CPI Inflation – February 2024

Consumer Price Index (CPI) based inflation for February 2024 marginally eased to 5.09% YoY, marginally lower than the previous month's growth rate of 5.10% YoY and higher than the market expectations of 5.0% YoY. With this steady print, the headline inflation continues to remain within the RBI's target band of 2-6%.

CPI inflation mostly remained steady primarily on account of elevated vegetable and cereal prices.

Food Inflation as depicted by Consumer Food Price Index (CFPI), rose to 8.66% YoY in February 2024 as compared to 8.36% YoY in the previous month. In the food basket, while spices and pulses declined on a sequential basis, the uptick in prices of cereal, meat & fish, and milk on a sequential basis kept inflationary pressure on food inflation. Furthermore, the steady vegetable prices added to the food inflation.

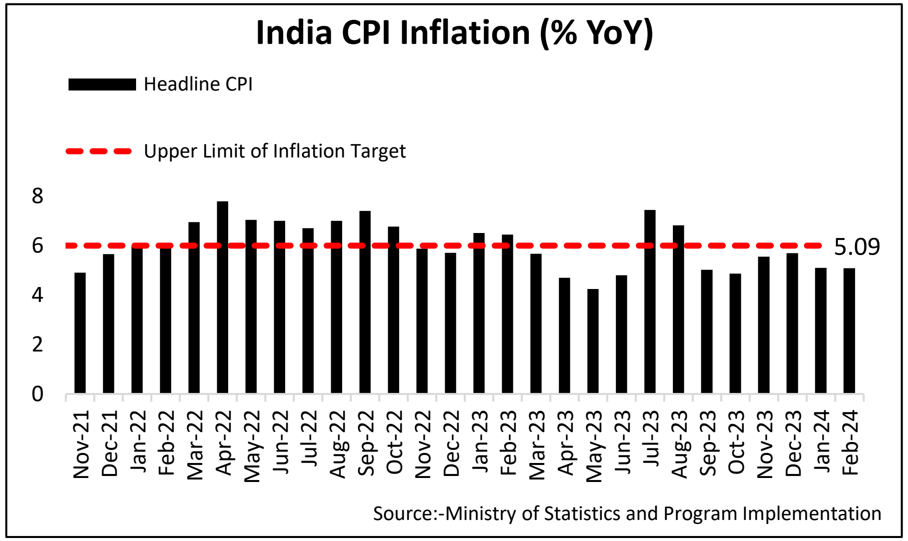
Core CPI inflation (ex-Food and Fuel) cooled-off to 3.34% YoY in February 2024 as against 3.60% YoY in the previous month. The sustained decline in core inflation remains positive for the market as the RBI keenly tracks the durable inflation.

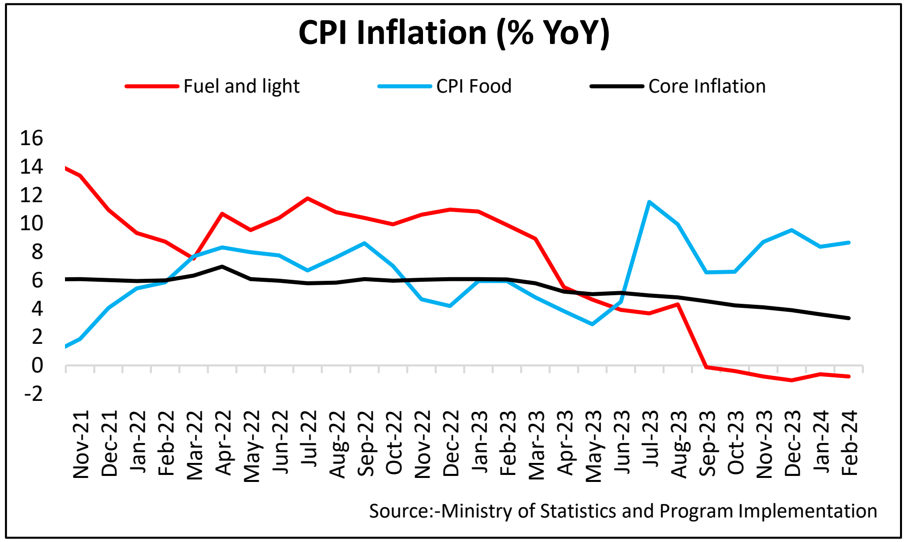
Expectations:- With food prices remaining volatile, inflation remains a cause of concern. Additionally, the recent uptick in the crude oil prices despite the demand slowdown may further keep inflation under pressure. Nonetheless, the downward revision in the RBI's inflation forecast by 20 bps for the current and the upcoming quarters suggests inflation to ease in the coming months. The favourable base effect is also likely to ease the pressure over inflation print.

Implication on Monetary Policy:- With growth remaining robust and CPI inflation remaining elevated, the RBI may continue to remain disinflationary in its April policy meeting. Furthermore, the volatility in food prices may nudge the RBI to keep its stance as 'withdrawal of accommodation' for longer, which may result in tight system liquidity to rein in demand side inflationary pressure.

Implication on Markets:- Even though the headline inflation remains higher than the market expectations, the significantly lower core inflation remains a neutral to positive for the bond market. However, the bond market is likely to take significant cues from the US CPI data for February 2024, which is due later tonight. In medium term, the market is likely to track the trend of food inflation, the US market and the flows related to the JP Morgan bond index inclusion for cues along with liquidity measures of the RBI.

Fixed Income Mutual Fund Investment Strategy:- Domestically, post the announcement of the interim budget, the yields at the longer end have been weighed down due to lower-than-expected fiscal deficit estimates for FY25 and advance buying by the FPIs and other market participants ahead of the inclusion of Indian G-secs into the JPMorgan Bond Index. The yields at the short-end of the curve, however, continue to be determined by the availability of liquidity, which at the current juncture remains under pressure ensuring a flat yield curve. With no further auctions for G-secs in the current fiscal year, the demand for SDLs has increased leading to compression in the SDL spreads. Additionally, investors' affinity for better accruals has also led to the compression of corporate bond spreads and SDL spreads vs the G-secs. Corporate Bond Funds continue to look 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. Investors who are comfortable with volatility and have a longer horizon of 24 months and above can take exposure to Dynamic Bond Funds, Gilt Funds, and longer-tenor SDL Index Funds to play the improved fiscal deficit dynamics. For lower volatility and 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.





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