

CPI Inflation – August’25

Consumer Price Index (CPI) based inflation for August 2025 accelerated to 2.07% YoY, higher than the previous month's revised print of 1.61% YoY and marginally below the market expectations of 2.10% YoY. The inflation remained below RBI's target of 4% YoY for the seventh consecutive month.

CPI inflation came in marginally higher on the back of base effect and relatively higher prices of vegetables, meat, and oils & fats.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) declined by 0.69% YoY in July 2025, after declining by 1.76% YoY in the previous month. Vegetable prices (6.04% weight in CPI basket) declined by 15.92% YoY in August 2025 after declining by 20.69% in the previous month. Similarly, prices of Meat and Fish (3.61% weight in CPI basket) increased by 1.48% YoY in August 2025 after declining by 0.61% YoY in July 2025, and prices of Egg (0.43% weight in CPI basket) increased by 3.12% YoY in August 2025 after increasing by 2.26% YoY in July 2025. On the other hand, prices Fruits (2.89% weight in CPI basket) increased by 11.65% YoY in August 2025 as compared to the 14.42% YoY increase in July 2025, prices of Cereals and products (9.67% weight in CPI basket) increased by 2.70% YoY in July 2025 after increasing by 3.03% YoY in July 2025, and prices of Pulses and products (2.38% weight in CPI basket) declined by 14.53% YoY in August 2025 after declining by 13.76% YoY in July 2025.

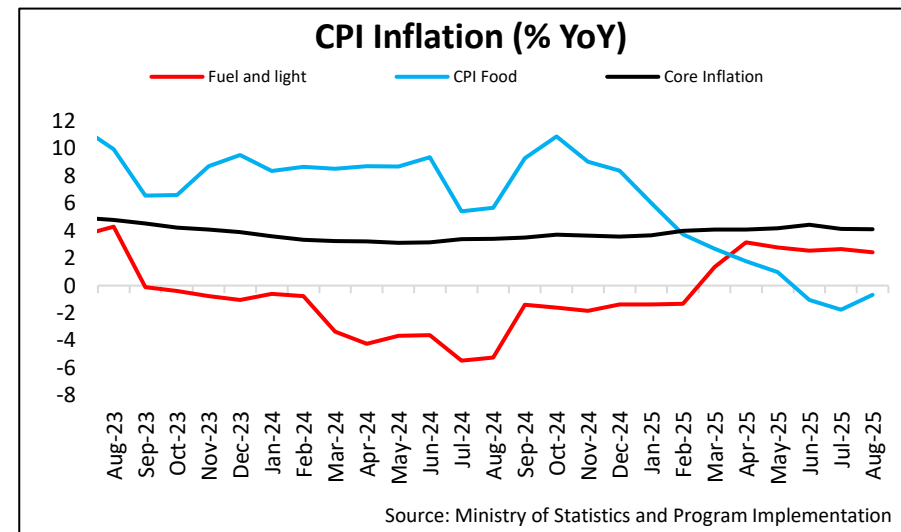
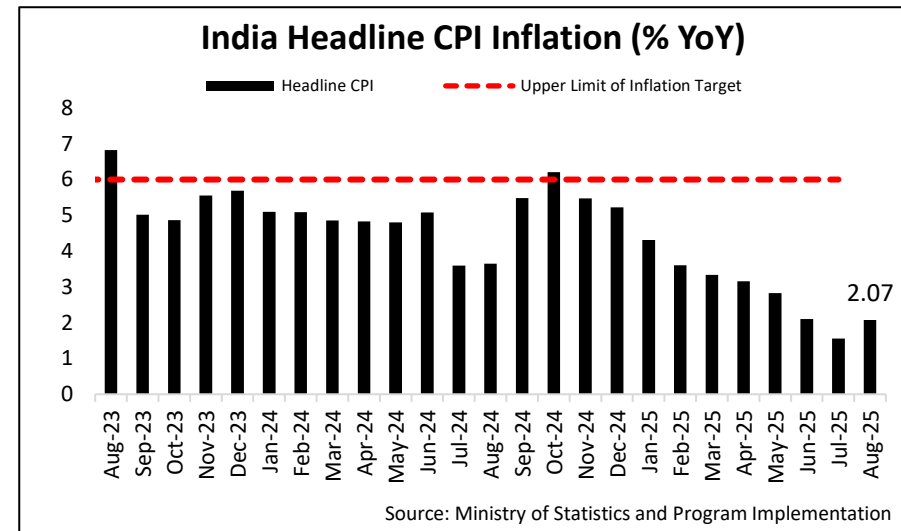
Core CPI inflation: (ex-Food and Fuel) decelerated marginally to 4.11% YoY in August 2025 as against 4.12% YoY in the previous month.

Expectations :- The CPI inflation, though marginally below market expectations, was higher than the previous month due to base effect playing out. Going forward, the recent GST rationalisation is expected to lower prices of most essential items, which can help in bringing down both headline and core inflation and keeping them benign. However, the risk to cereal inflation stems from the floods in Northern parts of India which may damage crop production.

Implication on Monetary Policy:- Despite inching up, the CPI inflation is firmly within RBI's target range of 4%. The inflation is expected to trend downwards, aided by favorable monsoon and higher than average reservoir levels which is expected to support food prices going forward, and the recently announced GST rationalisation which will bring prices of most of the essential items down. 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. The phased reduction of Cash Reserve Ratio (CRR) should keep liquidity comfortably in surplus till December 2025. Though the Central bank is expected to remain data dependent and is likely to closely monitor the growth-inflation dynamics, the recent data gives them enough room to take a more dovish view towards policy easing in upcoming MPC meetings.

Implication on Markets :- With the benign 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 :- Despite the recent contraction in term spreads, the current G-Sec term spreads at the longer end still remain attractive tactically for 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 or consider Dynamic Bond Funds and Gilt Funds for tactical opportunity. 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.



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