CPI Inflation – June 2024

Consumer Price Index (CPI) based inflation for June 2024 accelerated to 5.08% YoY, higher than the previous month's print of 4.75% YoY and the market expectations of 4.8% YoY. While the headline inflation reversed its downward trend, it remains within the RBI's target band of 2-6%.

CPI inflation came in higher due to increase in food inflation mainly on account of rise in prices of vegetables, pulses, and cereals.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), inched higher to 9.36% YoY in June 2024 compared to 8.69% YoY in the previous month. The vegetable (6.04% weights in CPI basket) prices rose by 29.32% YoY in June 2024 as compared to 27.33% YoY in the previous month due to heatwaves. Furthermore, prices of cereals (9.67% weights in CPI basket) and pulses (2.38% weights in CPI basket) inched higher by 8.75% YoY and 16.07% YoY, respectively and hence kept the pressure on inflation.

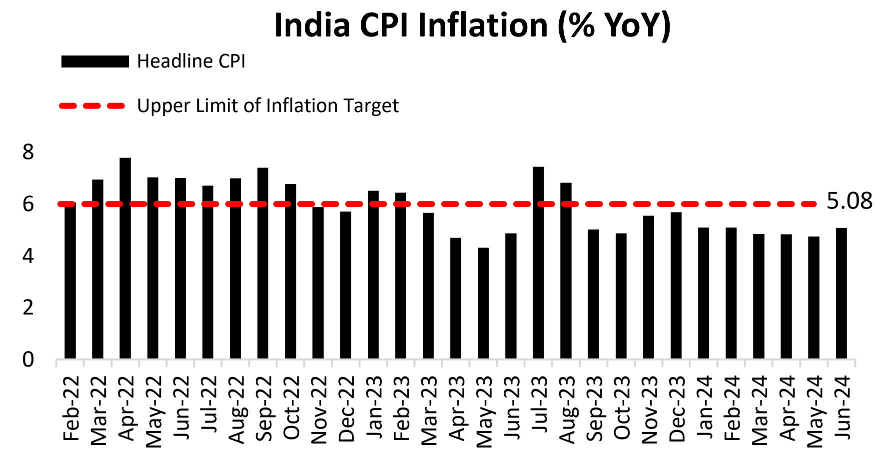
Core CPI inflation (ex-Food and Fuel) further marginally quickened to 3.14% YoY in June 2024 as against 3.12% YoY in the previous month. Even though the core inflation witnessed a marginal uptick it remains low.

Expectations:- While the inflation print for June 2024 was higher than the market expectations, it is likely to fall below 4% YoY in Q2 FY25 on the back of base-effect and improvement in monsoon conditions.

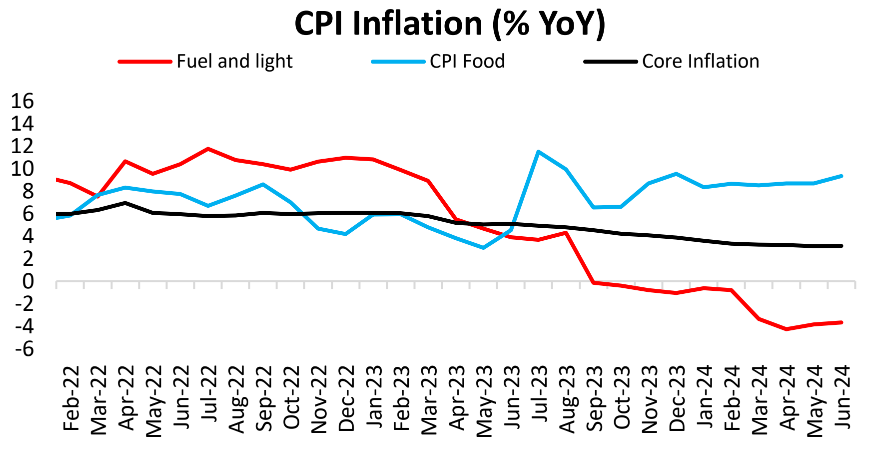
Implication on Monetary Policy:- The RBI may remain disinflationary due to volatility in food prices and may not look to cut policy rates till the inflation remains consistently below its target rate of 4%. Furthermore, the RBI may track the temporal and spatial distribution of monsoon rainfall to gain confidence that food prices cool-off and overall inflation trends lower on a durable basis. If the inflation eases in the upcoming prints also, then this may nudge the RBI to at least ease liquidity into the system.

Implication on Markets:- The higher-than-expected inflation print remains negative for bond market and the bond yields may inch higher in the near term. However, the flows regarding the index inclusion and expectation of inflation to ebb lower in the current quarter due to base effect may limit the rise in yields in the medium term. Furthermore, in the medium term, the market is likely to take cues from the Union budget for the government's pace of fiscal consolidation, the US market, and the liquidity measures of the RBI.

Fixed Income Mutual Fund Investment Strategy:- Domestically, while more members of the RBI's MPC are now inclined towards easing monetary conditions, the RBI governor in a recent interview clearly stated that the central bank would look for consistent deceleration in inflation towards its target rate of 4% to take call on the rates. However, 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. Accrual opportunities at the 2-4-years segment of the corporate bond 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



Source:-Ministry of Statistics and Program Implementation

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.