

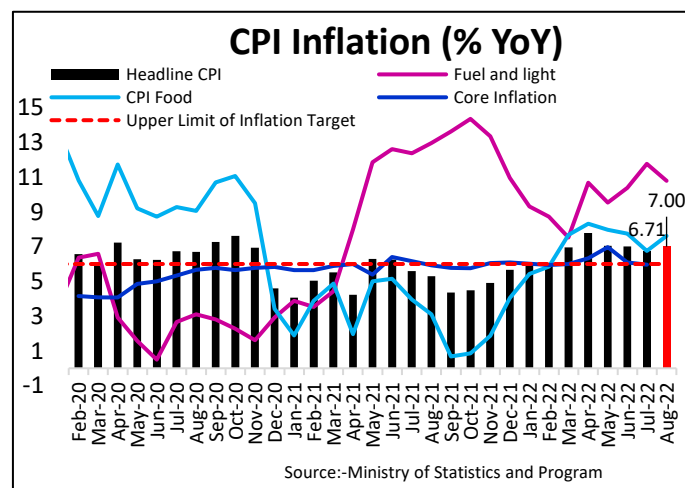


## CPI inflation- August 2022

Event Update

Domestic retail inflation rose in the month of August 2022 and came in higher than expectations, after decelerating for three consecutive months till July 2022. Inflation based on Consumer Price Index (CPI) for the month of August 2022 came in at 7% YoY as compared to 6.71% YoY in July 2022. On a month on month (MoM) basis, CPI inflation declined to 0.51% in August 2022 from 0.46% in July 2022. The rise in the headline inflation was led by higher food inflation, wherein Consumer Food Price inflation stood at 7.62% YoY in August 2022 as against 6.69% YoY in the previous month. Core CPI inflation (ex Food and Fuel but including 'Transport and communication') remained sticky in August 2022 and came in higher at 5.84% YoY as compared to 5.78% YoY in July 2022.

Within the food basket, some of the more staple items such as Cereals, 'Milk and products', Vegetables, Pulses and 'Prepared meals, snacks and sweets' amongst others and also those that have relatively higher weights in the overall CPI, witnessed a rise in inflation in August 2022. Inflation in Cereals rose to 9.57% YoY in August 2022 from 6.90% YoY in July 2022. 'Milk and products' inflation also rose to 6.39% YoY in August 2022 from 5.78% YoY in July 2022. Vegetable prices rose by 13.23% YoY in August 2022 from 10.90% YoY in July 2022. Inflation in prices of 'Prepared meals, snacks, sweets etc.' saw an uptick of 7.75% YoY from 7.55% YoY. Inflation in prices of 'Oils and fats' declined to 4.62% YoY in August 2022 from 7.52% YoY in July 2022 tracking the decline in international prices of edible oils and also the efforts taken by the government. In case of Core CPI inflation, the movement was mixed. Some of the segments in Core inflation that saw a rise in inflation in August 2022 as compared to July 2022 included Clothing, Housing, 'Household goods and services' Education and 'Personal care and effects'. Items that witnessed a decline in inflation rate on a YoY basis in August 2022 included Health, 'Transport and communication' and 'Recreation and amusement' amongst others. In case of 'Fuel and light', inflation declined to a level of 10.78% YoY in August 2022 as against 11.76% YoY in July 2022, helped by the decline in international crude oil prices in August 2022.



The rise in food inflation has been a result of a host of factors such as heat waves globally as well as domestically impacting crop production; the Russia-Ukraine war resulting in supply crunch; abnormal rains in some parts of the country and below normal rains in others leading to crop destruction, amongst others. This is reflecting in prices of staple items both globally as well as domestically. As we continue with the festival season, the prices of essential items such as vegetables and fruits are likely to rise, which could add to the inflation woes in the near term. As per latest updates, crop acreage have seen a decline as compared to last year due to erratic behaviors of monsoon across various states, which also requires close monitoring. That said, currently, as per statements from government there is sufficient food grain stock. After declining in July 2022, commodity prices have seen an uptick in August 2022. While further slowdown is expected in the major economies of the world, which could cap the rise in the commodity prices, this will also be an important variable to track very closely. Volatile crude oil prices are another source of uncertainty for domestic inflation. On another front, India's Current Account (CAD) deficit is likely to widen, leading to implications on Rupee exchange rate and thereby prices of imported items. Here the Balance of Payments' situation and RBI's Forex management will be critical. Thus, currently a host of variables both global and domestic are imparting uncertainty to the inflation trajectory.

### Fixed income view:

G-secs closed on a positive note today notwithstanding the rise in retail inflation. Yield on the old 10 year benchmark, 6.54% G-sec 2032 bond, declined sharply and closed at a level of 7.10% today as against its previous close of 7.18%. The recent rally in bonds has largely been on account of rising expectations of inclusion of Indian G-secs in global bond indices. If the announcement of the inclusion does come about, we may see some further rally in the domestic bond markets; and if it does not then that could erase some of the recent gains. Looking at the stickiness of the inflation currently, the RBI is likely to continue with the monetary policy tightening through rate hikes and withdrawal of liquidity. Uncertain global macro-economic environment may also warrant RBI to remain hawkish in the near to medium term. Thus, while there is downward bias to bond yields at the longer end of the yield curve, volatility cannot be ruled out given the various moving parts impacting the fixed income markets.

**Fixed Income Mutual Fund Strategy:-** For investors looking for accrual strategies, they can consider Target Maturity Index Funds that invest in a mix of better quality bonds with investment horizons matching the maturity of the funds. Investors could also look at funds oriented towards the shorter end of the yield curve for stabler returns in the near term and to benefit from the reset in interest rates on the higher side. For this one can look at Short Duration Funds, Money Market Funds, Ultra Short Duration and Low Duration Funds for a horizon of 12 months and above. Investors who are comfortable with volatility and have a longer investment horizon could look at Dynamic Bonds for a horizon of 24 months and above. For a horizon of 3 months and above Arbitrage and Money Market Funds can be considered. 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.

Disclaimer: This document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. HDFC Bank Limited ("HDFC Bank") does not warrant its completeness and accuracy. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument / units of Mutual Fund. Recipients of this information should rely on their own investigations and take their own professional advice. Neither HDFC Bank nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. HDFC Bank and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may, from time to time, have investments / positions in Mutual Funds / schemes referred in the document. HDFC Bank may at any time solicit or provide commercial banking, credit or other services to the Mutual Funds / AMCs referred to herein.

Accordingly, information may be available to HDFC Bank, which is not reflected in this material, and HDFC Bank may have acted upon or used the information prior to, or immediately following its publication. HDFC Bank neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and views. Further, HDFC Bank disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.

HDFC Bank House, 1 st Floor, C.S. No. 6 \ 242, Senapati Bapat Marg, Lower Parel, Mumbai 400 013. Phone: (91)-22-66527100, ext 7111, Fax: (91)-22-24900983 \ 24900858

**HDFC Bank is a AMFI-registered Mutual Fund Distributor & a Corporate Agent for Insurance products.**

**Mutual fund investments are subject to market risks, read all scheme related documents carefully.**