CPI Inflation – December 2024

Consumer Price Index (CPI) based inflation for December 2024 fell to 5.22% YoY, lower than the previous month's print of 5.48% YoY and below the market expectations of 5.3% YoY. However, the inflation remained above the RBI's target of 4% YoY.

CPI inflation came in lower on the back of base effect and lower prices of Food and Vegetables.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), fell to 8.39% YoY in December 2024 compared to 9.04% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) eased slightly to 26.56% YoY in December 2024 as compared to 29.33% YoY in the previous month due to improved climatic conditions. Similarly, price growth of Sugar and Confectionery (1.36% weight in CPI basket) fell to 0.38% YoY in December 2024 after going up by 1.31% YoY in November 2024, while price growth of Pulses and products (2.38% weight in CPI basket) fell to 3.83% YoY in December 2024 after rising by 5.46% YoY in November 2024, further contributing to the lower food inflation. However, the prices of Non-alcoholic beverages (1.26% weight in CPI basket), Meat and fish (3.61% weight in CPI basket), and Oils and fats (3.56% weight in CPI basket) accelerated to 3.06% YoY, 5.25% YoY, and 14.60% YoY, respectively, in December 2024 as compared to 2.72% YoY, 4.72% YoY, and 13.21% YoY, respectively, in the previous month.

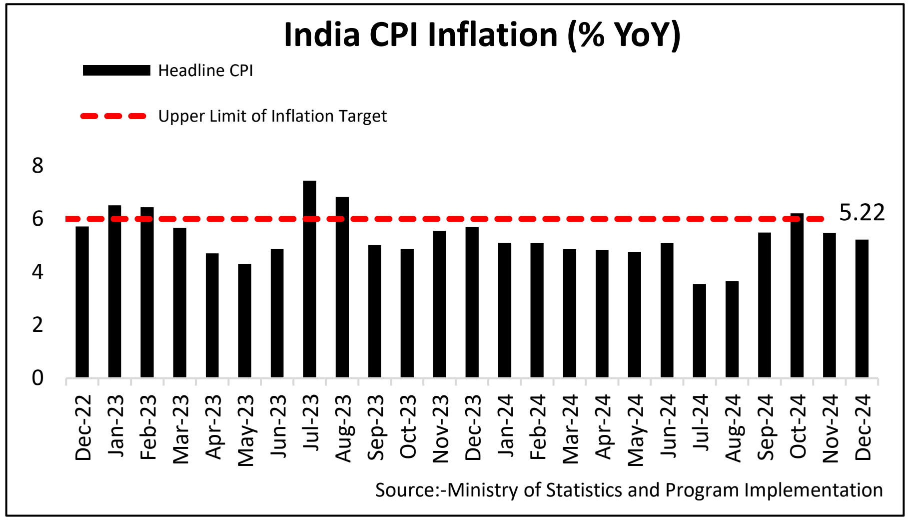
Core CPI inflation (ex-Food and Fuel) fell to 3.58% YoY in December 2024 as against 3.64% YoY in the previous month.

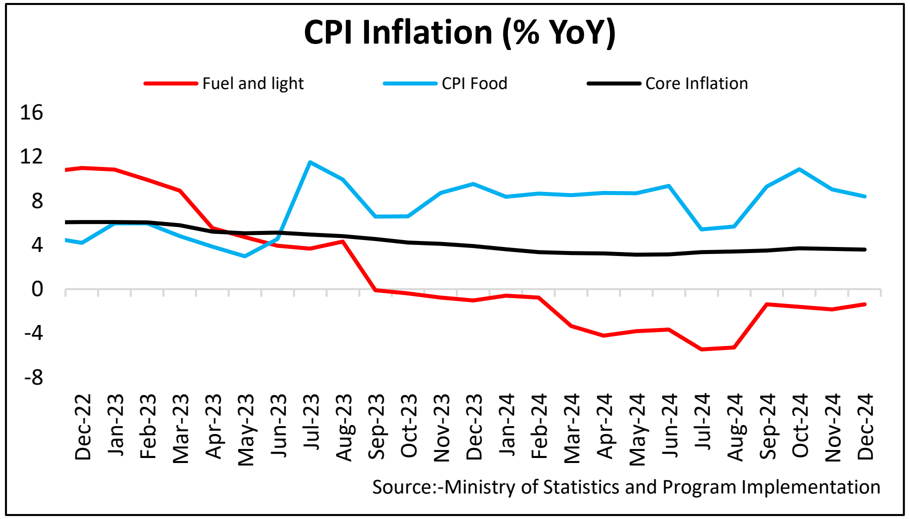
Expectations:- The CPI inflation came in marginally below market expectations as the food inflation cooled down, and is expected to cool down further into the winter months due to the favourable impact of high reservoir levels and steady climatic conditions for the Rabi crop and seasonal vegetables. Weakness in crude oil prices and deceleration in consumption demand can further weigh down upon inflation in the near to medium term.

Implication on Monetary Policy:- Going forward, the RBI's monetary policy decision is likely to be influenced by the movement of the Indian currency, future GDP growth projections, along with the inflation trajectory - which is likely to decelerate further. While the RBI has already moved the policy stance to neutral and cut the CRR to aid system liquidity, the overall system liquidity still remains in deficit. Despite the inflation data remaining supportive, market participants expect that the RBI MPC's policy rate cutting would be dependent on the control of currency volatility. The RBI's monetary policy may also be influenced by the monetary/fiscal policies adopted by developed countries where expectations of further interest rate cuts are being built in.

Implication on Markets:- While the inflation data was marginally better than expectations, the yields may see a minor decline in the near term. However, in the medium term, the yields are likely to further decline on the back of the favourable demand-supply dynamics of Indian G-Secs.

Fixed Income Mutual Fund Investment Strategy:- Domestically, tactical opportunity remains strong for duration strategy due to uptick in yields. With the growth decelerating, inflation moderating, and expectations of policy rate cuts on the rise, only the timing of the same seems to have been pushed forward. Additionally, improving liquidity conditions are likely to compress corporate bond yields at the shorter end in the medium term. With this backdrop, the inverted corporate bond yield curve may normalize, making the case for investment into corporate bonds at the 1-4-years 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 can look at Dynamic Bond Funds. For a horizon of 3 months and above, investors can consider Arbitrage Funds or 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.