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Dipanwita Mazumdar
Economist

Food inflation will continue to drive CPI higher

BoB Essential Commodities Index (BoB ECI) rose by 4.8%, on YoY basis, and sequentially it picked up by 1.7% in Aug'26. The pace of increase in BoB ECI is still modest compared to last month. The build-up of prices, however, requires monitoring. For the first 8 days of Sep'26, BoB ECI rose at a higher pace. Further, Onion price trajectory is again on an uptrend. Its Sep trajectory is even steeper than Aug. Among major developments in prices of the month, has been the steep increase in retail prices of sugar (weight in CPI is 1.42%). Globally as well, sugar prices are elevated on account of adverse weather conditions and robust demand. This month also deserves mention in terms of significant pickup in global food as well as metal prices due to escalated tension between US and Iran. The impact of the same will be more on WPI compared to CPI in terms of the weighing of items. On account of higher international gold prices, core inflation is likely to see some pickup.

Against this backdrop, we expect CPI to settle at 5% in Aug'26, with risks tilted to the upside. Core is expected to be ~4% (excluding food and fuel).

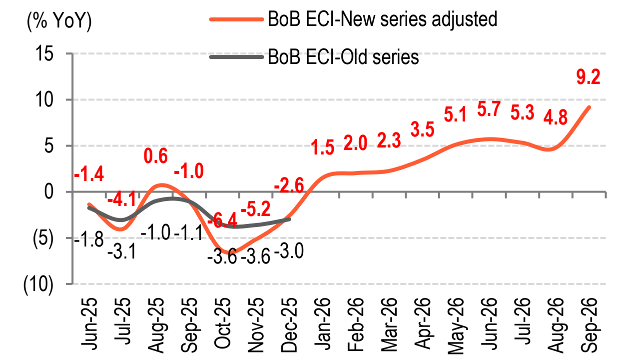
To get an idea about the calculation of the index, refer to our previous edition of BoB ECI.

Price picture using BoB Essential Commodity Index-Adjusted for new base year:

- BoB ECI rose by 4.8% in Aug'26, on YoY basis. Among 20 items, 15 items witnessed increase in inflation rate. However, the buildup in inflation compared to last month has been modest. The sharpest increase was visible for Sugar prices which jumped up by 19.7% on YoY basis, amidst reports of weather-related impact on production, reduction in global supplies and rising festive demand. It is to be noted that the sowing of sugarcane is also a tad bit lower compared to same period of last year (-0.7%). Other than sugar, Onion prices also registered a sharp YoY pickup of 40.1% led by an unfavorable base. Some components of pulses such as Tur and Arad also rose at a modest pace. Vanaspati, Soya and Sunflower oil within edible oils also rose a tad bit. Among other miscellaneous items, retail price of Gur has also seen considerable increase, due to rising price of sugar. Retail price of salt also inched up.
- **Sequential picture:** BoB ECI rose at the same pace as seen last month by 1.7% in Aug'26. The sequential trend broadly mirrored the YoY trend, except for few items. Sequentially as well, retail price of sugar rose at the sharpest pace by 15.4%. The most noteworthy sequential moderation was visible for Tomato and potato prices. Tomato prices fell by -7.3% and potato prices remained flat against three months of consecutive increase. Some course corrections in vegetable prices were comforting, especially at a time when weather-related uncertainties posed considerable risk on supply side dynamics.

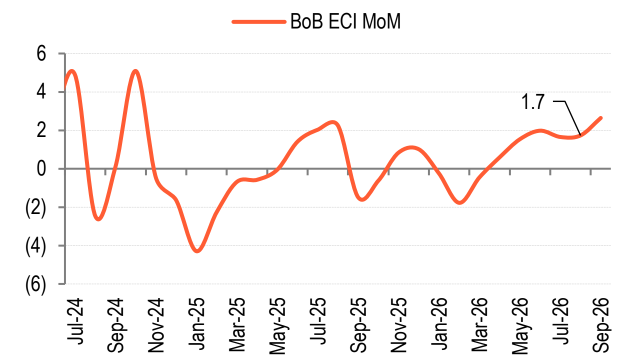
- **Sep'26 trend:** For the first 8 days, BoB ECI rose at a higher pace compared to Aug'26 by 9.2%, on YoY basis. On a MoM basis, it has risen by 2.6%.

