

Fig 1: CPI corrects sharply to 1.55% in July'25; % y/y

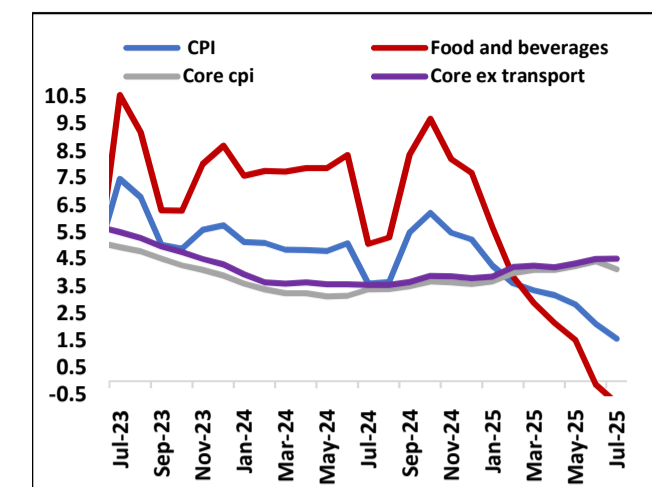
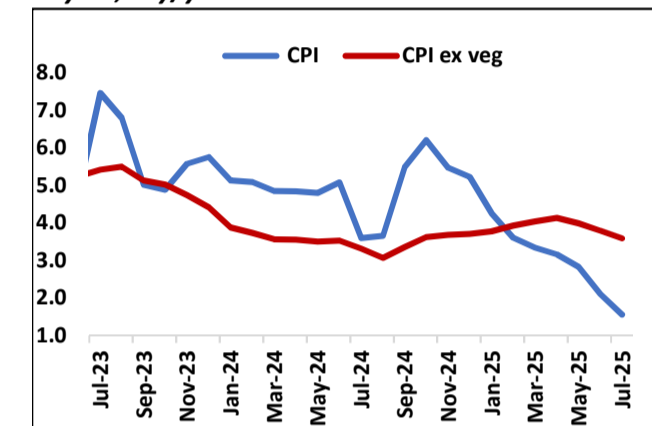


Fig 2: CPI ex-veggies too moderates to 3.58% in July'25; % y/y



Source: CEIC, UBI Research

Fig 3: Our CPI projections vs MPC projections; % y/y

Headline CPI Projections					
	Q1FY26 (Actual)	Q2FY26	Q3FY26	Q4FY26	Q1FY27
UBI currently tracking	2.7	2.4	3.1	3.8	4.6
MPC		2.1	3.1	4.4	4.9

Fig 4: On-the-ground food prices, especially vegetables have started to strengthen sequentially; % m/m

% Change in Price (m/m)	Apr-25	May-25	Jun-25	Jul-25	Aug-25
Cereals	-0.94	-0.55	0.09	0.23	0.21
Pulses	-2.18	-1.44	-1.35	-1.21	-0.47
Oils	0.28	0.22	0.66	1.77	2.11
Vegetables*	-5.80	0.07	10.46	11.95	7.51
Milk	0.58	0.41	0.05	0.12	0.02
Sugar	0.40	0.28	0.13	0.09	0.37

\*OPT (Onion, Potato & tomato)

\*\* till 11<sup>th</sup> August'25

Source: MCA

July'25 CPI prints eight-year low of 1.55% but higher than projection on spike in veggies

The Consumer Prices Index (CPI) inflation for the month of July'25 has touched a bottom of eight year low of 1.55% vis-à-vis 2.10% in June'25 and above our as well as consensus estimate of 1.30% (pl refer our CPI data preview report) because of lower than anticipated sluggishness in food prices inflation specifically vegetables during the month. Food inflation has persisted into negative zone for the second consecutive month at -0.84% (-0.15 in June) while core CPI has also subsided to 4.13% from 4.43% in June (pl refer fig 1) despite marginal increase in gold prices, core-ex-gold CPI too cooled from 3.45% last month to 3.15%.

