

# CPI Inflation – August 2024

**Consumer Price Index (CPI) based inflation** for August 2024 inched up to 3.65% YoY, higher than the previous month's print of 3.54% YoY and mostly in-line with the market expectations of 3.6% YoY. While the inflation moved up, it continues to remain below the RBI's target of 4% YoY.

**CPI inflation came in higher** as food prices remain elevated even with favourable base effect. Additionally, prices rose for majority of categories.

**Food Inflation**, as depicted by the Consumer Food Price Index (CFPI), rose to 5.66% YoY in August 2024 compared to 5.42% YoY in the previous month. The vegetable prices (6.04% weights in CPI basket) accelerated to 10.66% YoY in August 2024 as compared to 6.88% YoY in the previous month as prices remain elevated, even though the vegetable prices fell by 2.51% MoM in August 2024. On contrary, prices of cereals (9.67% weights in CPI basket) and pulses (2.38% weights in CPI basket) eased to 7.31% YoY and 13.60% YoY in August 2024 as compared to 8.14% YoY and 14.83% YoY, respectively, in the previous month.

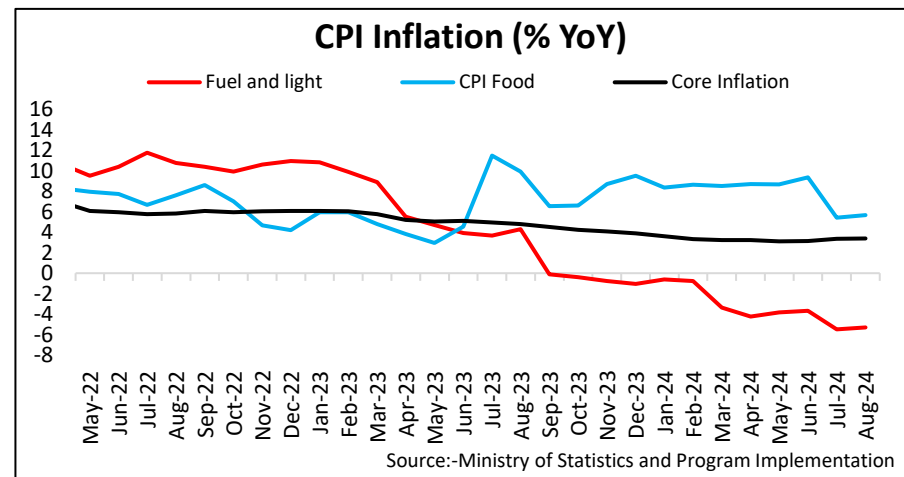
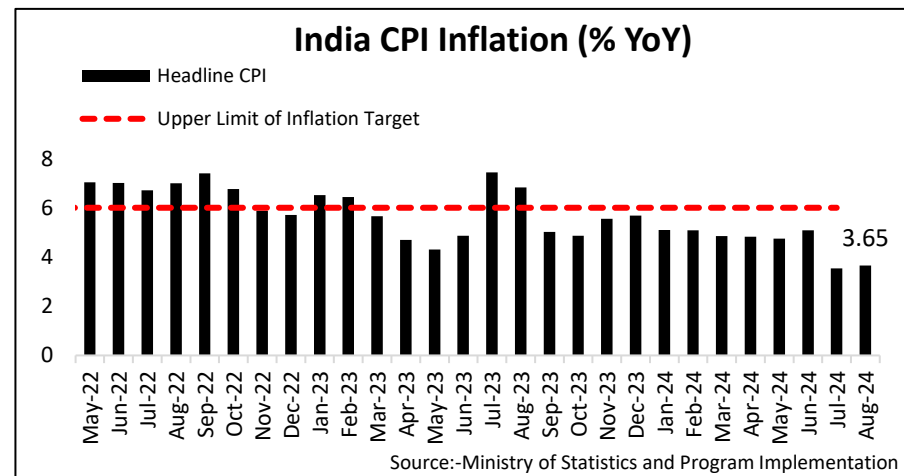
**Core CPI inflation** (ex-Food and Fuel) marginally increased to 3.40% YoY in August 2024 as against 3.36% YoY in the previous month due to rise in prices of broad-based categories as demands pick-up.

**Expectations:-** As the favourable base effect wears off, uptick in inflation is expected by the market. However, the improvement in monsoon, decline in crude oil prices and industrial commodity prices is likely to weigh down on inflation.

**Implication on Monetary Policy:-** With inflation continuing to remain benign, the RBI's monetary policy may also be guided by the monetary policies of developed countries such as US and EU (ECB has further cut the policy rates by 25 bps today).

**Implication on Markets:-** The yields have continued to decline in anticipation of benign inflation and policy rate cuts in advanced economies. Since the August inflation print is also broadly in line with the market expectations, there is possibility that the yields may consolidate in the near term in the current range and take further cues post the Fed policy announcement on 18<sup>th</sup> September 2024. In the medium term, the market is likely to take cues from the FPI flows, demand-supply dynamics and government's fiscal consolidation.

**Fixed Income Mutual Fund Investment Strategy:-** Domestically, with expected policy rate cuts in the US, favourable demand-supply dynamics in Indian G-Secs, and strong FPI flows into the bond market, tactical opportunities can emerge at the longer end. Also, accrual opportunities at the 1-3-years segment of the corporate bond yield curve remains attractive for incremental investment, from risk-reward perspective. Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors can look at Dynamic Bond Funds. 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.



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