

Sep-26 headline inflation rose to a 21-month high of 5.54%, driven by higher food inflation (7.73%) and an unfavorable base effect, while core inflation also ticked up to 4.3%. While headline inflation momentum was flat at 0.7% mom, food price momentum picked up to 1.3%. Price pressures broadened, with the share of the basket above 4% yoy at 46% (vs 37% prior). Core inflation categories saw largely softer momentum; however, certain categories (restaurant and accommodation services, and information and communication equipment) are running at an annualized pace >10%. We maintain FY27E headline inflation at 5.2%, with food/core at 6.9%/4.2%, respectively. The current RBI hiking cycle is likely to see at least 50bps of further hikes (25bps each in Dec-26 and Feb-27), with inflation pressure building up. The key determinant of this hiking cycle's duration will be whether price pressures become more broad-based from current levels.

### Headline inflation at 5.54% with diffusion above 4% picking up

Headline CPI inflation rose to a 21-month high of 5.54% in Sep-26 (prior: 4.82%; Emkay estimate: 5.57%), with food inflation picking up to 7.73% yoy (prior: 5.95%). However, monthly momentum stayed flat at 0.7% mom, with the 3-month moving average at 0.8%. However, food inflation momentum picked up to 1.3% mom (prior: 1.2%), but with the 3-month moving average now at 1.5% vs 1.7% previously. The broadening of inflation pressures continued, with 46% of the index (by weight) logging >4% yoy in Sep-26, and 27% at >6% yoy (vs 37% and 25%, respectively, in Aug-26). Food momentum picked up despite a moderation in momentum for sugar (2.9% mom vs 7.9% prior, 13.8% yoy), as several major categories (vegetables, milk, eggs, and meat and fish) saw momentum rising. Energy inflation stayed muted (0.1% mom), as most categories were benign, except CNG prices (2.5% mom, 2.3% prior).

### Core inflation rises to 4.3%, but momentum dips

Core inflation (excluding transport fuels) rose to 4.3% (prior: 4.2%), but with lower monthly momentum (0.4% mom vs 0.5% prior). This was largely due to softer momentum across major categories (personal care, education, information and communication, and transport), while gold and silver jewelry prices also saw slower momentum (0.9% and -0.1% mom, respectively, vs 3.7% and 2.2% prior). However, price pressures continued for certain categories. Restaurant and accommodation services was at 1% mom (vs 0.8% prior), with the FY27TD average at 1.3% mom (16.5% annualized pace). Information and communication equipment was at 1.5% mom (vs 1% prior; 6M annualized pace of 11.9%), reflecting higher commodity and chip prices. Core inflation excluding precious metals also picked up to 3.2% yoy (vs 2.9% prior), but with lower monthly momentum at 0.4% (vs 0.5% prior).

### FY27E headline inflation at 5.2%, with El Niño effects adding upside risk

We are currently tracking Oct-26 headline inflation at 6%, as the base effect remains unfavorable, even as food price momentum could moderate sharply. Our core inflation and core excluding precious metals inflation forecasts for the month are at 4.5% and 3.6%, respectively, with a festive-led uptick in gold and silver jewelry prices, along with a modest increase in momentum across core inflation categories. We maintain FY27E headline inflation at 5.2%, with food and core CPI forecasts also unchanged at 6.9% and 4.2%, respectively. The poor monsoon and potential hit to *kharif* harvests add upside risk to our forecasts.

### At least 50bps further rate hikes expected as inflation pressures build up

With the RBI having kicked off a rate hiking cycle last week, we expect at least 50bps of further hikes (with another 25bps each in Dec-26 and Feb-27). With 3QFY27E headline inflation at ~6%, concurrent real rates will stay negative even with rate hikes. We reckon that beyond oil-related input costs, adverse weather is adding to food-price pressures, with El Niño potentially persisting into 2027. Cyclical production swings and greater crop diversion to biofuels add further supply-side risks. Meanwhile, core inflation is likely to rise in 2H on base effects, with second-round pressures an added risk as higher energy and commodity costs feed into output prices. The widening WPI-CPI gap also points to latent price pressures. With inflation set to rise in coming quarters, the key determinant of the rate hike cycle's duration will be whether price pressures become more broad-based from current levels.