We see inflation bottoming out here to trend upward in coming months. Our projection for August CPI is tracking -2.5% as on date. We have recently revised our FY26 inflation forecast downward from 3.6% to 3% in view of the trailing seasonal trends in food inflation since the start of the year. MPC has also lowered the inflation projection for FY26 from 3.7% earlier to 3.1% in its August meeting while keeping the rates unchanged by pegging Q1FY27 CPI at 4.9%. Our inflation projections for Q4 FY26 and Q1 FY27 are trailing behind the MPC by another 30-60bps (pl refer fig 3).

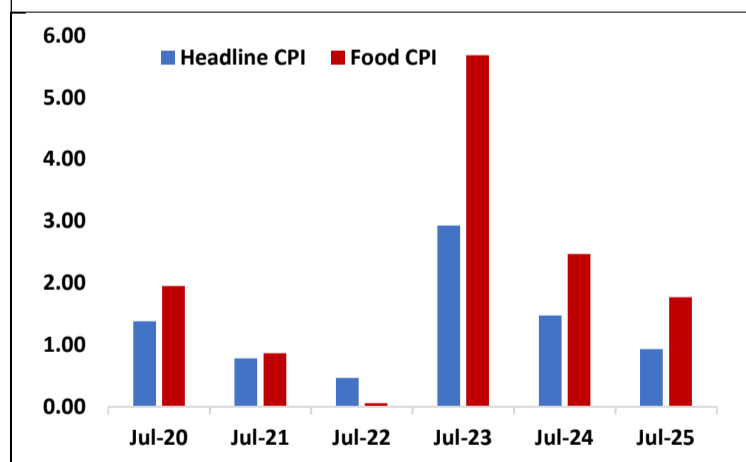
Food inflation in negative zone for second consecutive month as expected

Y/y food inflation hit a nearly 78 months low while staying in negative zone for second consecutive month at -0.84% vis-a-vis -0.15% in the month of June'25. Although positive base effects persisted to provide support (food CPI recorded 5.1% in July '24), the sharp correction in the food inflation is partly due to food prices lagging seasonality (pl refer fig 5) this year especially in pulses. Pulses continued to be in deflation y/y for six months in a row and made a new low since March'18 (refer fig 6) and is further expected to continue to be in deflation for a couple of months. Sequentially, segments like pulses, cereals and meat & fish stayed in deflation while most of the other segments hardened during the month.

On-the-ground (OTG) food price data collected from the Department of Consumer Affairs indicates towards momentum gaining in the food prices especially vegetables (refer fig 4). Nevertheless, y/y vegetables inflation has dropped to -20.69%, lowest in 46 months, as vegetable prices has been lagging historical trends even though m/m vegetables inflation clocked 11.64% vis-à-vis 6.75% projected by us. CPI ex-veggies has moderated to 3.58% from 3.79% last month (refer fig 2). The vegetable CPI index has made an uptick to 212 levels, 12% up from June reading of 190. Cereals inflation y/y has dropped to a 43-month low of 3.03% even as OTG prices of cereals have risen during the month of July.

