

# CPI Inflation – June 25

**Consumer Price Index (CPI) based inflation** for June 2025 decelerated to 2.10% YoY, lower than the previous month's print of 2.82% YoY and below the market expectations of 2.50% YoY. The inflation remained below RBI's target of 4% YoY for the fifth consecutive month and is the lowest print on YoY basis since January 2019.

**CPI inflation** came in lower on the back of continued softening of Food prices.

**Food Inflation**, as depicted by the Consumer Food Price Index (CFPI) declined by 1.06% YoY in June 2025, 204 bps lower than an increase of 0.99% YoY in the previous month. The vegetable prices (6.04% weight in CPI basket) declined by 19.00% YoY in June 2025, as compared to the 13.70% YoY decline in the previous month. Similarly, prices of Pulses and products (2.38% weight in CPI basket) declined by 11.76% YoY in June 2025 after declining by 8.22% YoY in May 2025, while prices of Meat and fish (3.61% weight in CPI basket) declined by 1.62% YoY in June 2025 after declining by 0.39% YoY in the previous month. On the other hand, the prices of Egg (0.43% weight in CPI basket) increased by 2.57% YoY after increasing by 0.64% YoY in the previous month.

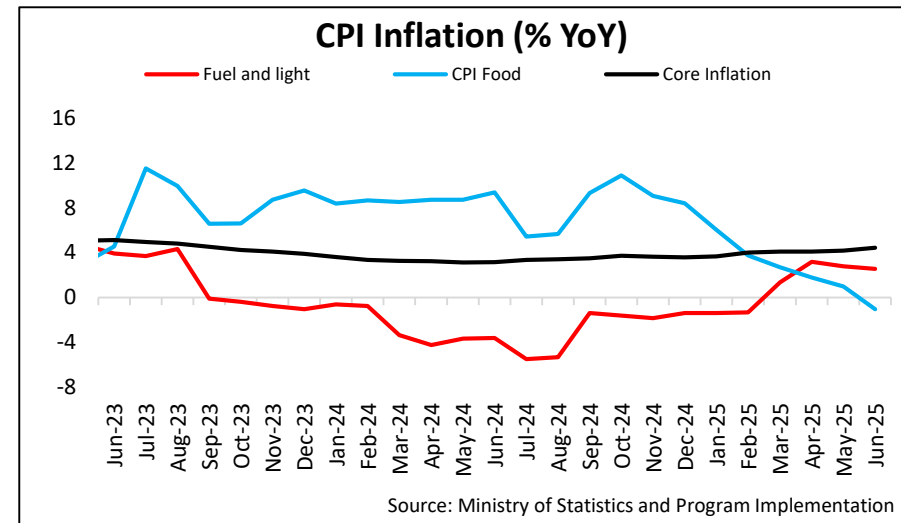
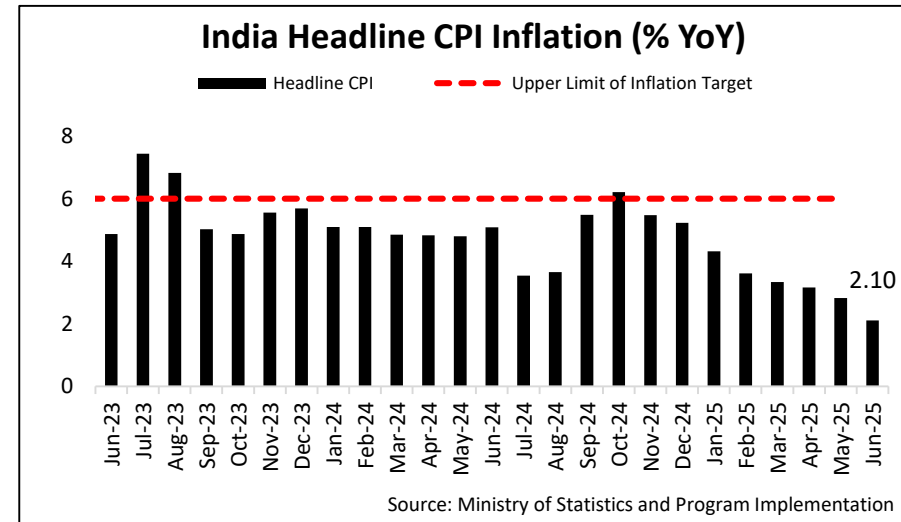
**Core CPI inflation:** (ex-Food and Fuel) increased by 4.43% YoY in June 2025 as against 4.17% YoY in the previous month.

**Expectations :-** The CPI inflation came in below market expectations as the food inflation continued its downward trend supported by favorable monsoon. Going forward, while core inflation may remain sticky, headline inflation growth is forecast to be at 3.7% YoY for FY26 as per the revised projections by the RBI.

**Implication on Monetary Policy:-** The RBI has frontloaded the policy easing, on both policy rate and liquidity front. The staggered reduction of Cash Reserve Ratio by 100 bps in 4 tranches between September 2025 to November 2025 will assure that system liquidity gets enough cushion against any negative development. Hence liquidity is expected to remain comfortable till December 2025. The latest inflation print assured that India's Q1 FY26 inflation was below RBI's guidance of 2.9% YoY. The high positive real rate will provide the central bank enough headroom to pursue further growth supportive policies in case the GDP growth falls meaningfully below their forward guidance. Going forward, RBI is expected to remain data-dependent and track growth-inflation dynamics before taking any further policy decisions but with more flexibility to manoeuvre the policy actions.

**Implication on Markets :-** With continuously decelerating inflation data, along with favorable demand-supply dynamics of Indian G-Secs and strong FPI flows into the bond market, we expect structurally lower interest rates over the medium term.

**Fixed Income Mutual Fund Investment Strategy :-** At this juncture, long duration bonds have limited scope for incremental gains unless the central bank considers further growth-supportive policy easing in future policy meetings basis their updated outlook on growth-inflation dynamics. The spread at the shorter end of the Corporate Bond yield curve has narrowed marginally over G-secs during the last month. Based on easing liquidity, the curve may steepen further, thus, a case continues to exist for investment into corporate bond funds that are at the 1-4-year 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 may consider Income Plus Arbitrage FoF. Also, as a tactical opportunity Dynamic Bond Funds can be considered for the same horizon. For a horizon of 3 months and above, investors can consider Arbitrage Funds and 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.



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