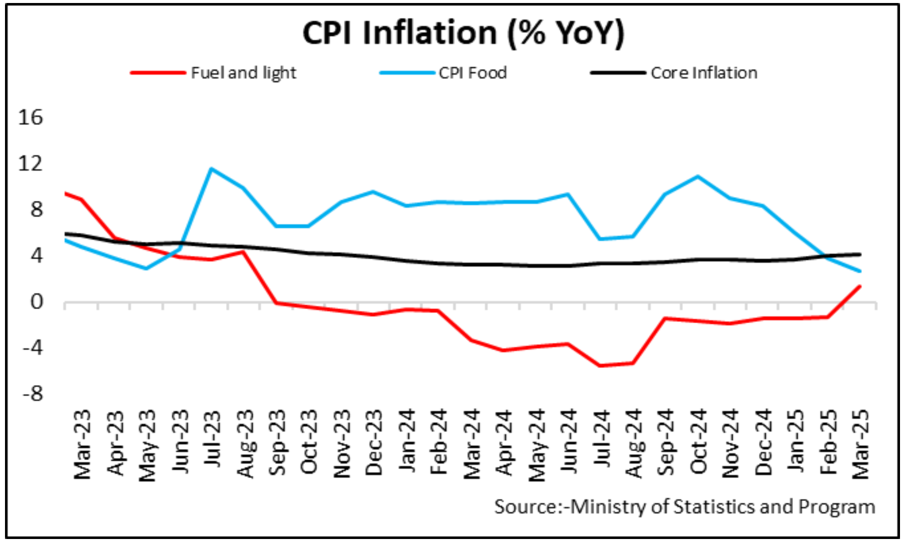
Expectations:- The CPI inflation came in below market expectations as the food inflation continued its downward trend. Going forward, inflation is forecasted to be at 4% YoY for FY26 as per RBI projections.

Implication on Monetary Policy:- The RBI had cut rates unanimously by 25 bps for the second consecutive time on 9th April 2025 and also changed the policy stance to accommodative from neutral. The overall system liquidity, has improved considerably on the back of RBI conducting host of liquidity measures. Going forward, with decisive improvement in inflation data and lower GDP growth, the RBI is expected to take growth supportive stance. Any negative development on US tariff war front may affect the timing and depth of future rate cuts. Weather vagaries also needs to be watched out for as there are predictions of rising temperature and early summer which may pose upside risk to food inflation.

Implication on Markets :- With decisive improvement in inflation data, and post the second consecutive policy rate cuts, 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, thus, incremental opportunity in long duration seems limited at this juncture. Easing 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 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





Disclaimer: This document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. HDFC Bank Limited ("HDFC Bank") does not warrant its completeness and accuracy. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument / units of Mutual Fund. Recipients of this information should rely on their own investigations and take their own professional advice. Neither HDFC Bank nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. HDFC Bank and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may, from time to time, have investments / positions in Mutual Funds / schemes referred in the document. HDFC Bank may at any time solicit or provide commercial banking, credit or other services to the Mutual Funds / AMCs referred to herein.

Accordingly, information may be available to HDFC Bank, which is not reflected in this material, and HDFC Bank may have acted upon or used the information prior to, or immediately following its publication. HDFC Bank neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and views. Further, HDFC Bank disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

HDFC Bank House, 1 st Floor, C.S. No. 6 \ 242, SenapatiBapatMarg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66527100, ext 7111, Fax: (91)-22-24900983 \ 24900858

HDFC BANK is a AMFI-registered Mutual Fund Distributor & a Corporate Agent for insurance products.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

Classification - Public