

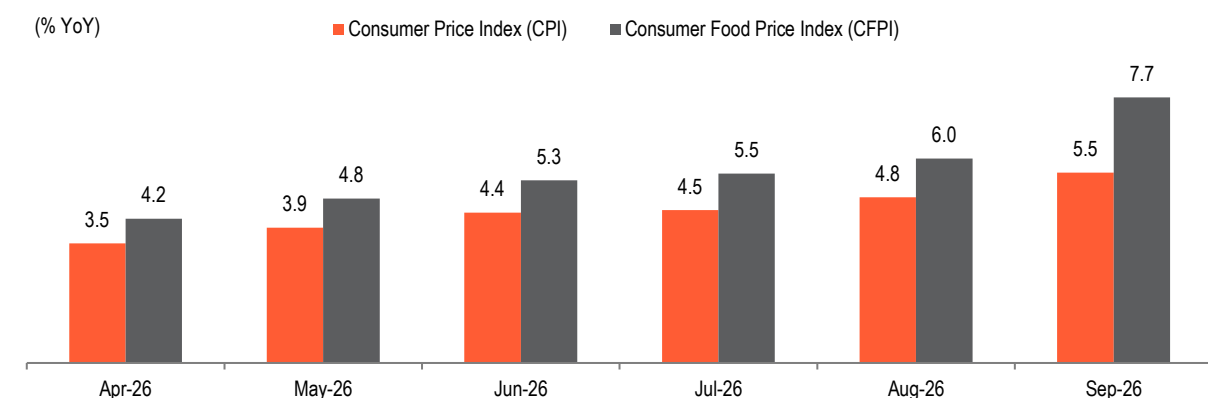
CPI surges to near 2-year high

CPI jumped up in Sep'26 bearing the impact of higher food inflation. Food inflation rose to 7.7% and core inflation inched up further 4.3%. The higher inflation has also been reflected in the transport component along with clothing & footwear, health, and in the inflation of restaurant and accommodation services component. Going forward, we believe that upside risks to core will intensify as the impact of pass through remains to be seen. We expect CPI inflation to average about 5-5.2% in FY27, led by weather related vagaries and the lingering West Asia conflict, which could keep crude prices elevated. This in turn is creating space for more rate hikes by RBI in the near term.

What has driven CPI in Sep'26: CPI inflation reading came in at 5.5% in Sep'26 compared to 4.8% in Aug'26, on YoY basis. The major upward momentum in CPI was visible from food inflation and transport component. Consumer food price index rose by 7.7% in Sep'26, around 170bps higher compared to Aug'26. The fine print of food shows that onion inflation is significantly elevated at 108% in Sep'26 from 48.8% in the previous month. Even garlic prices were quite high during the same period. Potato prices noted slower pace of deflation (-11.5% from -13.2%). Even pulses (4.7% from 3.6% in Aug'26) and other components of food inflation, such as edible oil, cereals, sugar, milk, other dairy products & eggs, fruits and nuts and ready-made food noted significant price pressure. Sequentially too, vegetable inflation was higher led by onion prices.

Globally food prices showed some concerns. The food price index edged up, with uptick noted in cereal and edible oil prices. Within cereals, wheat prices inched up due to logistical constraints in the Black Sea regions. Even global maize prices were higher due to lower-than-expected yields from US and lower export availability from Brazil. Edible oil too noted acceleration for the same period led by higher price of palm oil. The threat of super El Nino along with ongoing supply chain disruptions, is expected to push food prices higher in the near term. Recognizing the same, even RBI had recently revised its inflation forecast upwards to 5.2% for FY27 and is expected to peak in Q3FY27 at 6%.

Fig 1: Inflation inched up led by food



Source: CEIC, Bank of Baroda Research

Core inflation higher at 4.3%.

CPI excl. food and fuel was higher at 4.3%. Within core, the main driver has been the transportation component which noted an upswing with prices rising to 5% in Sep'26 from 4.6% in Aug'26. Restaurant

and accommodation services are also pushing up core inflation considerably higher. Apart from this, clothing & footwear has inched up to 3.9% in Sep'26 from 3.6% in Aug'26, on YoY basis. On a sequential basis as well, it went up by 0.6% in Sep'26. Thus, demand is holding ground. Even household equipment and routine household maintenance of CPI went up to 3.1% in Sep'26 from 2.7% in Aug'26.

Core inflation saw some momentum in its demand side component this month. Thus, underlying demand pressure needs to be watched. Transportation inflation needs further monitoring. On the other hand, inflation in personal care and effects decelerated to 13.8% in Sep'26 compared with 15.2% in Aug'26, largely reflecting the impact of lower global prices of gold and silver.

Housing, Water, Electricity, Gas & Other Fuels rose to 2.7% in Sep'26 from 2.6% in Aug'26, even as LPG prices were steady in the same period.

Way forward: Headline CPI has been now above the RBI's target of 4th straight month. The upside risks are clearly visible on both food and fuel inflation end. The Southwest monsoon this year was deficient, which resulted in lower kharif acreage. This along with lower reservoir level and strengthening El Nino conditions in Q3FY27 is expected to drive food prices higher. Moreover, the ongoing West Asia conflict and rising crude oil prices is also expected to add pressure on fuel inflation in the near term. Furthermore, the second-round pass-through also needs to be closely monitored.

Our estimate for CPI is to settle between 5.0-5.2% in FY27 .

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