CPI Inflation – January 2024

Consumer Price Index (CPI) based inflation for January 2024 moderated to 5.10% YoY, lower than the previous month's growth rate of 5.69% YoY and in-line with the market expectations of 5.1% YoY. With this print, the headline inflation continues to remain within the RBI's target band of 2-6%.

CPI inflation decelerated primarily on account of favourable base effect and some softening of food prices.

Food Inflation as depicted by Consumer Food Price Index (CFPI), fell to 8.36% YoY in January 2024 as compared to 9.53% YoY in the previous month. In the food basket, while the annual growth of spices, pulses, and vegetables remains in double digits, they have declined on a sequential basis. However, cereals prices continue to remain a cause of concern as despite moderation in annual growth, they inched up on a monthly basis.

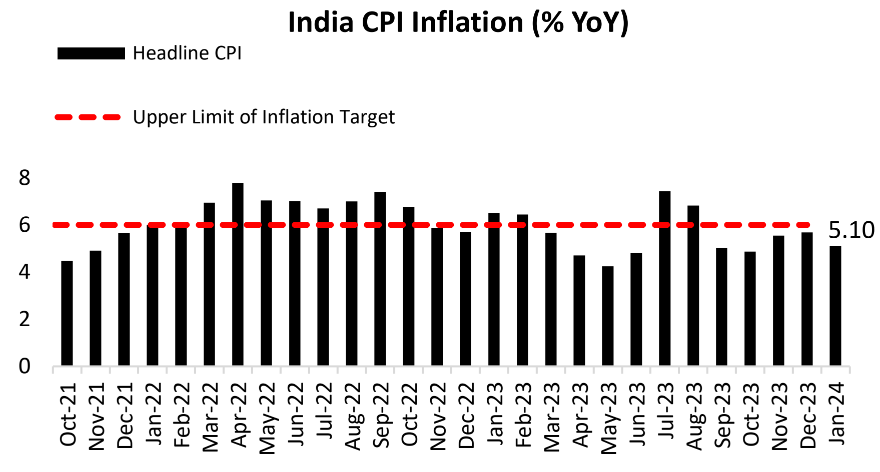
Core CPI inflation (ex-Food and Fuel) further fell to 3.60% YoY in January 2024 as against 3.89% YoY in the previous month. The cooling-off of durable inflation, which the RBI keenly tracks, remains positive for the market.

Expectations:- Inflation is likely to further moderate in the coming months as per the revised expectation of the RBI for the current quarter and the upcoming quarter, which is likely to reduce by 20 bps for each quarter. Furthermore, the favourable base effect is likely to ease the pressure over inflation print. However, food inflation remains a cause of concern as the volatility in food prices may again lead to a surge in headline inflation. Hence, the government's measures to ease the supply-side issues need to be keenly monitored.

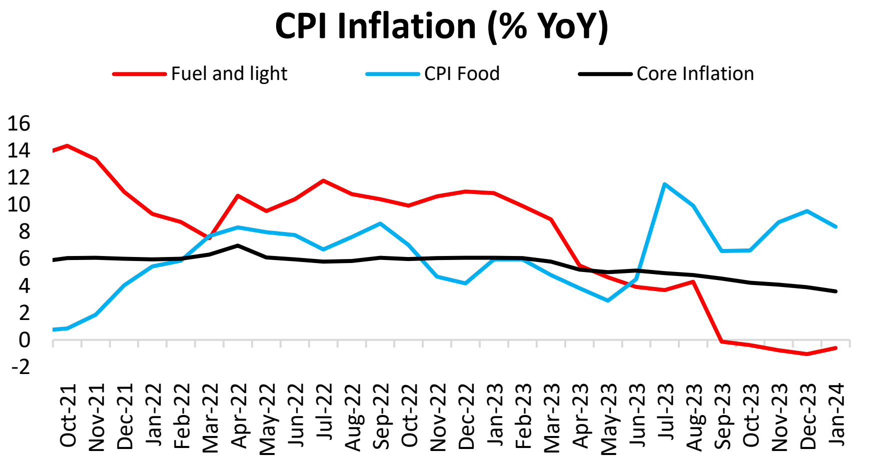
Implication on Monetary Policy:- While the CPI decelerated, it continues to remain higher than the RBI's target of 4%. Thus, the RBI may continue to remain disinflationary. Furthermore, the volatility in food prices may result in the RBI keeping its stance as 'withdrawal of accommodation' for longer, which may result in tight system liquidity to rein in demand side inflationary pressure.

Implication on Markets:- With retail inflation coming in line with the market estimates, the bond market is likely to remain neutral in the near term. In the 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-curbing or liquidity-easing measures of the RBI.

Fixed Income Mutual Fund Investment Strategy:- Domestically, post the announcement of interim budget, the yields at longer end have been weighed down due to lower-than-expected fiscal deficit estimates of 5.1% of GDP for FY25. However, the yields at the short-end of the curve would be determined by the availability of liquidity, which at the current juncture remains under pressure. Investors who would want to lock in yields at the longer end, to alleviate the reinvestment risk in the longer term may look at long duration target maturity SDL Index funds. Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. 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 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.



Source:-Ministry of Statistics and Program Implementation



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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

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