

Easing momentum in food inflation continues to dominate disinflationary trends, with August headline inflation at 2.07%. While core CPI ticked up, to 4.3% (largely led by personal care – gold), core ex-gold has come off, to 3.7% (3.9% prior). September inflation is currently tracking 1.7-1.8% levels, and could fall to a sub-1% print in October owing to GST cuts and base effect. Assuming >70% of the GST cuts will be passed-through, we now see FY26E headline CPI at 2.2% (RBI: 3.1%), with core (ex-intoxicants) at 4%. Though GST-led tax relief alone may not justify an RBI policy shift, we re-assert that RBI focus on the 1-year ahead inflation seems misplaced, amid consistent domestic inflation undershoots in recent months, Asia's disinflationary bias, and global growth risks. Besides, the impending Fed easing could still give more breathing space to the RBI to ease. We maintain that the Rupee weakness should be seen as an automatic growth stabilizer than a rate-easing deterrent.

Headline inflation ticks up, albeit remaining benign due to food deflation

Headline CPI inflation ticked up marginally to 2.07% in Aug-25, largely in-line (Emkay: 2.2%, prior: 1.55%). A favorable base effect and lower-than-expected sequential increase in food prices (0.7% MoM; -0.7% YoY) remain the key drivers. Headline CPI rose 0.5% MoM (1% prior) – the lowest in three months. Within food, the pace of vegetable price increases moderated, albeit remaining high (3% MoM vs 12% prior), driven by tomatoes (26% MoM), while fruit prices were nearly flat (0.1% MoM). Other significant movers included oils & fats (2% MoM), pulses (-0.4% MoM), meat & fish (-1% MoM), and eggs (-2% MoM).

Core inflation moves higher, as gold rises again; ex-gold core inflation dips

Core inflation (ex-intoxicants) also rose, to 4.3% (vs 4.2% prior), with monthly momentum too rising (0.4% MoM vs 0.3% prior). Higher gold prices (2% MoM; 40% YoY) were once again the primary driver of the uptick in core inflation, with the Personal Care category resultantly seeing 1% MoM growth (vs 0.5% prior). Core CPI ex-gold ticked down to 3.7% (vs 3.9% prior), with benign monthly momentum (0.2% MoM).

GST cuts to drive headline inflation lower, to 2.2%

Currently, September headline CPI is tracking at 1.7-1.8%, with most food categories seeing further easing. However, there is some upside risk to this due to the recent heavy rains in northern India which may cause price spikes in cereals, fruit, and vegetables. With this August print, the RBI's Q2 CPI forecast of 2.1% may see an undershoot of ~30bps. Further, we estimate the impact of GST rationalization on headline CPI to be as high as 80-100bps on annualized basis, depending on the price elasticity of demand of various products and pass-through to end-consumers. Nearly 85-90% of the net disinflation may come from core CPI, followed by F&B. We expect the impact on CPI to be evident within the next three months, with sectors like auto already announcing price resets. As a result, October may see headline CPI going even sub-1%, led by GST cuts and a favorable base effect. Given such dynamics, we lower FY26E headline CPI to 2.2% (assuming >70% of GST cuts being passed-on), with core at 4%.

Heavy disinflationary bias and slowing growth to restart the easing cycle

While GST-led lower tax incidence may not be the perfect rationale for the RBI to reassess its policy stance, we believe that a multitude of factors could still lead to a change in the RBI's reaction function. We re-assert that the RBI's focus on 1-year ahead expected inflation appears misplaced in an evolving world – especially as the global landscape continues to shift toward a disinflationary bias in Asia. Going ahead, we think downside risks to growth will be increasingly evident with global resets, including Fed rate-cuts, and will open up space for the RBI to ease in the rest of the year, even though the MPC seems to have raised the bar for further easing. Concerns around pressure on the Rupee should be weighed against India's relative loss of export competitiveness vs EM Asia, driven by higher tariffs. In principle, this warrants some currency adjustment—with a weaker currency vs peers serving as an automatic stabilizer for a weaker CAD—rather than being misjudged as a rate-easing deterrent.

