

CPI Inflation – December 2025

Consumer Price Index (CPI) based inflation for December 2025 accelerated to 1.33% YoY, higher than the previous month's print of 0.71% YoY and lower than the market expectations of 1.50% YoY. This was the 11th straight month that inflation remained below the RBI's medium-term target of 4%.

CPI inflation came in higher on the back of base effect and relative hardening of prices of vegetable, egg, fish and meats.

Food Inflation, as depicted by the Consumer Food Price Index (CFPI) declined by 2.71% YoY in December 2025, after declining 3.91% YoY in previous month. Vegetable prices (6.04% weight in CPI basket) declined by 18.47% YoY in December 2025 after declining by 22.20% YoY in the previous month. Similarly, prices of Egg (0.43% weight in CPI basket) accelerated to 4.76% YoY in December 2025 after increasing by 3.77% YoY in November 2025 and prices of Meat and fish (3.61% weight in CPI basket) accelerated to 5.12% YoY in December 2025 after increasing by 2.50% YoY in November 2025. On the other hand, prices of Cereals and products (9.67% weight in CPI basket) declined to 0.35% YoY in December 2025 after rising by 0.10% YoY in November 2025, prices of Non-alcoholic beverages (1.26% weight in CPI basket) decelerated to 2.42% YoY in December 2025 after increasing by 2.92% YoY in November 2025, prices of Oils and fats (3.56% weight in CPI basket) decelerated to 6.75% YoY in December 2025 after increasing by 7.87% YoY in November 2025.

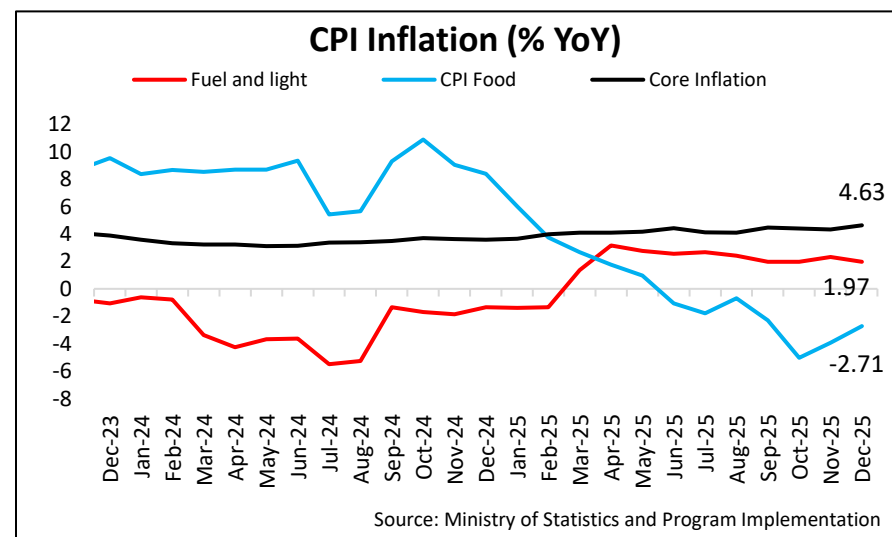
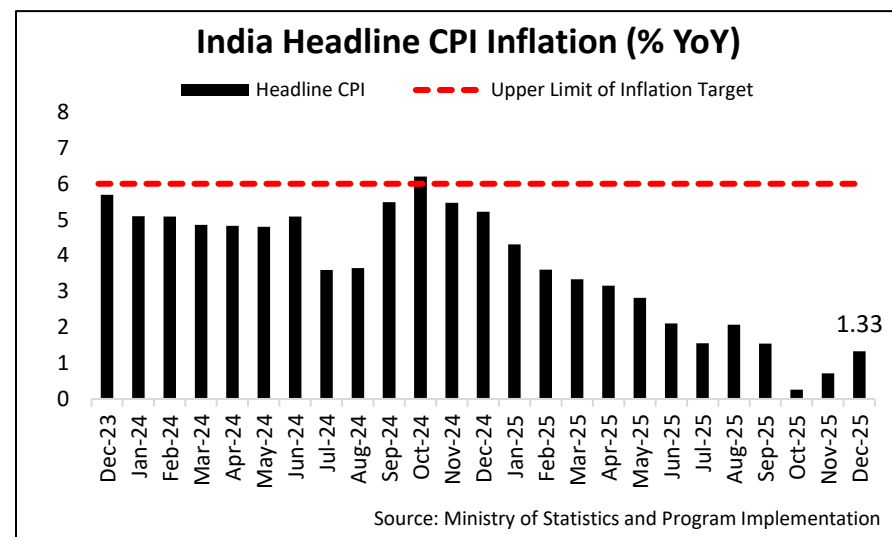
Core CPI inflation: (ex-Food and Fuel) accelerated to 4.63% YoY in December 2025 as against 4.34% YoY in the previous month due to an increase in Housing, Clothing and Footwear prices.

Expectations: The CPI inflation was higher than the previous month due to base effect playing out and was marginally above RBI's latest revised projection of 0.6% YoY for Q3 FY26. Going forward, prices are expected to remain benign due to GST rationalisation and higher-than-average reservoir levels. However, release of new CPI index series from February 2026 with revised weightage to food inflation may affect the headline number and remains a key monitorable.

Implication on Monetary Policy: Despite base effect playing out and relative hardening visible, the CPI inflation continues to remain well below both RBI's medium-term target of 4% YoY and its lower tolerance band of 2% YoY. Barring a minor bump up, inflation may continue to remain benign, aided by the impact of the recently announced GST rationalisation, and a moderation in food prices supported by higher-than-average reservoir levels. The strong durable liquidity support along with a favorable inflation print means that in case growth falters, there remains enough scope for further policy easing depending on future growth-inflation dynamics. However, probable forex intervention, which affects system liquidity and reduces forex reserves, will remain a key monitorable. Market participants expect RBI to announce further OMOs to ensure adequate liquidity. Also, stickiness of core inflation remains a point of concern and may weigh down on the Central bank's policy actions going forward.

Implication on Markets: With the benign inflation data, along with favorable policy measures taken by the RBI and strong FPI flows into the bond market, we expect interest rates to remain lower for longer. The probable inclusion of Indian G-secs in Bloomberg's index can bring in fresh flows and be positive from a yield's perspective going forward.

Fixed Income Mutual Fund Investment Strategy: The RBI seems committed to providing adequate liquidity in the system, thereby aiding the transmission of policy rate cuts. The pre-emptive support announced by them can offset any future liquidity drag coming from RBI's forex intervention in the absence of or delay in a trade deal with the US and moderation in government spending in H2 FY26. Improved and well managed system liquidity along with probable lowering of G-sec yields should benefit corporate bonds, where yields can see spread compression or a parallel downward shift going forward. 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 or consider Dynamic Bond Funds for tactical opportunity. 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 should invest in line with their risk profile and product suitability.



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