CPI Inflation – October 2025

Consumer Price Index (CPI) based inflation for October 2025 decelerated to 0.25% YoY, lower than the previous month's revised print of 1.44% YoY and below the market expectations of 0.48% YoY. This is the lowest print in the current CPI series and was below RBI's target of 4% YoY for the ninth consecutive month.

CPI inflation came in lower on the back of base effect and relatively lower prices of vegetables, cereals, fruits, and oils & fats.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) declined by 5.02% YoY in October 2025, after declining by 2.28% YoY in the previous month. Vegetable prices (6.04% weight in CPI basket) declined by 27.57% YoY in October 2025 after declining by 21.38% YoY in the previous month. Similarly, prices of Cereals and products (9.67% weight in CPI basket) decelerated to 0.92% YoY in October 2025 after rising by 2.06% YoY in September 2025, prices of Fruits (2.89% weight in CPI basket) decelerated to 6.69% YoY in October 2025 after increasing by 9.93% YoY in September 2025, prices of Oils and fats (3.56% weight in CPI basket) decelerated to 11.17% YoY in October 2025 after increasing by 18.34% YoY in September 2025, and prices of Spices (2.50% weight in CPI basket) decelerated to 3.29% YoY in October 2025 as compared to decline by 3.07% YoY in September 2025. On the other hand, prices of Sugar and Confectionery (1.36% weight in CPI basket) accelerated to 4.02% YoY in October 2025 after increasing by increased by 3.95% YoY in September 2025.

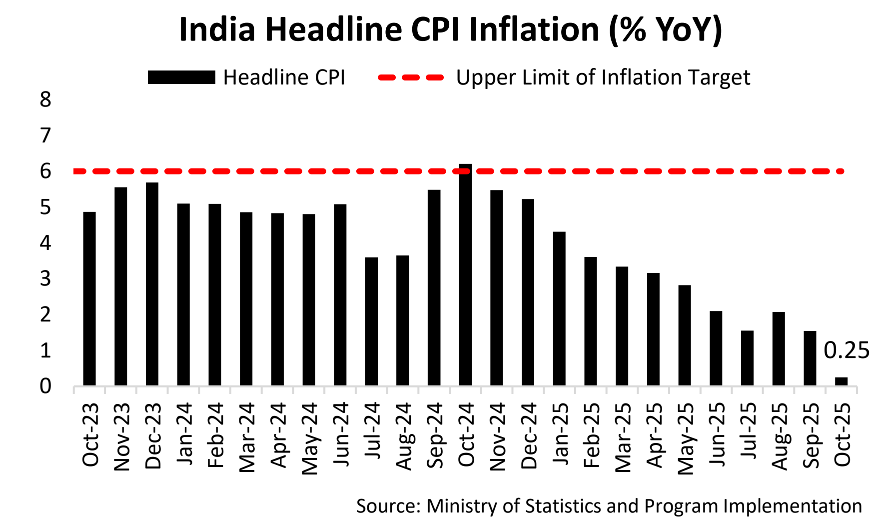
Core CPI inflation: (ex-Food and Fuel) decelerated marginally to 4.40% YoY in October 2025 as against 4.48% YoY in the previous month due to a moderation in Housing, and Clothing and Footwear prices.

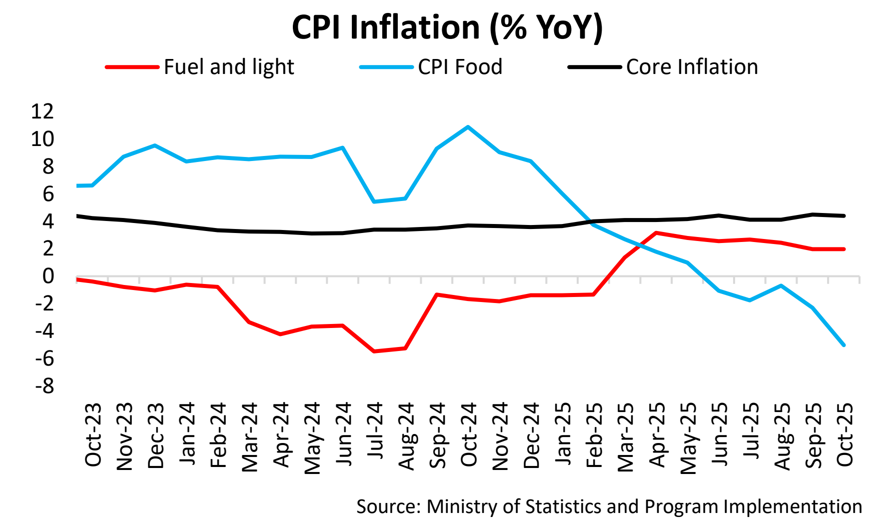
Expectations: The CPI inflation was lower than the previous month due to base effect playing out, staying well within RBI's latest projection of 1.8% for Q3 FY26. Going forward, with the GST rationalisation leading to lower prices of most essential items, both headline and core inflation is expected to remain benign. However, the risk to cereal inflation stems from the floods in key parts of India which may have damaged crop production.

Implication on Monetary Policy: The CPI inflation remains well below both RBI's target of 4% YoY and its lower tolerance band of 2% YoY. The inflation may continue to remain benign, aided by the impact of the recently announced GST rationalisation which has brought down prices of most of the essential items, and a moderation in food prices supported by higher than average reservoir levels. The RBI has not only frontloaded its policy easing but is also closely tracking the transmission of interest rates. Hence, they are both actively managing the liquidity and looking at various ways to reign in on elevated yields. The phased reduction of Cash Reserve Ratio (CRR) should support system liquidity. Though the Central Bank is expected to remain data dependent and is likely to closely monitor the growth-inflation dynamics, the recent data gives them enough room to take a more dovish view towards policy easing in upcoming MPC meetings if required.

Implication on Markets: With the benign 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 medium term.

Fixed Income Mutual Fund Investment Strategy: The G-Sec term spreads remain lucrative and are expected to compress given RBI MPC members' relatively dovish stance and the Central Bank's continuous effort to bring down elevated G-sec yields, which may benefit Dynamic bond funds that are tactically positioned to take advantage of the same. The spread at the shorter end of the Corporate Bond yield curve continues to remain at lucrative levels against G-secs. Liquidity is expected to remain comfortable, and the curve may steepen further. Thus, a case continues to exist for investment into corporate bond funds that are at the 1-4-year 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 or consider Dynamic Bond Funds for tactical opportunity. For a horizon of 3 months and above, investors can consider Arbitrage Funds and Money Market Funds. Whereas for a horizon of up to 3 months, investors can consider Overnight Funds and Liquid Funds. Investors should invest in line with their risk profile and product suitability.





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