CPI Inflation – November 2023

Consumer Price Index (CPI) based inflation for November 2023 rose to 5.55% YoY, higher than the previous month's growth rate of 4.87% YoY and lower than the market expectations of 5.8% YoY. In contrast to the downward trend of inflation in the previous three months, the inflation moved higher; however, it continues to remain within the RBI's target band of 2-6%.

CPI inflation accelerated primarily due to higher food inflation. The rise in key vegetable prices (onion and tomato) and pulses have pushed the retail inflation higher.

Food Inflation as depicted by Consumer Food Price Index (CFPI), came in higher at 8.70% YoY in November 2023 versus 6.61% YoY in the previous month. In food basket, growth rate of prices of vegetable, cereals, pulses, fruits, and spices continuous to remain in double digit. The vegetable inflation surged to 17.70% YoY in November 2023 as compared to 2.70% YoY in the previous month.

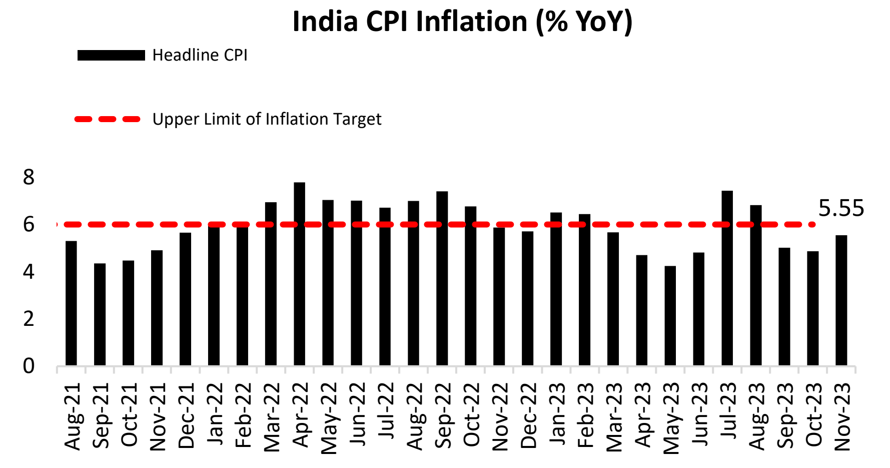
Core CPI inflation (ex-Food and Fuel) further decelerated to 4.09% YoY in November 2023 as against 4.23% YoY in the previous month. Thus, highlighting the slowing down of durable inflation, which the RBI keenly monitors.

Expectations:- Food prices remain an upside risk to inflation as vegetable, cereals and pulses inflation continue to remain higher due to supply constraints. Going forward, more upside risks are emerging on food prices as Rabi sowing may fall short of the target due to low reservoir levels, patchy rains, and a low base. In this context, the government has taken measures to ease the supply-side issues and this needs to be keenly monitored.

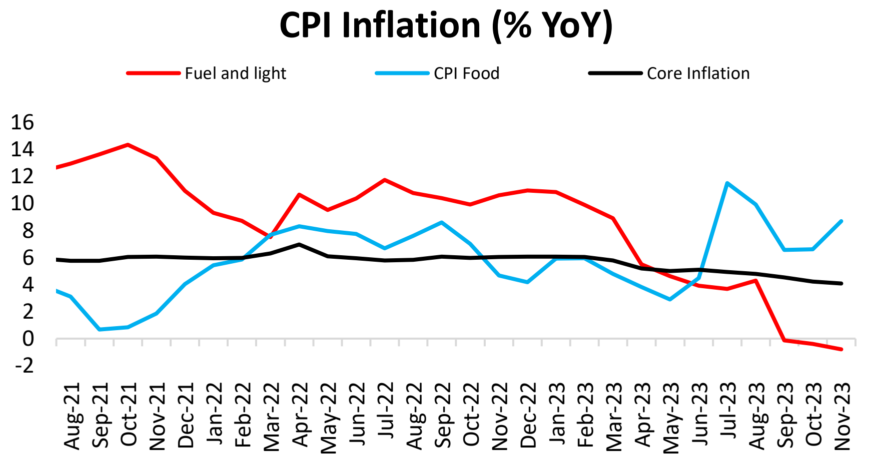
Implication on Monetary Policy:- With inflation remaining higher than the target rate of 4%, the RBI is likely to maintain the status quo and keep monetary policy tight as it remains committed to bringing headline inflation below its target rate on a durable basis. The RBI is likely to manage liquidity to keep overnight rates at their desired levels in order to rein in the demand side inflationary pressure.

Implication on Markets:- Indian bond market may react positively in the very near term as the core inflation remains stable. While the market had widely anticipated the reversal in the trajectory of headline inflation, the jump was lower than expectations. In the medium term, the market is likely to turn to the US market for cues along with liquidity curbing measures by the RBI.

Fixed Income Mutual Fund Investment Strategy:- With the possibility of OMO sales and inflation reversing its downward trajectory and remaining higher than the RBI's target rate of 4%, yields are likely to remain range-bound in the near term. With this backdrop and a relatively flat yield curve, and a recent rally in the longer end, staying invested at the short end could be better from a risk-reward perspective currently. Corporate Bond Funds, which typically have a higher yield to maturities, look a safe bet at the current juncture. Additionally, corporate bond spreads and SDL spreads have widened recently, making the case for Corporate Bond Funds and SDL funds. Thus, investors can look at Corporate Bond 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 in a staggered manner to Dynamic Bond Funds and SDL Index Funds. For lower volatility and a horizon of 3 months and above, investors can consider Ultra Short Duration Funds, Low Duration Funds, Money Market Funds and 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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