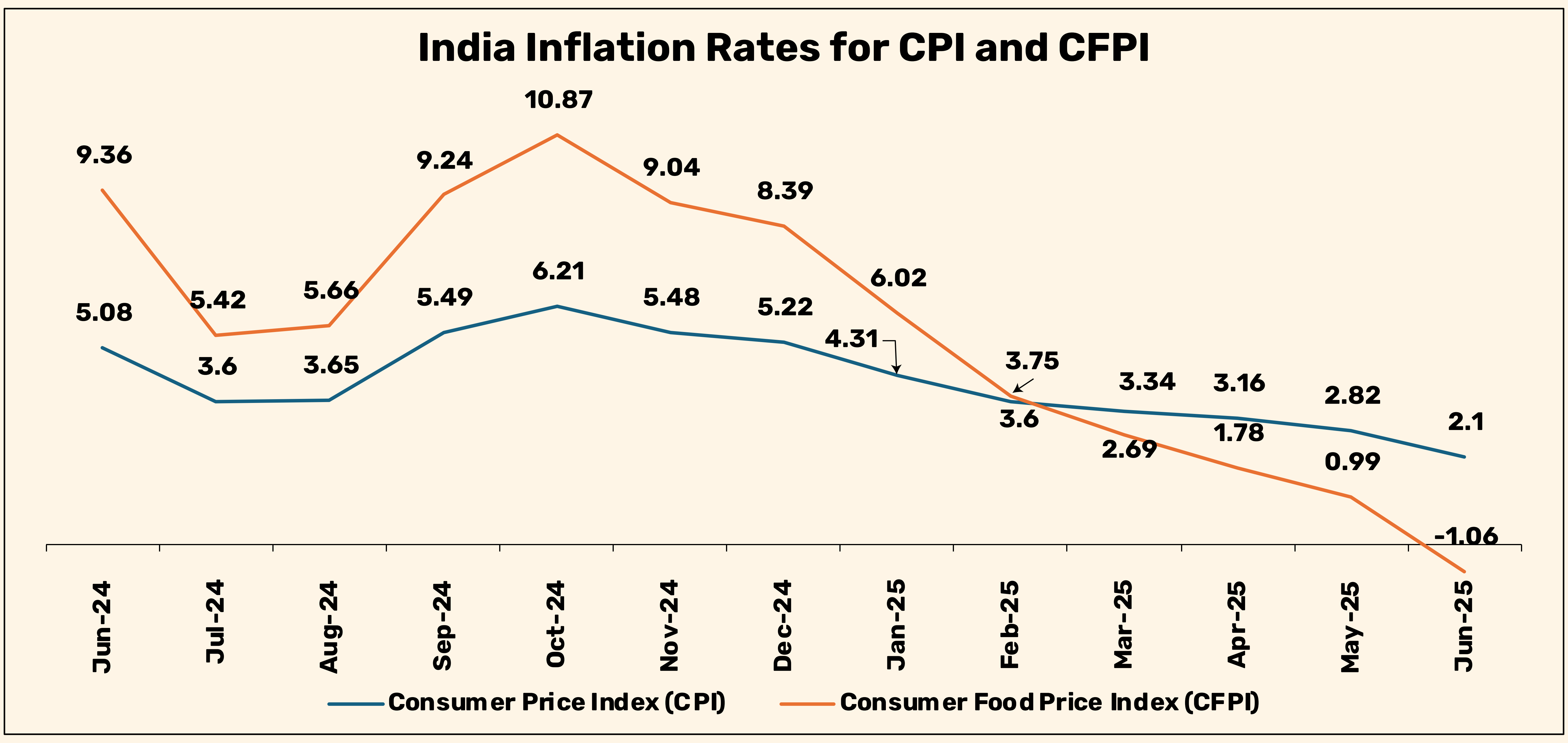
14th July 2025

JUNE CPI FALLS TO SIX-YEAR LOW



Data as on 14th July 2025.

Retail inflation cooled to a new low in over 6 years to 2.1% in June.

Rural inflation eased to 1.72% in June, down from 2.59% in the previous month, while urban inflation also, declined to 2.56% from 3.12%.

The decline was primarily driven by food inflation turning negative at -1.06%, led by lower prices of pulses, vegetables, fruits, cereals, sugar, and eggs.

Further rate cuts?

- The Reserve Bank of India surprised markets with a **50 bps rate cut in June,** signalling a proactive stance to support growth amid softening inflation trends.
- By moving from an **'Accommodative' to 'Neutral'** stance, RBI has adopted a **data-dependent approach,** allowing room to respond to evolving economic conditions without committing to further easing.
- A 25 bps rate cut remains possible later this year, depending on inflation and growth data, with rate hikes unlikely before March 2027.

Way Ahead

- Liquidity remains ample despite RBI's minor interventions. Bond yields are expected to stay range-bound, with rising interest in long-duration bonds (~7% yield).
- Debt markets are likely to remain stable through July, supported by clear monetary direction, sufficient liquidity, and no major disruptions expected.
- Investment Strategy by Horizon
  - 1-month: Liquid funds
  - 3-month: Money market funds
  - Medium-to-long term: Banking & PSU funds

Source: RBI, Internal

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