

Food driven broad based comfort

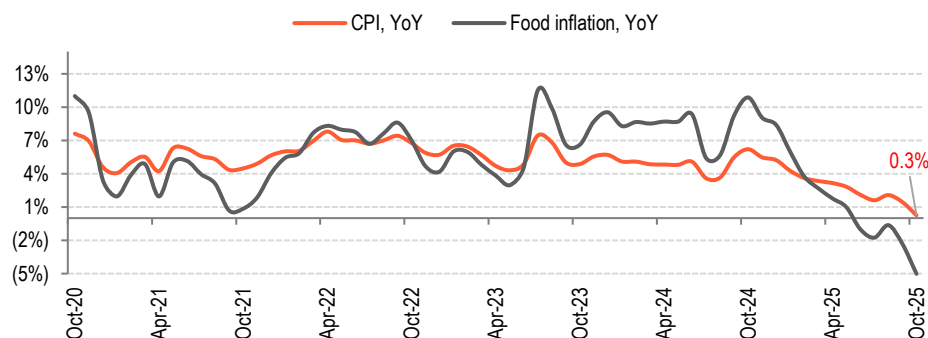
CPI got the sigh of relief in Oct'25 as well, broadly led by food. The major hand holding came from sharper pace of vegetable deflation. CPI excluding vegetables is also at its lowest since Sep-19 at 3%. This month witnessed broad based deceleration in food inflation supported by better supply dynamics. For core inflation, we expect the usual gold driven volatility to continue. Excl gold, core got the comfort of lower inflation in categories where GST rate cut has taken place such as clothing and footwear and selected items of household goods and services. Nov'25 is expected to show the fuller impact of pass through. For now, we expect CPI to undershoot RBI's target of 2.6% for FY26. Our forecast is ~2.4-2.5% with risks tilted to the downside. However, one needs to be watchful of the unseasonal rains in major (Tomato, Onion and Potato) TOP producing States. The arrival statistics till date yet haven't reflected any strain of the same.

Food continued to support CPI

CPI at its record low in the 2011-12 series: CPI inflation reading came in at 0.3% in Oct'25 compared to 6.2% in Oct'24, on YoY basis (BoB est.: 0.4%). The below 4% headline print is now at its 9-month stretch. This is comforting from the monetary policy standpoint. Food inflation experienced a sharp deflation of -5% in Oct'25 compared to 10.9% double-digit level seen in Oct'24. A favourable statistical base also acted in favour of dragging this month's print. Among 10 broad items, 9 of them showed moderation in inflation. The major comfort came from vegetables whose deflation has been the sharpest since Jan'12. Other than this inflation in cereals, meat and fish and eggs are running at below 1% level. Oils & fats, albeit a rise in international price is showing significant degree of softening, speaking of policy alignment in right directions. The outlook for food inflation seems favourable at the current juncture with supply dynamics remaining in favour. However, there might be some correction in the deflation trajectory in the coming months with unseasonal rains hitting major Tomato, Onion and Potato (TOP) producing States such as Maharashtra and Gujarat.

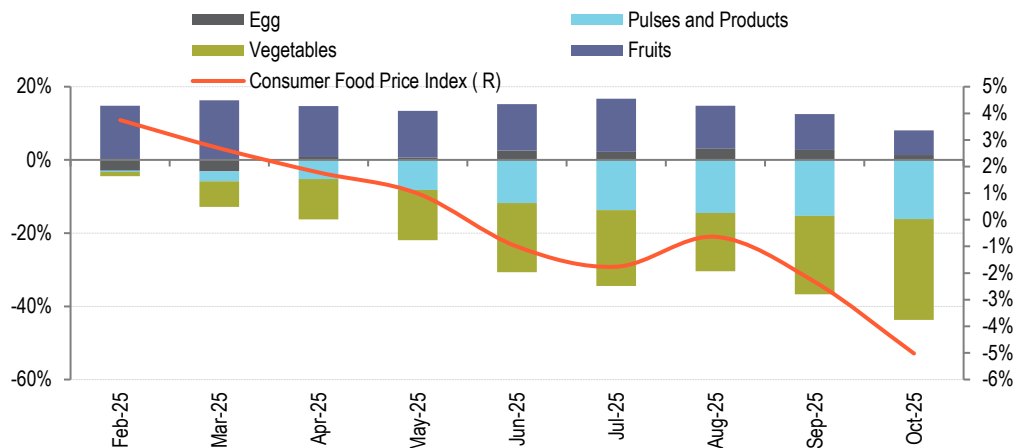
The sequential picture of food inflation showed some build up especially in fruits and vegetables. However, the loss of momentum in categories such as pulses, cereals and protein-based items far outweighed. On a seasonally adjusted basis, consumer food price index declined by -1.4%, MoM, in Oct'25. Thus, disinflation pace is getting entrenched even on a seasonally adjusted basis.

