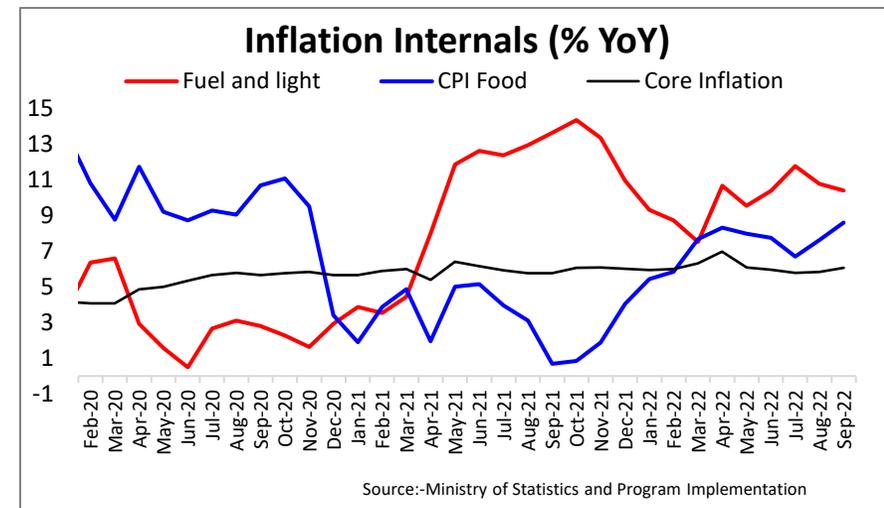
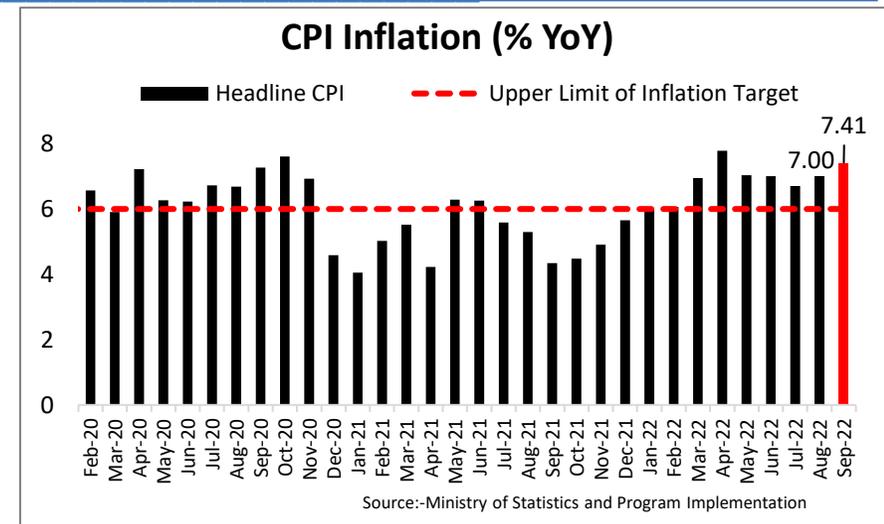


CPI Inflation -September 2022

- **Consumer Price Index (CPI) based inflation** came in higher than expectations of 7.3% YoY and also the previous month's 7% YoY, driven by higher food prices, a sticky Core inflation and low base of last year.
- **Food Inflation** rose to 8.60% YoY, led by sharp rise in prices of vegetables and 'Cereals and products' amongst others.
- **Core CPI inflation** (ex Food and Fuel but including 'Transport and communication') rose to 6.07% YoY in September 2022 from 5.84% YoY in August 2022 with a rise in inflation across most segments barring a few indicating strong demand.
- **Expectations:-** With unseasonal rains having destroyed crops and festival season demand, food inflation is likely to remain elevated in the near term. Low base effect of last year even in October 2022, is another pressure point for the next print.
- Near term retail inflation is expected to remain above RBI's tolerance band of 4%-6%. However in Q4FY23 the inflation prints are expected to start tapering and enter into the RBI's tolerance band.
- **Implication on Monetary Policy:-** Elevated inflation is likely to keep pressure on RBI to remain hawkish and continue with the tightening stance to tame inflation and inflation expectations.
- **Implication on Markets:-** Bond yields are likely to trade in a range with an upward bias in the near to medium term and the yield curve could continue to flatten.
- **Fixed Income Mutual Fund Investment Strategy:-** 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 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.



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