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**Exhibit 1: Headline inflation rose to 5.5% in Sep-26, led by higher food inflation**

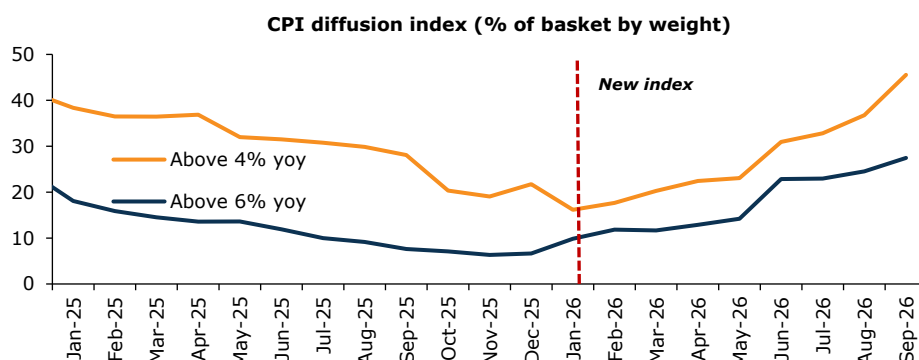
| CPI (yoy, %)                               | Sep-26     | Aug-26     | Jul-26     | Jun-26     | May-26     | Apr-26     | Sep-25     |
|--------------------------------------------|------------|------------|------------|------------|------------|------------|------------|
| Food and Beverages                         | 7.4        | 5.7        | 5.2        | 5.1        | 4.5        | 4.0        | (0.9)      |
| Paan, Tobacco, and Intoxicants             | 4.8        | 4.7        | 4.8        | 4.8        | 4.8        | 4.8        | 2.8        |
| Clothing and footwear                      | 3.9        | 3.6        | 3.4        | 3.2        | 3.0        | 2.8        | 2.7        |
| Housing, utilities, and fuels              | 2.7        | 2.6        | 2.2        | 2.0        | 1.7        | 1.7        | 2.7        |
| HH furnishing, equipment, and maintenance  | 3.1        | 2.7        | 2.4        | 2.2        | 1.9        | 1.6        | 2.5        |
| Health                                     | 1.4        | 1.3        | 1.3        | 1.4        | 1.5        | 1.6        | 4.2        |
| Transport                                  | 5.0        | 4.6        | 4.4        | 4.3        | 1.8        | (0.0)      | -          |
| Information and communication              | 2.4        | 2.0        | 0.6        | 0.4        | 0.3        | 0.5        | -          |
| Recreation, sport, and culture             | 2.2        | 1.7        | 1.6        | 1.7        | 2.0        | 2.1        | 2.2        |
| Education services                         | 3.9        | 3.7        | 3.7        | 3.4        | 3.0        | 3.1        | 3.4        |
| Restaurants and accommodation              | 9.4        | 8.4        | 7.7        | 6.9        | 5.7        | 4.2        | -          |
| Personal care, social protection, and misc | 13.7       | 15.2       | 14.8       | 16.7       | 18.5       | 17.7       | 17.4       |
| <b>Headline CPI</b>                        | <b>5.5</b> | <b>4.8</b> | <b>4.5</b> | <b>4.4</b> | <b>3.9</b> | <b>3.5</b> | <b>1.4</b> |
| <b>Core CPI</b>                            | <b>4.3</b> | <b>4.1</b> | <b>3.9</b> | <b>3.9</b> | <b>3.9</b> | <b>3.7</b> | <b>3.2</b> |
| <b>Core CPI (ex precious metals)</b>       | <b>3.2</b> | <b>2.9</b> | <b>2.7</b> | <b>2.5</b> | <b>2.4</b> | <b>2.2</b> | <b>2.5</b> |

Source: CEIC, Emkay Research; Note: Data before Jan-26 is an extrapolation per the new CPI 2024 series weights; core CPI is excluding food and beverages, HH energy, and transport fuels

