MIRAE ASSET Sharekhan

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Equity

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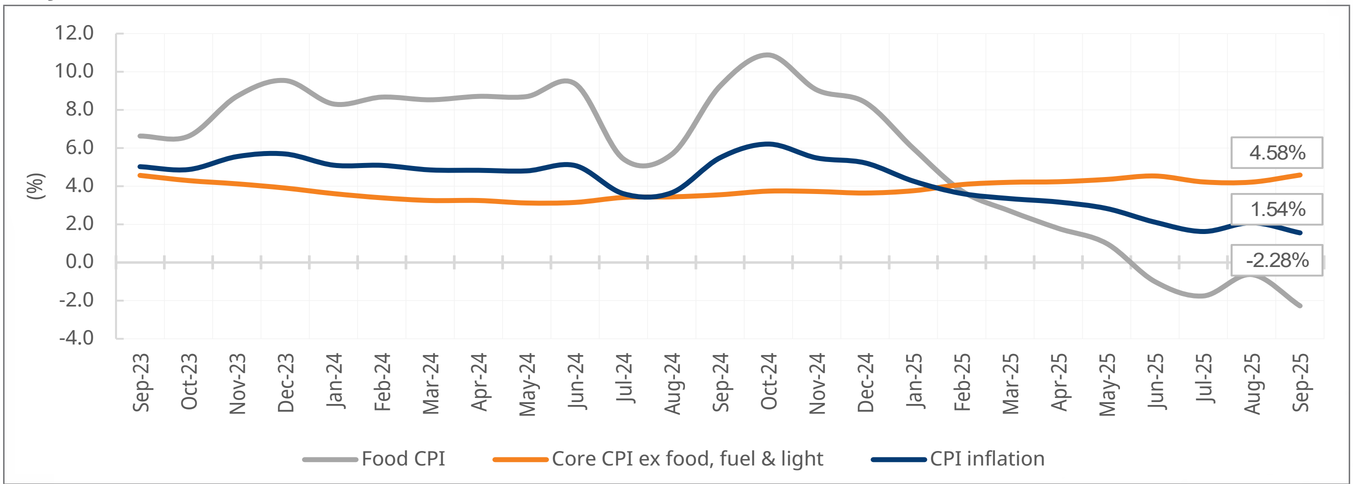
CPI inflation slumps to historical low

Quick Snapshot

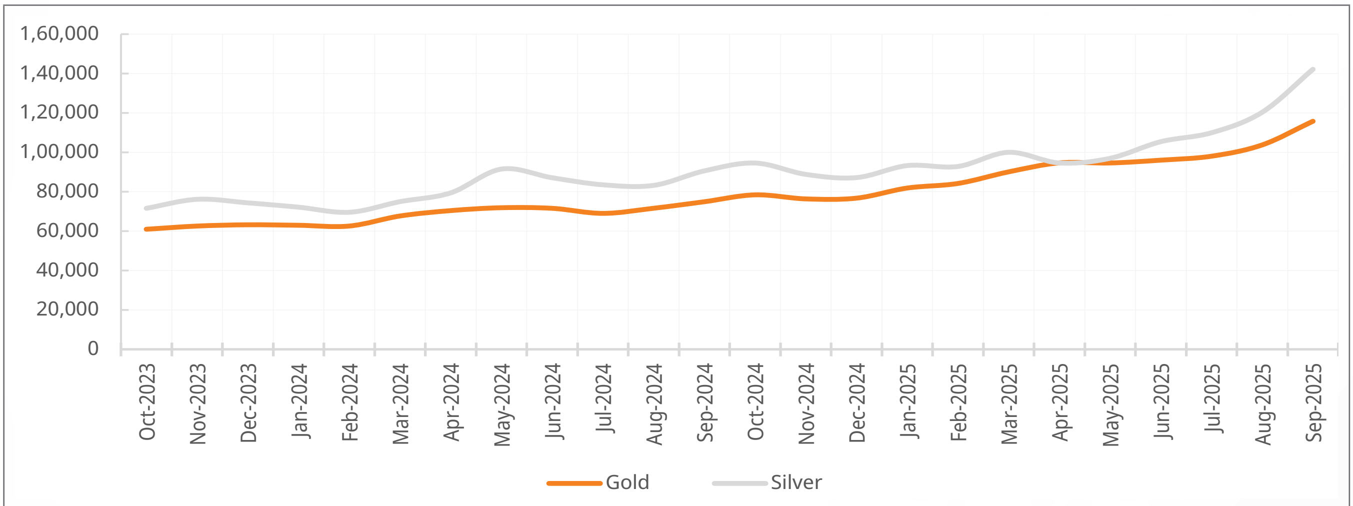
- The benchmark Consumer Price Index (CPI) inflation, plummeted to 1.54% in September 2025 from 2.07% in August, well below the market's 1.7% forecast.
- Core inflation increased to 4.5% y-o-y, led by higher precious metal prices. Gold soared 47% y-o-y (8% m-o-m), while silver rose by 42% y-o-y (10% m-o-m). Excluding gold and other volatile components (e.g., oil), inflation rose 20 bps to 3.2% in September 2025.
- Rural inflation eased sharply by 60 bps to 1.1% y-o-y in September, reflecting a sharp decline in food and fuel pressures.
- Urban inflation also moderated 43 bps to 2.04% y-o-y from the previous month, aligning with broader cooling trends observed in the Consumer Price Index.