Madhavi Arora

madhavi.arora@emkayglobal.com

+91-22-66121341

Harshal Patel

harshal.patel@emkayglobal.com

+91-22-66242434

Exhibit 1: Breakdown of CPI and its components

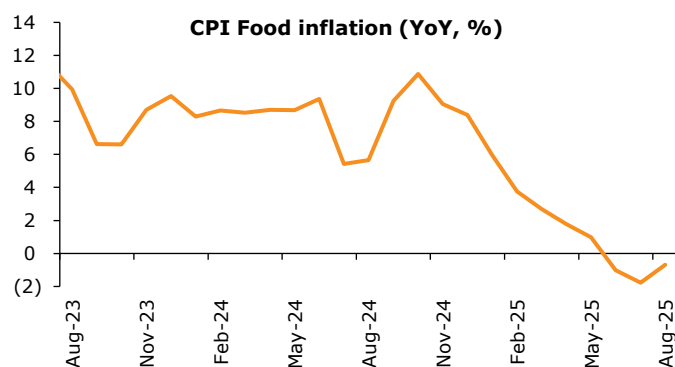
CPI YoY (%)	Wt	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Aug-24
Food & Beverages	45.9	0.0	(0.8)	(0.2)	1.5	2.1	5.3
Pan, Tobacco & Intoxicants	2.4	2.5	2.4	2.4	2.4	2.1	2.7
Fuel & Light	6.8	2.4	2.7	2.6	2.8	2.9	(5.3)
Housing	10.1	3.1	3.2	3.2	3.2	3.1	2.7
Clothing, bedding, footwear	6.5	2.3	2.5	2.6	2.7	2.7	2.7
Miscellaneous	28.3	5.0	5.0	5.5	5.2	5.0	3.9
CPI	100.0	2.1	1.6	2.1	2.8	3.2	3.7
Core CPI (ex intoxicants)	44.9	4.3	4.2	4.5	4.3	4.4	3.3
CPI ex-vegetables	93.1	3.7	3.6	3.8	4.0	4.1	3.1

Source: CEIC, Emkay Research

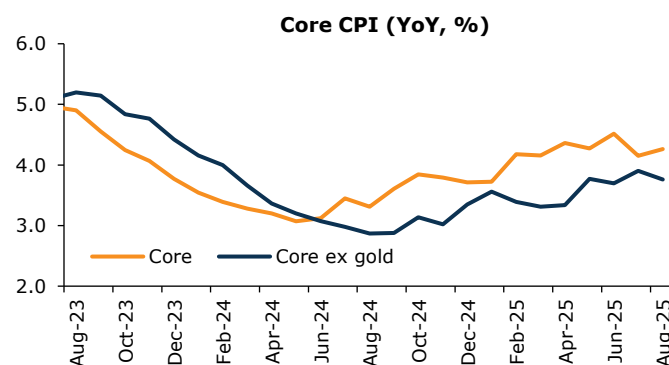
Exhibit 2: Breakdown of food items in CPI

CPI Food (YoY, %)	Wt	Aug-25	Jul-25	Jun-25	May-25	Apr-25	Aug-24
Food	39.1	(0.7)	(1.8)	(1.0)	1.0	1.8	5.7
Cereals	9.7	2.7	3.0	3.7	4.8	5.3	7.3
Meat & Fish	3.6	1.5	(0.6)	(1.6)	(0.4)	(0.4)	4.3
Eggs	0.4	3.1	2.2	2.6	0.6	0.8	7.1
Milk & products	6.6	2.6	2.7	2.8	3.1	2.7	2.9
Oils & Fats	3.6	21.2	19.2	17.8	17.9	17.4	(0.9)
Fruits	2.9	11.7	14.5	12.6	12.7	13.9	6.5
Vegetables	6.0	(15.9)	(20.7)	(18.9)	(13.7)	(11.0)	10.7
Pulses	2.4	(14.5)	(13.8)	(11.8)	(8.2)	(5.2)	13.6
Sugar	1.4	3.7	3.3	3.5	4.2	4.6	4.7
Spices	2.5	(3.2)	(3.1)	(3.0)	(2.8)	(3.4)	(4.4)

Source: CEIC, Emkay Research

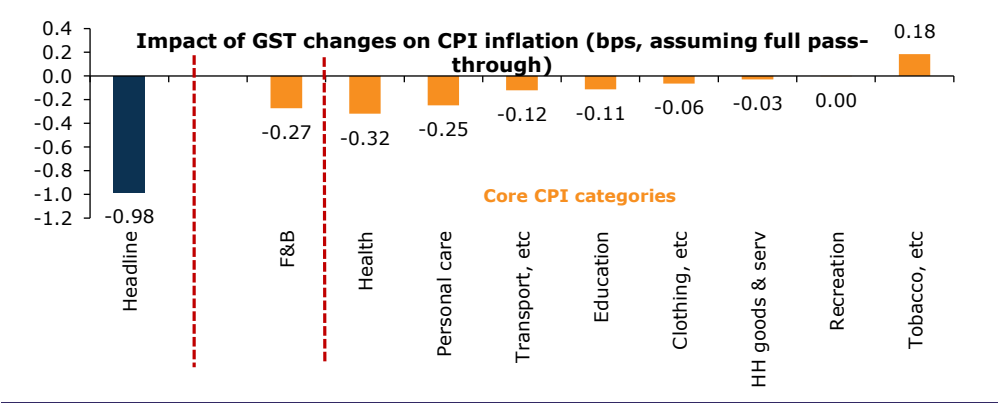
Exhibit 3: Food prices remain deflationary, led by vegetables, pulses, and spices

Source: CEIC, Emkay Research

Exhibit 4: Core CPI ticks up to 4.3%, as gold prices rise ~2% in August

Source: CEIC, Emkay Research

Exhibit 5: The GST cut impact on FY26E headline CPI could be ~100bps, with majority of the disinflation from core CPI categories



Source: CEIC, Emkay Research estimates

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

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