**Exhibit 2: Food prices continue to move higher across most major categories**

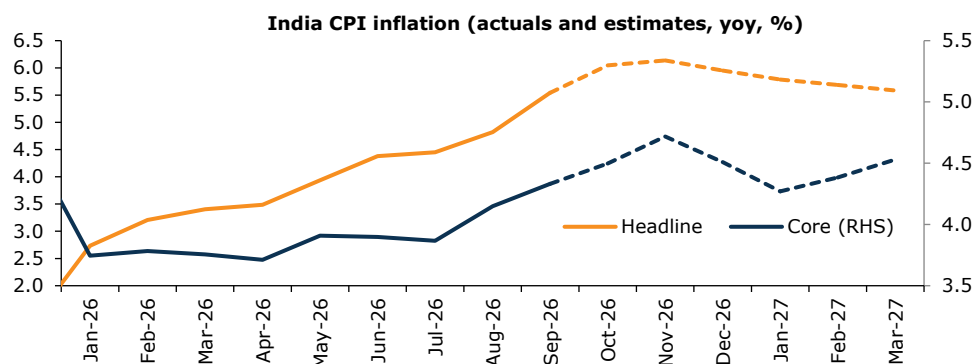
| CPI Food (yoy, %)                  | Sep-26      | Aug-26      | Jul-26      | Jun-26     | May-26     | Apr-26     | Sep-25        |
|------------------------------------|-------------|-------------|-------------|------------|------------|------------|---------------|
| <b>Food</b>                        | <b>7.7</b>  | <b>6.0</b>  | <b>5.5</b>  | <b>5.3</b> | <b>4.8</b> | <b>4.2</b> | <b>(1.9)</b>  |
| Cereals                            | 3.9         | 2.8         | 1.7         | 0.9        | 0.3        | (0.2)      | 2.3           |
| <i>Meat and fish</i>               | <i>8.5</i>  | <i>10.8</i> | <i>13.0</i> | <i>9.1</i> | <i>8.9</i> | <i>9.6</i> | <i>2.5</i>    |
| Meat                               | 8.7         | 12.0        | 15.3        | 9.7        | 9.5        | 10.1       | -             |
| Fish and seafood                   | 7.9         | 8.2         | 7.9         | 7.7        | 7.5        | 8.6        | -             |
| Milk and eggs                      | 5.1         | 4.8         | 4.8         | 4.1        | 3.3        | 3.1        | -             |
| <i>Milk and milk products</i>      | <i>4.9</i>  | <i>4.4</i>  | <i>4.2</i>  | <i>3.9</i> | <i>3.1</i> | <i>3.0</i> | <i>2.6</i>    |
| Eggs                               | 8.7         | 11.1        | 12.5        | 6.5        | 5.5        | 5.3        | 2.6           |
| Oils and fats                      | 8.3         | 7.8         | 8.5         | 9.7        | 9.5        | 9.2        | 18.5          |
| Fruits and nuts                    | 10.8        | 9.6         | 8.3         | 8.6        | 8.2        | 7.9        | 8.6           |
| Vegetables and pulses              | 9.2         | 1.6         | 1.3         | 4.4        | 4.3        | 2.3        | -             |
| <i>Vegetables</i>                  | <i>10.8</i> | <i>1.1</i>  | <i>1.0</i>  | <i>5.6</i> | <i>6.1</i> | <i>3.8</i> | <i>(19.8)</i> |
| Pulses                             | 4.7         | 3.6         | 2.7         | 1.4        | (0.1)      | (1.7)      | (14.8)        |
| Sugar, desserts, etc               | 13.8        | 10.9        | 3.4         | 2.4        | 2.1        | 2.1        | 3.6           |
| Ready-made food and other products | 10.0        | 9.6         | 9.0         | 6.7        | 5.3        | 3.8        | (0.8)         |
| Spices                             | 13.4        | 13.0        | 12.2        | 8.9        | 6.8        | 4.7        | (2.1)         |

Source: CEIC, Emkay Research; Note: Data before Jan-26 is an extrapolation per the new CPI 2024 series weights; indices in italics are not directly present in the CPI 2024 series and have been calculated and extrapolated for ease of comparison

**Exhibit 3: Inflation pressures are broadening; share of basket above 4% yoy at nearly 50%**

Source: CEIC, Emkay Research calculations

This report is intended for Team White Marque Solutions (team.emkay@whitemarquessolutions.com)

**Exhibit 4: Headline inflation expected to peak in 3QFY27 before moderating slightly**

Source: CEIC, Emkay Research estimates

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