CPI Inflation – April 2024

<u>Consumer Price Index (CPI) based inflation</u> for April 2024 decelerated to 4.83% YoY, marginally lower than the previous month's growth rate of 4.85% YoY but higher than the market expectations of 4.8% YoY. The headline inflation continues to remain within the RBI's target band of 2-6%.

<u>CPI inflation remains almost steady</u> as food inflation continues to remain elevated. Meanwhile, the fuel and light category contraction relieved some of the inflationary pressure.

<u>Food Inflation,</u> as depicted by the Consumer Food Price Index (CFPI), rose to 8.70% YoY in April 2024 compared to 8.52% YoY in the previous month. While most components of the food basket declined annually, the uptick was witnessed in the prices of cereals, meat and fish, fruits, and oil and fats. The elevated prices of vegetables and pulses continue to keep pressure on food inflation.

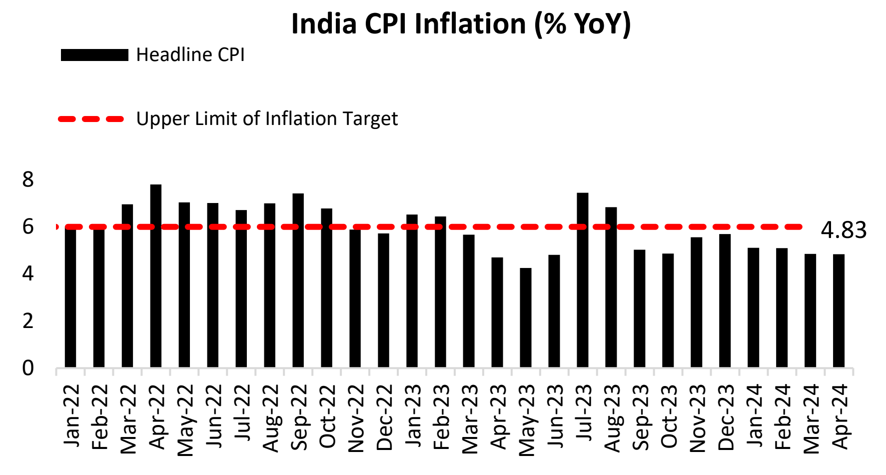
<u>Core CPI inflation</u> (ex-Food and Fuel) eased to 3.23% YoY in April 2024 as against 3.25% YoY in the previous month. The decline in core inflation remains positive for the bond market as the RBI monitors the durable inflation.

<u>Expectations</u>:- The elevated food inflation, esp., the prices of vegetables, cereals and pulses remain a cause of concern. Furthermore, the heat waves may keep upward pressure on perishable items and may lead to an uptick in inflation in the coming months. Nonetheless, the downward revision in the RBI's inflation forecast suggests that inflation is likely to ease in the long term.

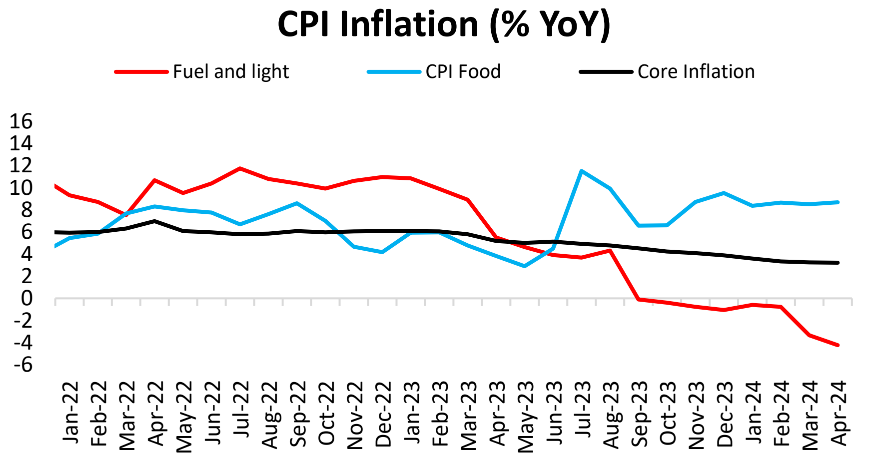
<u>Implication on Monetary Policy</u>:- As food price shocks exhibit significant volatility in inflation, the RBI monetary policy is likely to remain disinflationary until gained greater confidence is gained that food inflation is trending downwards on a duration basis. Furthermore, the RBI is likely to keep its stance as 'withdrawal of accommodation' for longer to rein in demand-side inflationary pressure.

<u>Implication on Markets</u>:- The decline in core and headline inflation remains positive for the bond market in the very near term. However, in the medium term, the market is likely to take cues from the US market, particularly the US CPI print, the flows related to the JP Morgan bond index inclusion, and the liquidity measures of the RBI. The trend of food inflation, the forecast of the upcoming monsoon and heat waves, and geopolitical tensions are also likely to affect the domestic G-sec yields.

<u>Fixed Income Mutual Fund Investment Strategy:-</u> Domestically, the bond yields in India have cooled recently, following stable inflation numbers. The Indian G-sec yields are expected to move in a range with a declining bias due to favourable supply-demand dynamics. Fund managers who can navigate the volatility and play duration are likely to generate alpha. With the G-sec yields rising in the mid to longer end, investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure to Dynamic Bond Funds and Gilt Funds to play the improved fiscal deficit dynamics. Corporate Bond Funds continue to look like a safe bet at the current juncture for investors looking to invest in shorter-tenure funds. Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above. 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.



Source:-Ministry of Statistics and Program Implementation



Source:-Ministry of Statistics and Program Implementation

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.