Figure 1: Food is providing the desired band of comfort to CPI



Source: CEIC, Bank of Baroda Research

Figure 2: ...Vegetables, pulses still in considerable deflation



Source: CEIC, Bank of Baroda Research

Core CPI (excl. food and fuel) is at 4.4%, on YoY basis. However, Core excl. Gold Pan Tobacco and Gold on the other hand, is much lower at 3.0%. Thus, volatility of international gold price (10.7% & 50.9%, MoM & YoY, respectively) has contributed to some stickiness of core inflation. Core services inflation is at 3.1%, 30bps lower compared to Sep'25 print. This may partly reflect the GST pass through. Clothing & footwear also had come down, where some rejigging of rates to lower slabs in GST reform has been done. Other components of health, transport and communication and recreation and amusement also remained comforting.

The sequential picture also mirrored the same trend. The lower GST rates pass through are visible in clothing, footwear and moderate household goods and services inflation. Thus, front loading of festive demand in terms of the price effect was capped. For housing, some momentum was seen for house rent, garage rent component.

Going forward, gold-driven volatility would continue to keep core inflation in the 4.5% range. Further with marriage season in focus, the demand for gold would be on the higher side. The broader comfort from GST, especially in Q3 with higher passthrough to consumers, will somehow negate the impact on overall core inflation.

Fuel and Light inflation reading came in at 2% on YoY basis and some sequential momentum was witnessed due to some stickiness of Kerosene prices.

Way forward: Headline CPI continued to create space for monetary policy easing. CPI excluding vegetables is also running at its lowest since Sep-19. However, at this current juncture, monetary policy decision is expected to be contingent on the extent of transmission by banks. On fresh deposits we have seen fuller extent of transmission with fresh rupee term deposits for PSBs falling by 96bps and for PVBs by 99bps, almost aligned with the 100bps rate cut by RBI in the current cycle. However, for fresh rupee loans WALR it has fallen by 88bps for PSBs and for PVBs by 90bps. Thus, there is scope for further transmission to WALR.

On inflation front, albeit having the space, we expect RBI will be more watchful of the evolution of Q4 print before taking any call on policy rate action. As of now, the arrival statistics do not show any

impact of unseasonal rains on the statistics of TOP vegetables. However, Nov'25 data is expected to shed more light on the same. The GST impact is also visible in lower inflation of clothing and footwear and household goods and services category of inflation in which major rejigging of GST to lower rates have happened. The coming months would give clarity on the extent of pass through of GST on CPI, as it would also incorporate the frontloading of demand, which has been slightly on withhold in the preliminary months to get clarity on the extent of price reduction of various goods post GST 2.0. For now, we believe the tail of CPI is heavily tilted on the downside. Dec quarter generally coincides with arrival of fresh harvest for vegetable, and it has the usual seasonal downtrend.

Our in-house BoB ECI is running at -3.8% on YoY basis for the first 11 days of Nov'25. Thus, we expect CPI to undershoot RBI's projection of 2.6% for FY26. Our forecast of is expected to be ~ 2.4-2.5%.

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