Figure 1: BoB ECI rose at a modest pace in Aug'26, the Sep'26 run rate is far sharper…



Source: CMIE, Bank of Baroda Research, Note: For Sep'26: *for the first 8 days

Figure 2: …On sequential basis (MoM), it picked up by 1.7%



Source: CMIE, Bank of Baroda Research, Note: For Sep'26: *for the first 8 days

Table 1. Food inflation is facing upside risks

Retail Price of major essential commodities, (% YOY)	Jan-26	Feb-26	Mar-26	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Sep-26*
Cereals									
Rice	-0.2	0.2	0.2	0.5	1.2	2.1	4.5	6.6	7.6
Atta (Wheat)	-1.3	-2.1	-2.6	-1.6	0	0.5	0.8	1.1	0.9
Edible Oils									
Mustard oil (Packed)	10	10.4	10.3	10.6	11.3	11.6	9	5.8	6.8
Soya oil (Packed)	2.5	3.4	4.4	7.8	8.6	10.5	11.5	11.7	12.5
Sunflower oil (Packed)	8.9	11.4	13.1	15.2	15.4	16.8	17.9	18.4	18.7
Groundnut oil (Packed)	-2.1	0.2	3	4.5	6.7	8.1	9.2	9.9	11.1
Vegetables									
Tomato	50.7	41.9	33.3	35.8	52.8	31.2	-1.7	-27.7	-7.7
Onion	-27	-24.5	-25	-16.2	-5.6	2.3	20	40.1	84.7
Potato	-23.5	-13.3	-12.2	-14.5	-14.5	-13.9	-11.7	-11.4	-9.8
Pulses									
Urad dal	-7.5	-4.7	-2.2	-0.9	0.6	2.2	4.3	6.6	7.5
Moong dal	-2.9	-2	-1.4	-0.6	-0.2	0.3	0.8	1.3	1.2
Masoor dal	0.2	0.5	0.9	1.4	1.8	2	2.2	1.2	1.1
Gram dal	-7.5	-5.2	-3.5	-2.4	-2	-0.8	-0.2	-0.2	0.7
Tur/Arhar dal	-24	-14.9	-9	-5.3	-3	-0.2	2.4	4.9	7.0

Miscellaneous									
Salt pack	-1.8	0.5	1.4	1.4	1.9	1.9	2.8	4.7	3.8
Vanaspati (Packed)	5.8	4.7	3.4	4.2	3.9	4.7	5.4	6.2	7.0
Gur	4.6	4.8	5.6	5.2	5.7	5.4	5.9	10.8	18.3
Milk	0.9	1.2	1.4	1.5	1.7	2.4	2.7	2.9	3.1
Sugar	3.8	2.9	1.8	1.5	1.7	2	4.4	19.7	33.0
Tea loose	-0.2	0.2	0.1	0.9	1	1.3	1.4	1.1	1.4

Source: CMIE, Bank of Baroda Research, Note: * for the first 8-days of Sep'26

Food inflation needs to be monitored

We expect CPI to be at ~5% in Sep'26. Major risks emanate from food inflation which has seen broad based increase in Jul'26. Especially in Aug'26, the arrival of TOP (Tomato, onion and potato) fell by 6.3% sequentially. Hence supply-side dynamics needs to be closely monitored, going ahead. Retail prices of Tomato and Potato have remained in favour. However, any reversal is possible. Sep'26 is already showing pressure especially the Onion price trajectory.

On rainfall, 55% of the States have remained in normal. However, 43% of States remained in deficit. Actual area sown as percentage of normal area sown is 98.4% as of 4 Sep which was 100.7%, in the same period of previous year. It will be crucial to watch how the sowing numbers and impact of weather conditions will feed into inflation data. We expect risks are tilted to the upside.

How are Global prices moving?

World Bank data has shown that oil prices again gained its sequential momentum owing to escalated military conflict between US and Iran.

- Crude oil prices on average rose by 5.8%, sequentially in Aug'26and by 26.5%, on YoY basis.
- Natural gas prices also remained elevated in Europe.
- Globally cereal prices are also elevated. FAO report showed increase in cereal index led by robust demand and weather-related concerns. Further, the report pointed out that disruption in Black Sea exports has led to higher prices of wheat.
- International edible oil prices also increased in Aug'26.
- Meat prices are also escalated due to higher temperature impacting animal growth.
- FAO report also pointed to a steep increase in its sugar price index due to weather-related vagaries impacting production in European Union and in majority of the countries in Asia.

