CPI Inflation – September 2024

Consumer Price Index (CPI) based inflation for September 2024 jumped to 5.49% YoY, much higher than the previous month's print of 3.65% YoY and above the market expectations of 5.1% YoY. With this, the inflation rose to a 9-month high and well above the RBI's target of 4% YoY.

CPI inflation came in higher as the favourable base effect wore-off and vegetable prices surged. Additionally, prices rose across broad-based categories.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI), rose to 9.29% YoY in September 2024 compared to 5.66% YoY in the previous month. The vegetable prices (6.04% weights in CPI basket) accelerated to 36.06% YoY in September 2024 as compared to 10.66% YoY in the previous month as it gained further momentum. Similarly, prices of oils and fats rose by 2.47% YoY in September 2024 after falling by 0.92% YoY in August 2024, further contributing to the high food inflation. However, the prices of cereals (9.67% weights in CPI basket) and pulses (2.38% weights in CPI basket) eased to 6.84% YoY and 9.76% YoY in September 2024 as compared to 7.31% YoY and 13.60% YoY, respectively, in the previous month.

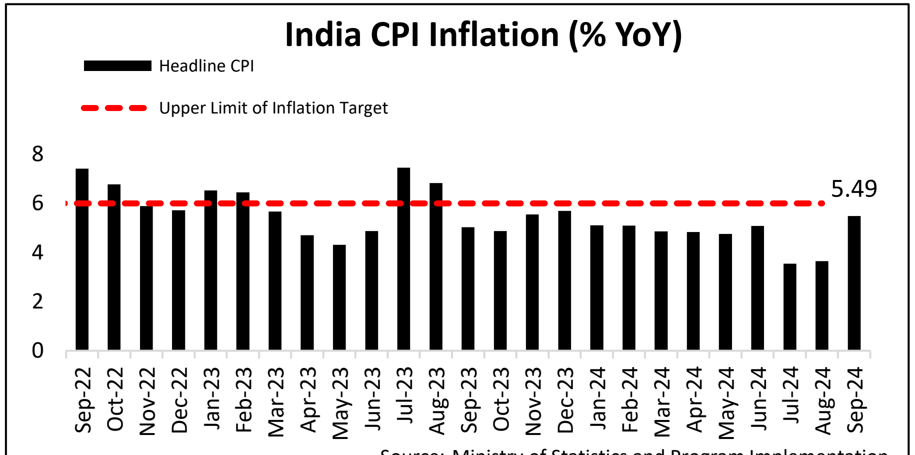
Core CPI inflation (ex-Food and Fuel) marginally increased to 3.50% YoY in September 2024 as against 3.40% YoY in the previous month as demands pick-up.

Expectations:- With base effect wearing off, and food prices remaining elevated, the CPI inflation is likely to remain above the RBI's target of 4% YoY in the near term. Additionally, the escalating geopolitical tension in the Middle East may disrupt global crude oil supply chain, leading to higher inflation.

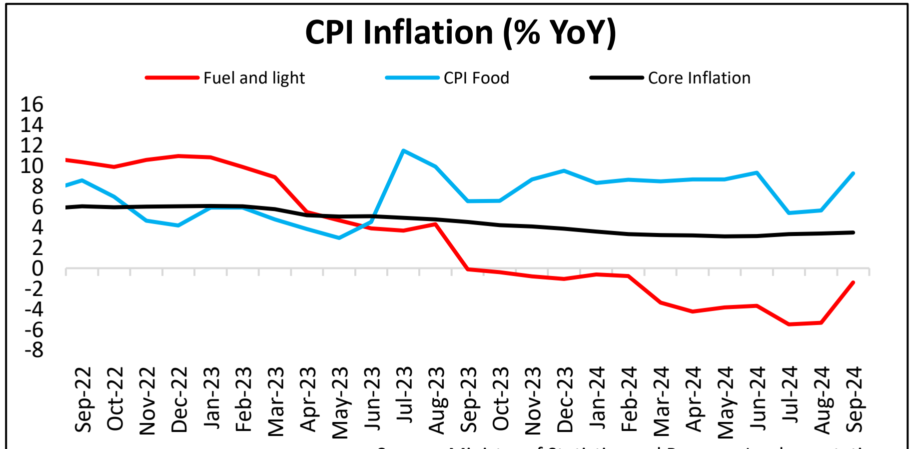
Implication on Monetary Policy:- Going forward, the RBI's decision will be influenced by the GDP growth data for Q2 FY25 along with the inflation trajectory as it tries to balance growth-inflation dynamics. The RBI's monetary policy may also be guided by the monetary policies of developed countries such as US and EU.

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 may emerge, with yields at the longer end gradually trending lower. Additionally, as liquidity conditions ease further due to the change in stance, the shorter end may fall more than the longer end, likely leading to a steepening of the yield curve. 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 and Short duration 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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