CPI Inflation – March 2024

Consumer Price Index (CPI) based inflation for March 2024 decelerated to 4.85% YoY, lower than the previous month's growth rate of 5.09% YoY and lower than the market expectations of 4.9% YoY. With this print, headline inflation moved below 5% YoY mark after four months and continues to remain within the RBI's target band of 2-6%.

CPI inflation moved lower due to a decline in food and fuel prices. Additionally, moderation across broad-based categories and base effect kept the pressure off the inflation print.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), fell to 8.52% YoY in March 2024 compared to 8.66% 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, and oil and fats. The elevated prices of cereals, vegetables, and milk and products continue to keep pressure on food inflation.

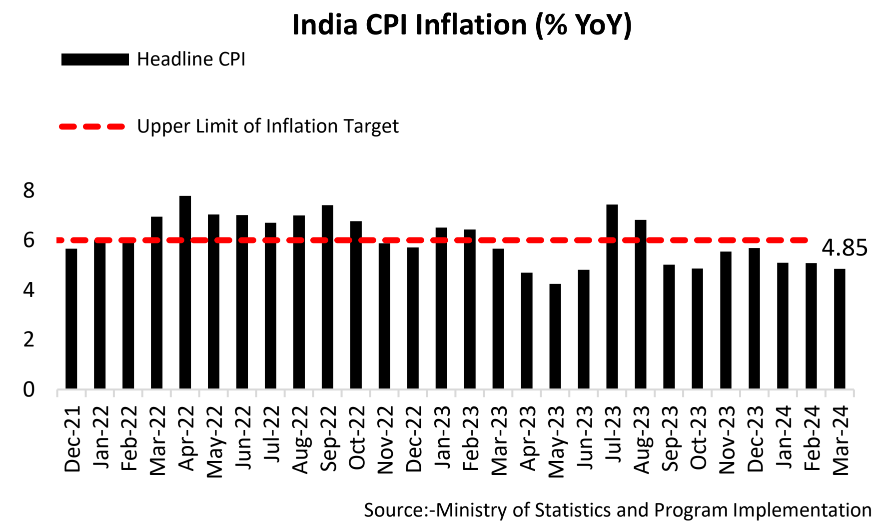
Core CPI inflation (ex-Food and Fuel) eased to 3.25% YoY in March 2024 as against 3.34% YoY in the previous month. The decline in core inflation remains positive for the market as the RBI monitors the durable inflation.

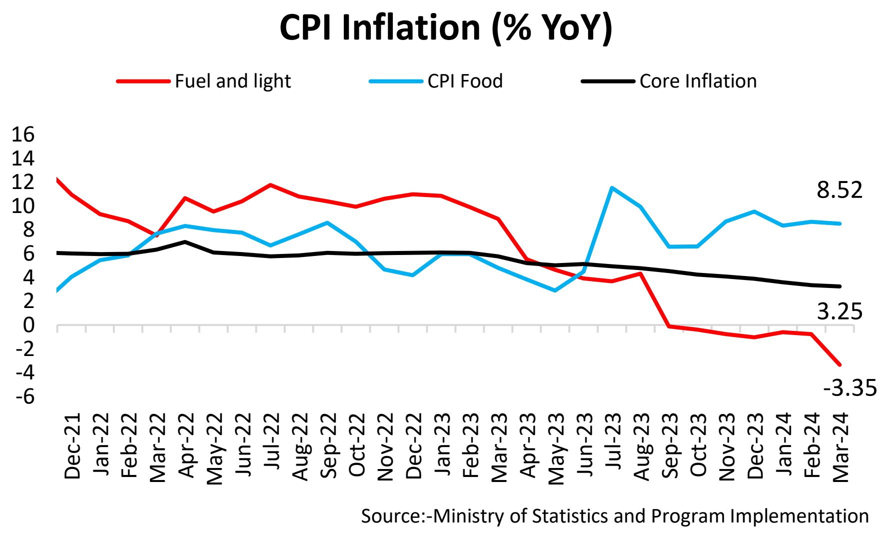
Expectations:- While food prices have marginally come off, heat waves may adversely affect crops, leading to a rise in food prices. Additionally, the recent uptick in crude oil prices may keep inflation under pressure. Nonetheless, the downward revision in the RBI's inflation forecast and the favourable base effect will ease the pressure on the inflation print.

Implication on Monetary Policy:- The RBI may remain disinflationary due to robust growth, elevated headline inflation, and increasing geopolitical tensions. Furthermore, the volatility in food prices may lead to the RBI keeping its stance as 'withdrawal of accommodation' for longer to rein in demand-side inflationary pressure.

Implication on Markets:- The lower-than-expected headline inflation and declining core inflation remain positive for the bond market in the near term. In the medium term, the market is likely to take cues from the US market, the trend of food inflation, the forecast of the upcoming monsoon and heat waves, 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, strong demand for high quality duration securities suggests limited scope for further yield dips without rate cuts. Hence, yields are expected to move in a range with a declining bias, and fund managers who can play with volatility are likely to generate substantial alpha. 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. However, the yields at the short end of the curve continue to be determined by the availability of liquidity, which at the current juncture remains under pressure, ensuring a flat yield curve. Recently, we have seen higher demand for SDLs, which can affect the SDL spreads in the near term. Any rise in the SDL spreads can provide an opportunity to buy into long-dated SDL Index Funds. 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. 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 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.





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.