



CPI inflation- April 2020

Event Update

While the markets keenly awaited the retail inflation data based in Consumer Price Index (CPI) for April 2020, the government could not release the complete inflation data, due to problems in data collection post the Covid-19 affected lockdown in the country. On the other hand, the CPI inflation for March 2020 was revised downwards to 5.84% YoY from 5.91% YoY released in the previous month. For the month of April 2020, in case of food inflation, data on certain items like 'Meat and fish' was not released. As per the available data, CPI food inflation stood at 10.49% YoY for April 2020, as against 8.76% YoY in March 2020. Within the food segment, most of the internal items witnessed an increase in inflation compared to the previous month. For Core CPI inflation (ex Food and Fuel, but including 'Transport and communication'), data for most of the internal items was not released.

As communicated earlier, the actual impact of the pandemic on inflation trajectory may not be clear yet. While supply side difficulties in availability of goods and services may lead to some rise in inflation in specific segments; weak demand and sharp decline in crude oil prices may put some downward pressure on the overall inflation. Additionally, expectation of normal monsoon in the current year, may also help in keeping food inflation under check. Thus, in the near to medium term, retail inflation may remain within the RBI's flexible inflation target of 4% (+-2%).

Fixed income view:

Though the RBI's objective is to achieve the medium-term target for Consumer Price Index (CPI) inflation of 4% within a band of +/- 2%, while supporting growth; in the current situation, the RBI is likely to pay more attention on supporting the economy, given the impact Covid-19 spread on the economy. Intermittent rise in inflation if any, is likely to be looked through by the RBI, to ensure support to economic growth, through various measures. We expect RBI to continue with its support measures, in various forms, including further interest rate cuts, liquidity infusion, ensuring availability of credit, amongst others. RBI measures are likely to be positive for the bond markets. While the revision in government borrowings and likely rise in the fiscal deficit for FY21, may lead to volatility in yields; however expected support from RBI on the fiscal deficit front, may help in containing the volatility. Additionally, ample surplus liquidity in the system is also likely to keep interest rates on the lower side, over the medium term.

Fixed Income Mutual Fund Strategy:- Investments into Short Duration Funds can be considered with an investment horizon of 12 months and above. Investors who are looking to benefit from relatively better accruals can look at Corporate Bond Funds and Banking and PSU Funds for a horizon of 15 months and above. Investments in Medium Duration Funds can be considered with a horizon of 15 months and above. Investors, who are comfortable with intermittent volatility, can also look at strategies that have allocation to the longer end of the yield curve, through Dynamic Bond Funds with an investment horizon of 24 months and above. Investors looking to invest with a horizon of up to 3 months can consider Overnight Funds and Liquid Funds. While Ultra Short Duration Funds/Arbitrage funds can be considered for a horizon of 3 months and above.

Disclaimer: This document has been prepared on the basis of publicly available information, internally developed data and other sources believed to be reliable. HDFC Bank Limited ("HDFC Bank") does not warrant its completeness and accuracy. This information is not intended as an offer or solicitation for the purchase or sale of any financial instrument / units of Mutual Fund. Recipients of this information should rely on their own investigations and take their own professional advice. Neither HDFC Bank nor any of its employees shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way from the information contained in this material. HDFC Bank and its affiliates, officers, directors, key managerial persons and employees, including persons involved in the preparation or issuance of this material may, from time to time, have investments / positions in Mutual Funds / schemes referred in the document. HDFC Bank may at any time solicit or provide commercial banking, credit or other services to the Mutual Funds / AMCs referred to herein.

Accordingly, information may be available to HDFC Bank, which is not reflected in this material, and HDFC Bank may have acted upon or used the information prior to, or immediately following its publication. HDFC Bank neither guarantees nor makes any representations or warranties, express or implied, with respect to the fairness, correctness, accuracy, adequacy, reasonableness, viability for any particular purpose or completeness of the information and views. Further, HDFC Bank disclaims all liability in relation to use of data or information used in this report which is sourced from third parties.