Key Inflation Trends



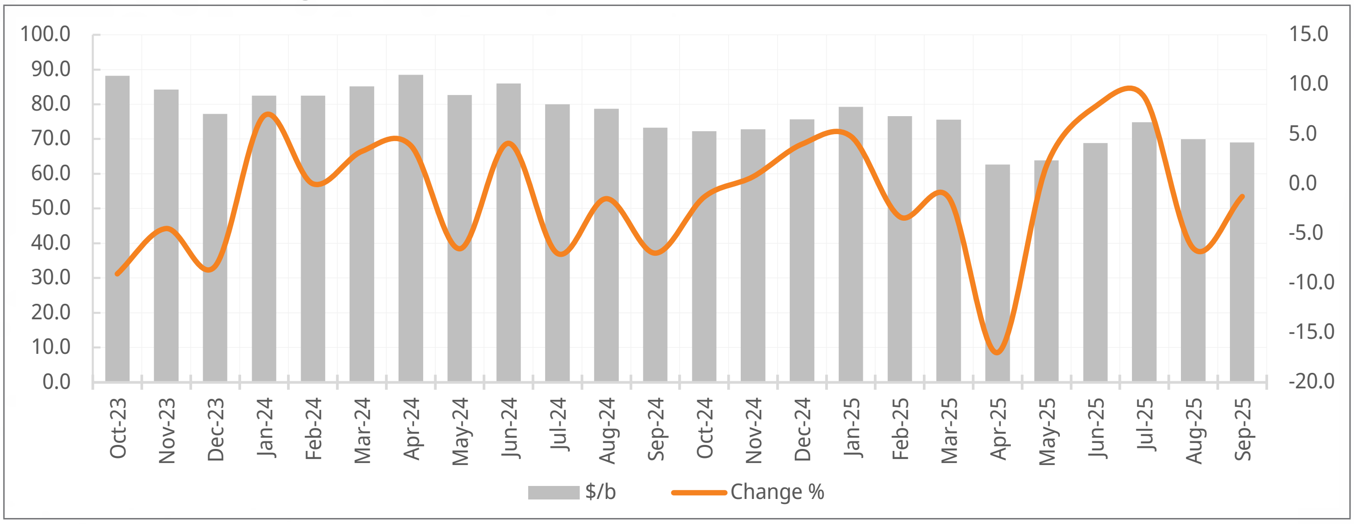
Source: Sharekhan Research, Bloomberg

Gold and Silver Price Chart



Source: Sharekhan Research, Bloomberg

Fuel Prices FY2026 Average



Source: Sharekhan Research, Bloomberg

Inflation Insight

- CPI inflation to 1.54% in September 2025 from 2.07% in August, significantly undershooting the market's anticipated 1.7%, fuelled by a significant contraction in food inflation, recording a year-on-year rate of (-)2.28%, down from (-)0.64% in August and a stark contrast to 9.24% in September 2024 (when CPI was 5.49%).
- The National Statistics Office (NSO) cited a favorable base effect and declining prices of vegetables, pulses, oils and fats, cereals, eggs, fuel and light as primary contributors.
- The Reserve Bank of India (RBI) adjusted its FY25-26 inflation projection downward to 2.6% from 3.1% in its October 2025 monetary policy review.
- The RBI anticipates a benign inflation trajectory in H2 FY26, supported by a robust south-west monsoon, strong kharif sowing, ample reservoir levels, and sufficient foodgrain buffer stocks stabilizing food prices.
- This outlook reinforces the RBI's decision to maintain the repo rate at 6.5%, balancing growth and inflation.

Urban Trends and Sectoral Insights

- Urban headline inflation eased notably to 2.04% in September 2025 from 2.47% in August, reflecting broader price stabilisation. The urban housing inflation rose to 4.0% y-o-y in September 2025, up from 3.1% y-o-y in the prior month, driven by increased construction costs and rental pressures.
- The fuel and light component saw its y-o-y inflation rate decline to a provisional 1.98% from 2.32% in August, aiding the overall CPI slowdown.
- These trends underscore cooling of inflationary pressures, though vigilance remains amid global uncertainties and domestic supply dynamics.

Outlook

- In our view, the RBI's MPC members will likely prefer to monitor the impact of monetary policy transmission and the liquidity boost on credit-driven demand sectors such as real estate and auto.
- RBI and the government have bolstered the economy with proactive measures: a 100 bps rate cut to 6.5%, tax slab hikes, improved bank liquidity, and GST 2.0 rationalization. These initiatives boost disposable income, fuelling a spending revival and is expected to stimulate credit growth in the remaining months of FY26.

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