This month also saw increase in prices of basic and precious metals.

- Copper prices rose the most followed by Zinc on a sequential basis.
- For Copper, higher tariff fears by the US kept prices higher.
- For Zinc, reports of slowdown in mine production and robust demand from infrastructure and manufacturing sector might have contributed to the rise.
- Among precious metals, gold and silver prices were also tilted to the upside.

We believe that the heightened prices of basic metals are likely to impact WPI manufacturing more compared to CPI. However, higher gold prices will feed into core inflation. We expect core (excluding food and fuel) to settle at 4% in Aug'26, on YoY basis. Core excl. pan, tobacco, gold, silver and precious metals is also likely to witness some pressure in line with buoyant demand conditions of the economy. We expect it to be in the range of 2.7-2.9%.

Annexure 1:

Table 1: Globally prices are elevated as war related concerns reignited

Components	MoM change, Aug'26 (%)	YoY change, Aug'26 (%)	Change since Feb'26
Crude Oil			
Crude oil, average	5.8	26.5	24.1
Crude oil, Brent	9.0	33.3	27.8
Crude oil, Dubai	3.9	17.4	16.5
Crude oil, WTI	4.2	29.0	28.0
Natural Gas			
Natural gas, US	-4.2	-4.8	-23.3
Natural gas, Europe	16.9	89.3	87.8
Liquefied natural gas, Japan	0.6	18.2	23.1
Edible Oils			
Groundnut oil	8.4	10.1	1.8
Palm oil	1.5	8.9	7.5
Soybean oil	-1.2	31.6	27.8
Rapeseed oil	-0.9	21.5	15.6
Sunflower oil	-0.3	17.1	3.3
Cereals			
Rice	0.6	20.8	15.2
Wheat	4.4	37.5	21.1
Misc.			
Urea	-2.5	-23.2	-17.4
Basic Metals			
Aluminium	2.8	25.2	6.1
Copper	5.8	48.1	10.6
Lead	0.7	-4.7	-3.2
Tin	4.6	63.7	13.7
Nickel	0.6	12.1	-2.5
Zinc	7.7	38.9	16.6
Precious Metals			
Gold	8.3	31.0	-12.1
Platinum	9.7	32.5	-16.7
Silver	11.2	71.2	-20.1

Source: World Bank, Bank of Baroda Research

Table 2: Arrival statistics and rainfall status

Arrival, in tonnes	Apr-26	May-26	Jun-26	Jul-26	Aug-26	Rainfall Status (Cumulative- 1st Jun till 8 Sep'26)
			Tomato			
Andhra Pradesh	21,944	55,465	1,36,682	1,64,744	64,509	**Deficit**
Gujarat	20,659	20,471	22,229	26,014	25,627	Normal
Karnataka	32,014	47,296	1,04,571	1,92,262	1,39,517	**Deficit**
Madhya Pradesh	3,710	4,432	5,975	9,583	9,201	Normal
Odisha	na	na	na	na		Normal
			Onion			
Gujarat	2,29,410	96,936	43,105	44,393	40,158	Normal
Karnataka	98,453	95,687	80,123	85,514	72,303	**Deficit**
Madhya Pradesh	1,23,547	2,07,886	2,10,972	3,52,604	3,83,205	Normal
Maharashtra	5,85,624	7,92,134	8,59,899	8,30,978	7,37,642	Normal
Rajasthan	50,509	38,562	42,250	36,755	30,050	**Deficit**
			Potato			
Bihar	75		14269.39	16262.15	14296.35	**Deficit**
Gujarat	51,030	48,972	48,635	88,988	52,471	Normal
Madhya Pradesh	54,434	38,988	24,586	29,528	22,567	Normal
Uttar Pradesh	6,50,100	6,28,844	6,76,728	8,02,350	8,36,831	Normal
West Bengal	60,572	54,224	59,142	62,091	60,369	Normal

Source: Upaj statistics, IMD, Bank of Baroda Research

For further details about this publication, please contact:

Economics Research Department
Bank of Baroda
chief.economist@bankofbaroda.com