CPI Inflation – October 2024

Consumer Price Index (CPI) based inflation for October 2024 rose to 6.21% YoY, higher than the previous month's print of 5.49% YoY and above the market expectations of 5.81% YoY. With this, the inflation rose to a 14-month high and well above the RBI's target of 4% YoY.

CPI inflation came in higher on the back of base effect and higher prices of Food and Vegetables. Additionally, prices rose across most categories.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), rose to 10.87% YoY in October 2024 compared to 9.29% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) accelerated to 42.32% YoY in October 2024 as compared to 36.06% YoY in the previous month as it gained further momentum. Similarly, prices of oils and fats (3.56% weight in CPI basket) jumped to 9.51% YoY in October 2024 after going up by 2.47% YoY in September 2024, and prices of fruits (2.89% weight in CPI basket) rose by 8.43% YoY in October 2024 after rising by 7.65% YoY in September 2024, further contributing to the high food inflation. However, the prices of pulses (2.38% weight in CPI basket), sugar (1.36% weight in CPI basket), and milk (6.61% weight in CPI basket) eased to 7.49% YoY, 2.57% YoY, and 2.97% YoY, respectively, in October 2024 as compared to 9.76% YoY, 3.54% YoY, and 3.09% YoY, respectively, in the previous month.

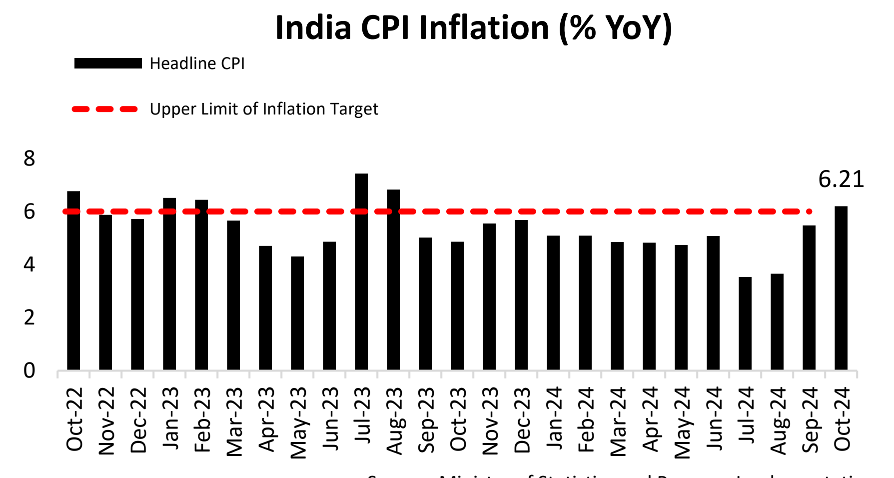
Core CPI inflation (ex-Food and Fuel) increased to 3.70% YoY in October 2024 as against 3.50% YoY in the previous month as demand picked-up.

Expectations:- While the CPI inflation came in above market expectations, the food inflation is expected to cool down with the onset of winter, which can ensure that inflation starts to gradually trend downwards. Weakness in crude oil prices and deceleration in consumption demand can further weigh down upon inflation in the near to medium term.

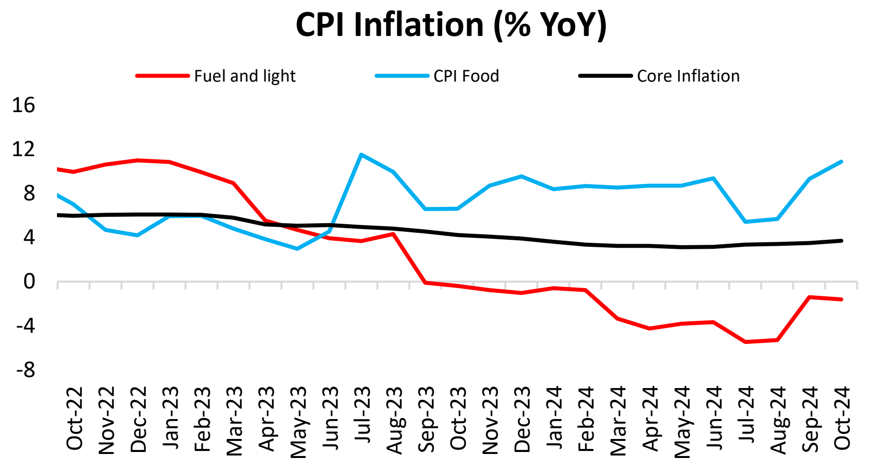
Implication on Monetary Policy:- Going forward, the RBI's monetary policy decision is likely to be influenced by the GDP growth data for Q2 FY25 - which market participants expect to be below RBI's expectations of 6.8%-7%, future GDP growth projections, along with the inflation trajectory- which is likely to decelerate. The RBI has already moved the policy stance to neutral which has ensured ample liquidity in the system. The RBI's monetary policy may also be influenced by the monetary/fiscal policies adopted by developed countries such as US and EU; where both have recently cut their policy rates.

Implication on Markets:- With higher-than-expected inflation, the yields are likely to be affected negatively in the very near term. However, in the medium term, the yields are likely to move lower on the back of 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 have emerged, with yields at the longer end rising on the back of rise in the US bond yields and recent selling by the FPIs in the Indian Bond market. 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. 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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