CPI Inflation – July 2024

<u>Consumer Price Index (CPI) based inflation</u> for July 2024 decelerated to 3.54% YoY, lower than the previous month's print of 5.08% YoY and the market expectations of 3.7% YoY. With this print, the inflation fell below the RBI's target of 4% YoY.

<u>CPI inflation came in lower</u> due to favourable base-effect even though the inflation accelerated sequentially.

<u>Food Inflation,</u> as depicted by the Consumer Food Price Index (CFPI), slowed down to 5.42% YoY in July 2024 compared to 9.36% YoY in the previous month. The growth in vegetable (6.04% weights in CPI basket) prices plunged to 6.88% YoY in June 2024 as compared to 29.32% YoY due to higher base-effect, while the vegetable prices increased by 14.13% MoM in July 2024. Furthermore, prices of cereals (9.67% weights in CPI basket) and pulses (2.38% weights in CPI basket) remain elevated and rose by 8.14% YoY and 14.83% YoY, respectively.

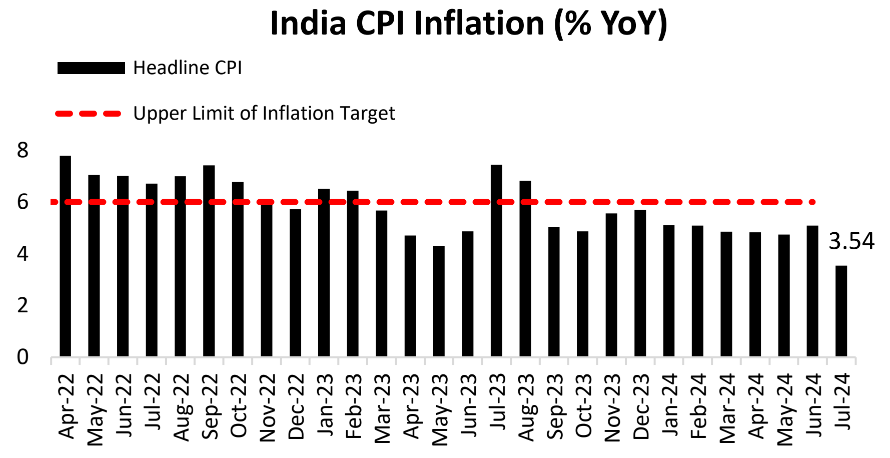
<u>Core CPI inflation</u> (ex-Food and Fuel) inched up to 3.36% YoY in July 2024 as against 3.14% YoY in the previous month due to rise in prices of broad-based categories as demands pick-up.

<u>Expectations</u>:- While the inflation print for July 2024 came in lower than 4% YoY, it may inch back to above 4% market from Q3 FY25 onwards as the base-effect subsides. The improvement in monsoon may relieve some pressure off the food prices.

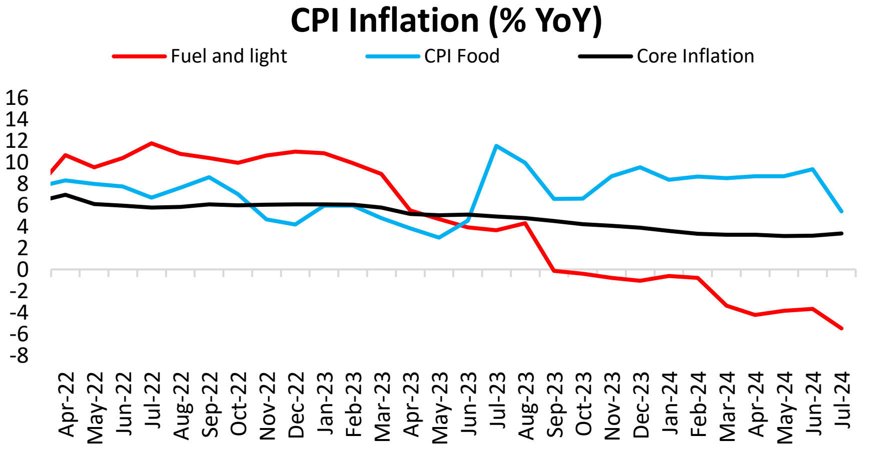
<u>Implication on Monetary Policy</u>:- With the food inflation remaining volatile and sticky, the RBI may remain disinflationary and may not look to pivot till the inflation move towards its target of 4% YoY on a durable basis. Going forward, the improvement in monsoon and monetary policies of major global central banks will likely weigh on the RBI's monetary policy decision. If the inflation eases, then it may nudge the RBI to ease liquidity into the system.

<u>Implication on Markets</u>:- The better-than-expected inflation print remains positive for the bond market and may result in bond yields inching lower in the very near term. However, the acceleration in core inflation may limit the fall in yields. In the medium, the flows regarding the index inclusion and expectation of inflation to ebb lower in the current quarter due to base effect may continue to weigh on the yields. The market is also likely to take cues from the US market, movement of the USD/INR pair, and the liquidity measures of the RBI.

<u>Fixed Income Mutual Fund Investment Strategy:-</u> Domestically, as the deceleration in the inflationary trend starts, the RBI may become accommodative on the system liquidity. Hence, the shorter end of the yield curve may react more than the longer end, which has already reacted due to favourable supply-demand dynamics. With the long end of the curve remaining lower, gains from duration play could be limited in the near term. Hence, accrual opportunities at the 2-4-years segment of the corporate bond yield curve remains attractive for incremental investment, from risk-reward perspective until fresh triggers appear to suggest further decline in yields at the longer end. Hence, investors can look at Corporate Bond Funds and Short duration funds for a horizon of 15 months and above. 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.



Source:-Ministry of Statistics and Program Implementation



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