

CPI Inflation – May 2026

Consumer Price Index (CPI) based inflation for May 2026 accelerated to 3.93% YoY (provisional), higher than the previous month's (final) print of 3.48% YoY but lower than the market expectations of 4.00% YoY. This was the 16th 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, further acceleration in food inflation, and an increase in the prices of Silver/Gold/Diamond/Platinum Jewellery etc.

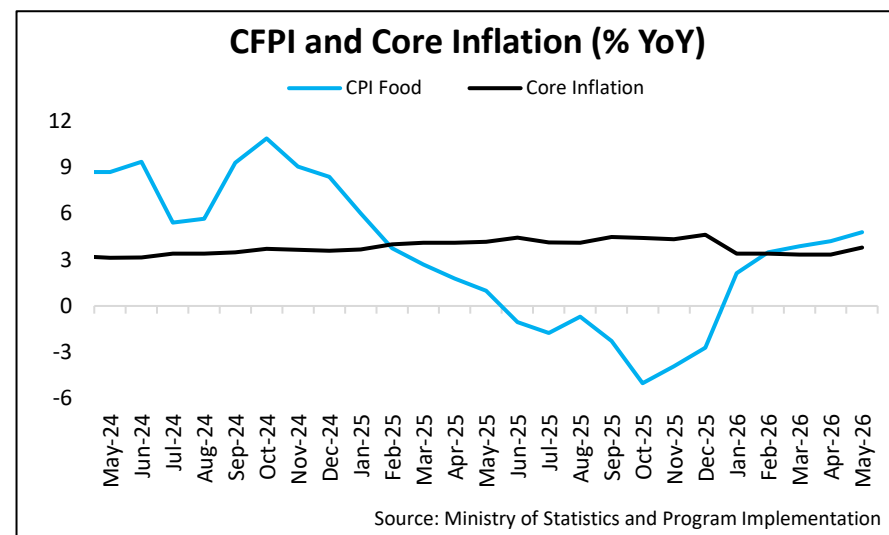
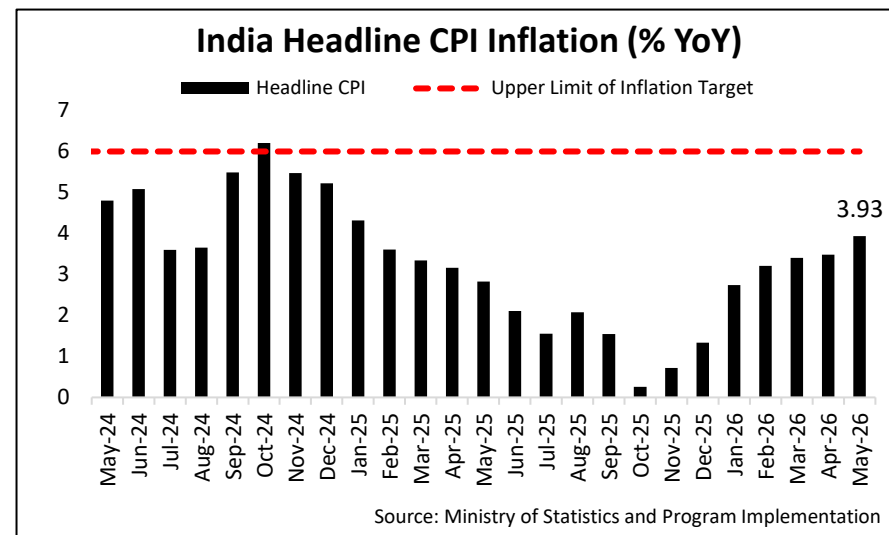
Food Inflation, as depicted by the Consumer Food Price Index (CFPI), accelerated further to 4.78% YoY in May 2026 from 4.20% YoY in the previous month. Tomato prices (0.50% weight in CPI basket) increased by 48.43% YoY and Ginger prices (0.26% weight in CPI basket) increased by 32.49% YoY in May 2026. On the other hand, prices of prices of Potato (0.75% weight in CPI basket) declined by 23.71% YoY and Peas (0.12% weight in CPI basket) declined by 11.47% YoY during the month.

Expectations: Going forward, the recent staggered increase in fuel prices is expected to exert both direct and indirect upward pressure on inflation. As the monsoon season approaches, its timing, adequacy and spatial distribution will also be keenly watched. Further, El-Niño conditions can have an adverse impact on rainfall and inflation and thus remains a point of concern.

Implication on Monetary Policy: The Reserve Bank of India has upwardly revised the headline inflation projection for FY27 to 5.1% YoY during the latest Monetary Policy Committee announcement in June 2026 compared with the 4.6% projection in April 2026. They also highlighted that since May 2026, as retail fuel prices have been raised, there has been a direct impact on headline inflation, which, along with second order effects, would get reflected in CPI inflation in the coming months. The second-round impact of higher input costs could exert upside pressure on CPI inflation going forward. Going forward, market participants expects the RBI to move towards hiking rates during CY26 itself.

Implication on Markets: Despite uncertainties stemming from the fragile ceasefire negotiations of the West Asia conflict which has kept energy prices both elevated and volatile, the inflation print remained within RBI's target range. However, any further protraction of the conflict can weigh on inflation if imported inflation starts getting passed on to the consumers. The spate of measures announced by the RBI in the latest monetary policy announcement may incentivise capital flows to India, which can arrest the INR's slide and lead to its orderly movement. This, along with the probable inclusion of Indian G-secs in Bloomberg's index and any progress on de-escalation of the West Asia conflict may aid in keeping liquidity comfortable and support bond prices going forward. If an interim deal fructifies and the Strait of Hormuz opens, it may result in a fall in crude prices, negating the inflation concerns and probably leading to a rally in bond prices.

Fixed Income Mutual Fund Investment Strategy: Thus, at this juncture, with lucrative yields, a case continues to exist for investment into Corporate Bonds that are at the 3-5-year segment of the curve. Hence, investors can look at Corporate Bond Funds and Short Duration Debt Funds for a horizon of 15 months and above. For a horizon of 24 months and above, investors may consider Income Plus Arbitrage FoFs or consider Dynamic Bond Funds for tactical opportunity. As yields in the less than 1-year segment remain high for corporates, for a horizon of 3 months and above, investors can consider Arbitrage Funds and Low Duration 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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