

CPI Inflation – September 2025

Consumer Price Index (CPI) based inflation for September 2025 decelerated to 1.54% YoY, lower than the previous month's print of 2.07% YoY and below the market expectations of 1.70% YoY. The inflation fell to a 100-month low and remained below RBI's target of 4% YoY for the eight 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 2.28% YoY in September 2025, after declining by 0.69% YoY in the previous month. Vegetable prices (6.04% weight in CPI basket) declined by 21.38% YoY in September 2025 after declining by 15.92% YoY in the previous month. Similarly, prices of Cereals and products (9.67% weight in CPI basket) increased by 2.06% YoY in September 2025 after rising by 2.70% YoY in August 2025. Prices of Fruits (2.89% weight in CPI basket) increased by 9.93% YoY in September 2025 after increasing by 11.65% YoY in August 2025, and prices of Oils and fats (3.56% weight in CPI basket) increased by 18.34% YoY in September 2025 after increasing by 21.24% YoY in August 2025. On the other hand, prices of Meat and fish (3.61% weight in CPI basket) increased by 2.15% YoY in September 2025 as compared to the 1.48% YoY increase in August 2025, prices of Sugar and Confectionery (1.36% weight in CPI basket) increased by 3.95% YoY in September 2025 after increasing by 3.73% YoY in August 2025, and prices of Spices (2.50% weight in CPI basket) declined by 3.07% YoY in September 2025 after declining by 3.24% YoY in August 2025.

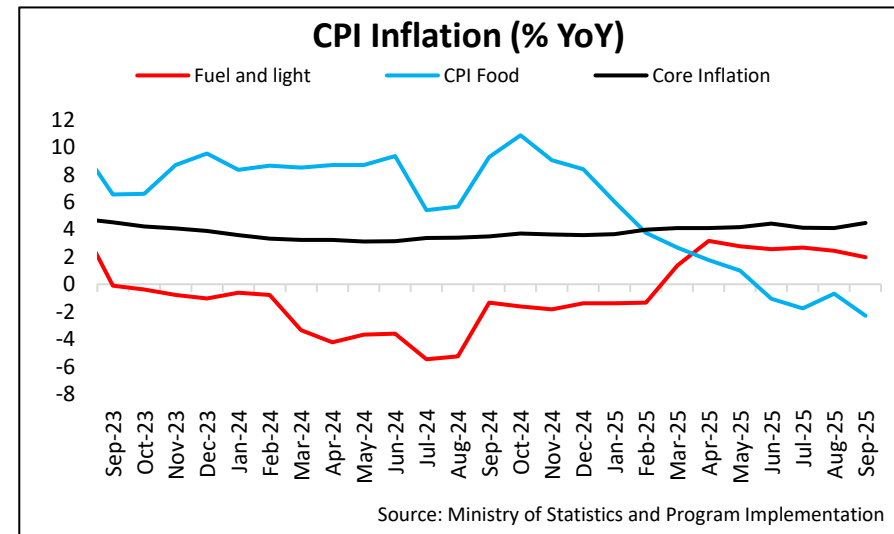
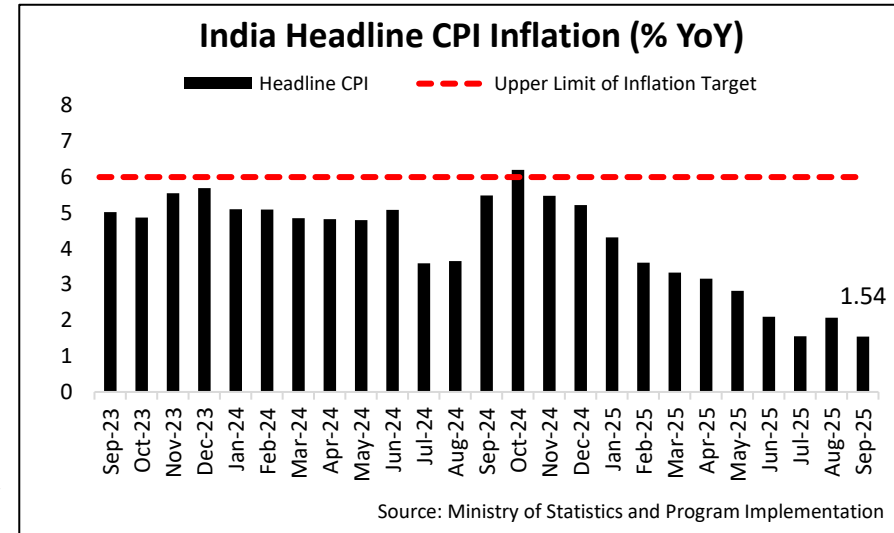
Core CPI inflation: (ex-Food and Fuel) accelerated to 4.48% YoY in September 2025 as against 4.11% YoY in the previous month due to higher prices in Housing.

Expectations: The CPI inflation was lower than the previous month due to base effect playing out. 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 Northern parts of India which may have damaged crop production.

Implication on Monetary Policy: The CPI inflation remains well below RBI's target of 4%. The inflation may continue trending downwards, aided by favorable monsoon and higher than average reservoir levels which is expected to support food prices going forward, and the recently announced GST rationalisation which will bring prices of most of the essential items down. The RBI has not only frontloaded its policy easing but is also closely tracking the transmission of interest rates. Hence, they are actively managing the liquidity. The phased reduction of Cash Reserve Ratio (CRR) should keep liquidity comfortably in surplus till December 2025. 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.

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 at the longer end are expected to compress with the RBI announcing a lower long bond supply in H2 FY26, benefitting Dynamic bond funds and Gilt funds which 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 and Gilt 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 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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