

CPI Inflation – July'25

Consumer Price Index (CPI) based inflation based inflation for July 2025 decelerated to 1.55% YoY, lower than the previous month's print of 2.10% YoY and below the market expectations of 1.76% YoY. The inflation remained below RBI's target of 4% YoY for the sixth consecutive month and is the lowest print on YoY basis since June 2017.

CPI inflation came in lower on the back of continued softening of Food prices.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) declined by 1.76% YoY in July 2025, 70 bps lower than the decline of 1.06% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) declined by 20.69% YoY in July 2025 as compared to the 19.00% YoY decline in the previous month. Similarly, prices of Cereals and products (9.67% weight in CPI basket) decelerated to 3.03% YoY in July 2025 after increasing by 3.73% YoY in June 2025, and prices of Pulses and products (2.38% weight in CPI basket) declined by 13.76% YoY in July 2025 after declining by 11.76% YoY in June 2025. On the other hand, the prices of Oils and fats (3.56% weight in CPI basket) increased by 19.24% YoY in July 2025 after increasing by 17.75% in June 2025, and prices of Fruits (2.89% weight in CPI basket) increased by 14.42% in YoY in July 2025 after increasing by 12.59% YoY in June 2025.

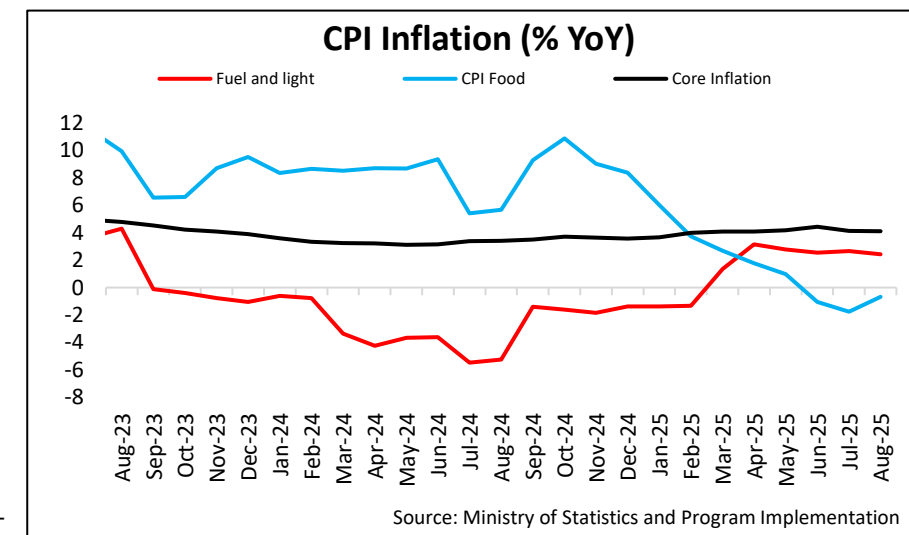
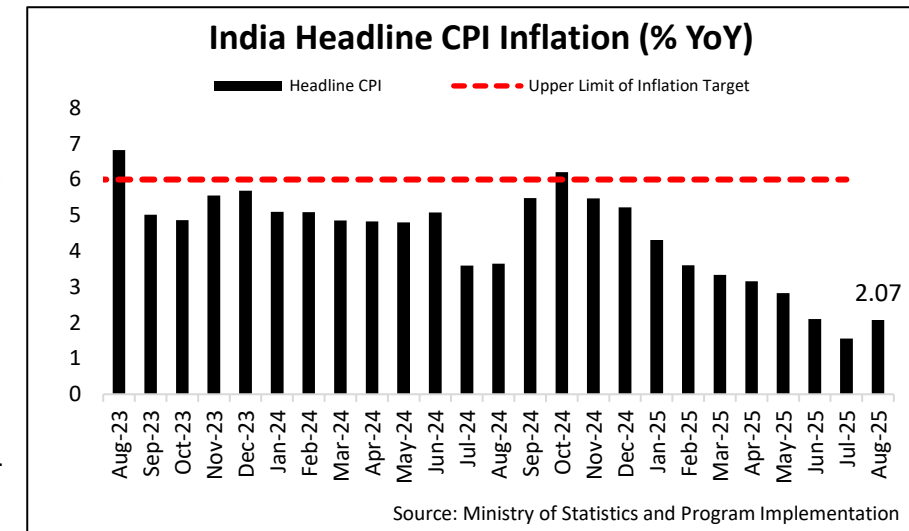
Core CPI inflation: (ex-Food and Fuel) decelerated to 4.12% YoY in July 2025 as against 4.43% YoY in the previous month.

Expectations :- The CPI inflation came in below market expectations as the food inflation continued its downward trend, supported by favorable monsoon. Going forward, while core inflation may remain sticky, headline inflation growth has been revised downward to 3.1% YoY by the RBI vs its earlier projections of 3.7% YoY for FY26.

Implication on Monetary Policy:- The CPI inflation continues to decelerate at a faster than expected rate. The RBI has not only frontloaded its policy easing but is also closely tracking the transmission of interest rates. Hence, they are actively managing the liquidity. On one hand, their earlier announced staggered reduction of Cash Reserve Ratio (CRR) should keep liquidity comfortably in surplus till December 2025. On the other hand, they are conducting VRRR auctions to absorb any surplus liquidity and align the overnight rate to repo rate. As per a recent statement made by the RBI governor, the Central bank is expected to remain data dependent and will closely monitor the growth-inflation dynamics before moving the policy rate needle downwards. However, the comfortable real rate basis the latest benign headline inflation and expectation of continuous favorable monsoon may keep weighing down on food inflation, keeping headline inflation benign. This may allow the RBI to take a more dovish view towards policy easing in upcoming MPC meetings.

Implication on Markets :- With continuously decelerating inflation data, along with favorable demand-supply dynamics of Indian G-Secs and strong FPI flows into the bond market, we expect structurally lower interest rates over the medium term.

Fixed Income Mutual Fund Investment Strategy :- The lucrative term spreads at the longer end have created tactical opportunities in Dynamic bond funds and Gilt funds which have positioned their portfolio to take advantage of the same. The spread at the shorter end of the Corporate Bond yield curve continues to remain at lucrative levels against G-secs. Liquidity is expected to remain comfortable, and the curve may steepen further. Thus, a case continues to exist for investment into corporate bond funds that are at the 1-4-year segment of the curve. Hence, investors can look at Corporate Bond Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoF. Also, as a tactical opportunity Dynamic Bond Funds and Gilt Funds can be considered. For a horizon of 3 months and above, investors can consider Arbitrage Funds and Money Market 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.