CPI Inflation – November 2024

Consumer Price Index (CPI) based inflation for November 2024 fell to 5.48% YoY, lower than the previous month's print of 6.21% YoY and below the market expectations of 5.53% 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 9.04% YoY in November 2024 compared to 10.87% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) eased to 29.33% YoY in November 2024 as compared to 42.32% YoY in the previous month due to a good summer crop harvest, aided by a favourable monsoon. Similarly, prices of Sugar and Confectionery (1.36% weight in CPI basket) fell to 1.31% YoY in November 2024 after going up by 2.57% YoY in October 2024, and prices of Pulses and products (2.38% weight in CPI basket) fell to 5.46% YoY in November 2024 after rising by 7.49% YoY in October 2024, further contributing to the lower food inflation. However, the prices of Meat and fish (3.61% weight in CPI basket) and Oils and fats (3.56% weight in CPI basket) accelerated to 4.72% YoY and 13.21% YoY, respectively, in November 2024 as compared to 3.17% YoY and 9.51% YoY, respectively, in the previous month.

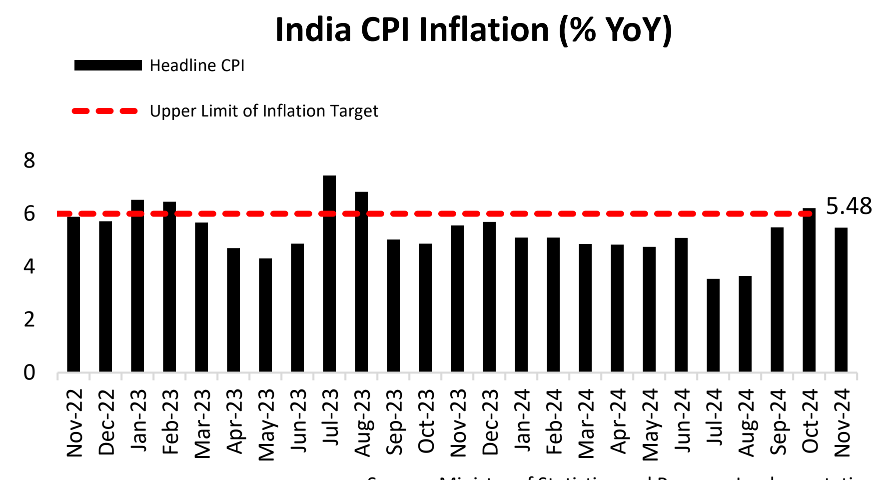
Core CPI inflation (ex-Food and Fuel) fell to 3.64% YoY in November 2024 as against 3.70% YoY in the previous month.

Expectations:- The CPI inflation came in marginally below market expectations as the food inflation cooled down, and is expected to cool down further as we move into winter months. Weakness in crude oil prices and deceleration in consumption demand can further weigh down upon inflation in the near to medium term.

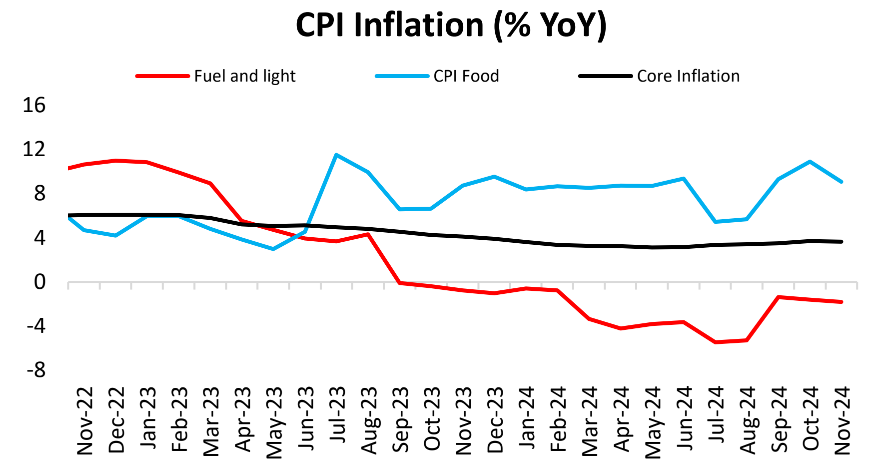
Implication on Monetary Policy:- Going forward, the RBI's monetary policy decision is likely to be influenced by the movement of the Indian currency, future GDP growth projections, along with the inflation trajectory - which is likely to decelerate further. The RBI has already moved the policy stance to neutral which has ensured ample liquidity in the system. If the inflation data for January is also supportive, then market participants expect that the RBI's MPC may start cutting interest rates from the February policy onwards. 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 are not expected to react much to it. However, in the medium term, the yields are likely to move lower on the back of the expected policy rate cut in India and developed countries, favourable demand-supply dynamics of Indian G-Secs, and strong FPI flows into the bond market.

Fixed Income Mutual Fund Investment Strategy:- Domestically, tactical opportunities for duration strategy are playing out, with the growth decelerating and expectation of policy rate cuts rising. With the fiscal deficit expected to remain firmly under control, the supply-demand dynamics are likely to support lower yields at the longer end. Additionally, as liquidity conditions ease further due to the change in stance, it is likely to compress the 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 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.



Source:-Ministry of Statistics and Program Implementation



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