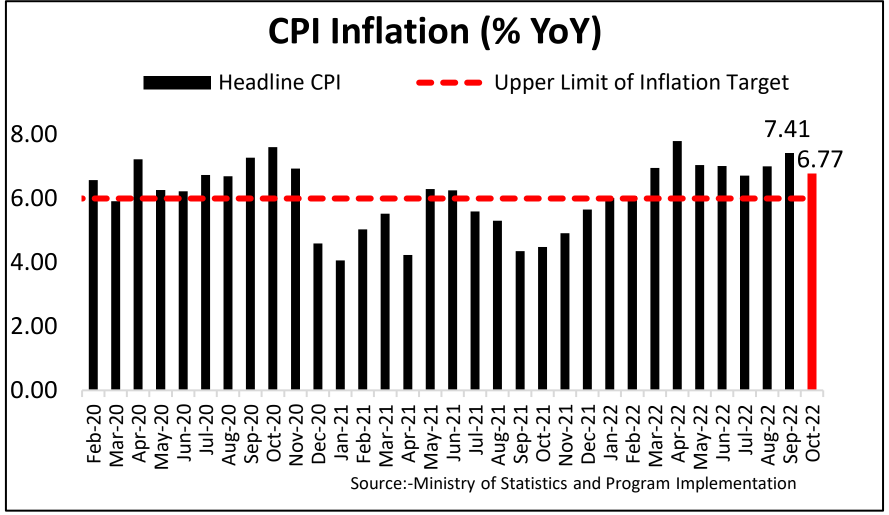
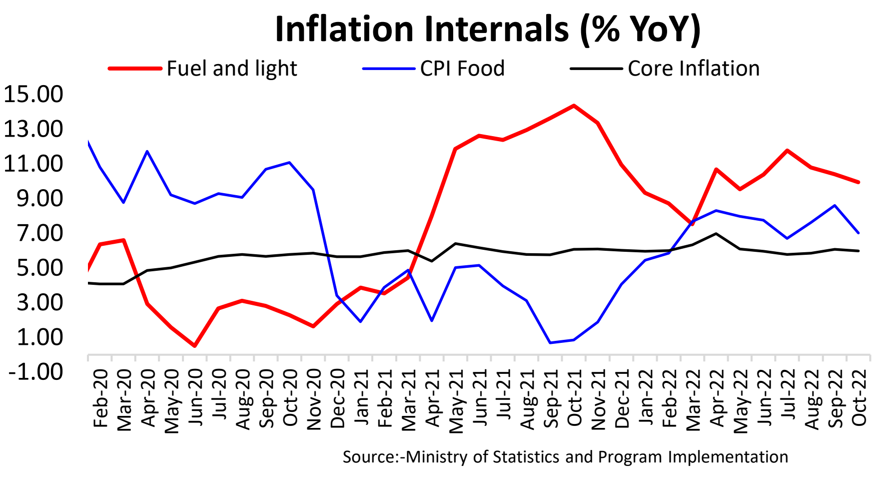
CPI Inflation -October 2022

- **Consumer Price Index (CPI) based inflation** for October 2022 came in at 6.77% YoY, which was lower than the previous month's 7.41% YoY and largely in line with expectations.
- The decline in the headline inflation was led by a decline in food inflation as well as the Core inflation.
- Food Inflation declined to 7.01% YoY in October 2022 from 8.60% YoY in September 2022, led by a sharp decline in vegetable prices on a YoY basis.
- **Core CPI inflation** (ex Food and Fuel but including 'Transport and communication') also declined to 5.97% YoY in October 2022 from 6.07% YoY in September 2022.
- **Expectations:-** While inflation has declined in October 2022, the recent rise in commodity prices if sustained could add to the inflationary pressures. Additionally, the pressure on the INR could also add to the overall inflation through imported inflation. Thus, in the near term we expect inflation to remain elevated.
- **Implication on Monetary Policy:-** Though the inflation data has come in line with market expectations, it continues to remain above the upper end of the RBI's inflation target range. Thus, the RBI is likely to continue with interest rate hikes unless structural decline in inflation is seen.
- **Implication on Markets:-** Bond yields are likely to trade with a volatile bias in the near term and the yield curve could continue to flatten.
- **Fixed Income Mutual Fund Investment Strategy:-** Given the expected volatility and uncertainty and expectations of further flattening of the yield curve, staying invested at the short and the very short end of the yield could be better from risk reward perspective currently. Thus, investors should look at funds oriented towards the shorter end of the yield curve for relative stability 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. 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 who are comfortable with volatility and have a longer investment horizon could look at Dynamic Bond Funds 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.



Source:-Ministry of Statistics and Program Implementation



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