CPI inflation - April 2019

Event Update

In line with expectations, the domestic inflation based on Consumer Price Index (CPI) inched up marginally in the month of April 2019 as compared to the previous month. CPI inflation, for April 2019, stood at 2.92% YoY compared to 2.86% YoY for March 2019. The pickup in inflation was mainly on account of rise in prices of food items as well as price of fuel. Core CPI inflation (ex Food and Fuel) however, continued to decline for six consecutive months in April 2019 and came in at 4.56% YoY compared to 5.03% YoY in March 2019.

While, food prices had witnessed a decline for five months till February 2019; prices saw a rise on a Year on Year (YoY) basis in March 2019 and the trend continued in April 2019 as well. Inflation in Food segment stood at 1.10% YoY, compared to 0.30% YoY in March 2019. Prices of vegetables witnessed a sharp rise in April 2019, wherein inflation came at 2.87% YoY compared with a deflation of 1.419% YoY in March 2019. Prices of some protein items like ‘Meat and fish’ and Eggs witnessed also rose on a YoY basis. CPI core inflation internal items declined on a broad based basis, with inflation decline across all the items. Within Core inflation, items that witnessed a sharper decline on a Month on Month basis in annual inflation included, ‘Household goods and services’, ‘Personal care and effects’ and ‘Education’ amongst others. Inflation in ‘Fuel and light’ segment for the second month in a row and came in at 2.56% YoY in April 2019 compared to 2.34% YoY in March 2019.

Though the CPI inflation has seen a rising trend over the past three months, it has remained below the RBI's comfort zone of 4% (+2%) range. Not only the headline CPI inflation remained muted, the Core CPI inflation has been declining over the past few months. A declining core inflation could indicate muted demand conditions building up in the economic, which could mean inflation fueled by demand may remain benign. Additionally, the global growth slowdown and benign/muted inflation scenario that is building up could also come to the rescue as far as domestic inflation is concerned. On the other hand with higher crude oil prices and possibility of El Nino event, inflation trajectory could get altered. Though the Government has ensured that the prices of food grains do not rise even in years of below normal monsoons, supply shock has the potential of throwing the government’s supply management out of gear. Overall, while there are risks to the inflation trajectory, retail inflation may remain muted in the near term, which may still leave space for further monetary easing by the RBI.

Fixed income view:

Yield on the benchmark 10 year G-sec 7.26% 2029 bond closed at 7.38% on 14 May 2019 compared to its previous close of 7.39%. With the high frequency growth indicators like Index of Industrial Production (IIP) showing signs of some slowdown in the economic growth domestically along with expected muted inflation scenario we may see another interest rate cut by the RBI in the near term.

Fixed Income Mutual Fund Strategy:- Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above. Investments in Medium Duration Funds can be considered by moderate and aggressive investors with a horizon of 15 months and above. Investors looking to invest with a horizon of up to 3 months can consider Liquid Funds, while Ultra Short Duration Funds and Arbitrage can be considered for a horizon of 3 months and above. Investors, who are comfortable with intermittent volatility, can also look at strategies that focus at the longer end of the yield curve. i.e. Long duration funds, with a horizon of 24 months and above.

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HDFC Bank House, 1st Floor, C.S. No. 6 \ 242, Senapati Bapat Marg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66521000, ext 1311, Fax: (91)-22-24900983 \ 24900858