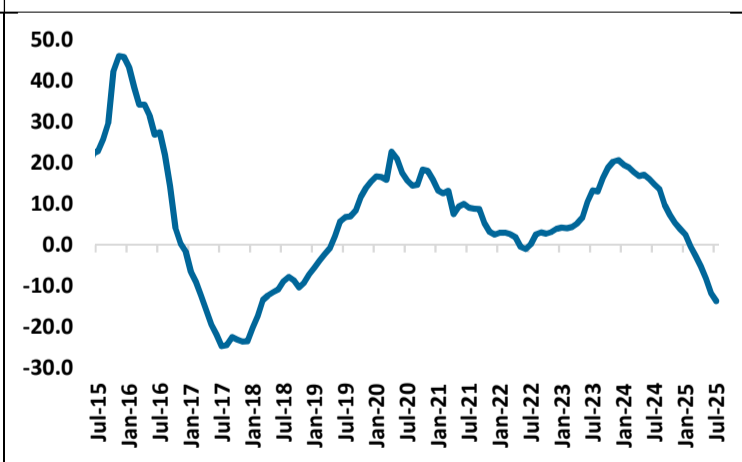
Monsoon after making a good and early start has started showing signs of distress with overall rainfall deviation contracting to 0% from a surplus of 9% at the time of release of June CPI data, i.e, 14<sup>th</sup> July. The distribution of rainfall is still looking distraught with eastern and southern regions still at a deficit of 18% and 0% respectively even though north-western and central regions (with ~65% share of kharif crop production) are in a surplus of 17% and 3% respectively (refer fig 7). We are closely watching the progress of monsoon and its distribution (spatial & temporal) as still one and a half months of monsoon is pending for any unfavourable impact on food inflation and our projections.

Fig 5: Seasonality lagging in food inflation this year; % m/m



Source: CEIC, UBI Research

Fig 6: Pulses continue to be in deflation; % y/y



Core inflation edged down as expected

Core inflation has printed, 4.13% in line with our projection of 4.16%, vis-à-vis 4.42% y/y in June and 3.4% in July'24. The subdued change was in line with our expectation even though gold prices have gone up about 0.5% during the month (driving rise in Personal care inflation from 14.81% in June to 15.12% in July) (refer fig 8), Interestingly, core-ex-gold has softened to 3.15% as projected from 3.45% last month (refer fig 9).

Despite the sharp downward revision in near term CPI projections (by 80-130bps) by RBI in August MPC, the concerns remain on 12-month forward looking inflation numbers. We maintain our view of another 25-50bps rate cut in H2-FY26, however, the exact timing for next rate cut is 'too early to call' in view of the global uncertainties regarding trade tariffs and frequently changing geo political equations. Our view is premised on likely emergence of fault lines in domestic growth numbers in the coming months which may tilt the central bank towards easing. That said, monsoon trends and any weather disruptions will be on close watch.

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Fig 7: Rainfall surplus reduced sharply recently and needs close watch; rainfall deviation (cumulative from 1st June, % of long period avg)

	12-Aug-23	12-Aug-24	30-Jun-25	31-Jul-25	12-Aug-25
All India	-2	6	9	6	0
N. West India	15	-2	42	21	17
Central India	2	15	25	23	3
South India	-8	22	-3	-2	0
East & N. East India	-19	-10	-17	-22	-18

Fig 8: Most of the core CPI sub-segments still close to or sub 5% except for personal care, % y/y

% y/y	Pan; tobacco; and intoxicants	Clothing	Footwear	Housing	Household goods and services	Health	Transport and comm.	Recreation and amusement	Education	Personal care and effects
Jun-24	3.08	2.77	2.05	2.69	2.39	4.13	0.97	2.33	3.57	8.23
Jul-24	3.02	2.76	1.99	2.68	2.33	4.06	2.60	2.20	3.54	8.44
Aug-24	2.71	2.75	2.10	2.66	2.43	4.10	2.71	2.37	3.85	8.00
Sep-24	2.51	2.80	1.98	2.72	2.55	4.09	2.71	2.37	3.79	9.00
Oct-24	2.50	2.79	2.15	2.81	2.65	3.96	2.77	2.42	3.90	10.99
Nov-24	2.35	2.78	2.20	2.87	2.82	4.01	2.70	2.65	3.89	10.42
Dec-24	2.49	2.83	2.08	2.71	2.81	4.05	2.64	2.70	3.95	9.76
Jan-25	2.30	2.72	2.08	2.82	2.86	3.97	2.76	2.69	3.83	10.63
Feb-25	2.44	2.77	2.02	2.91	2.80	4.12	2.93	2.69	3.83	13.63
Mar-25	2.48	2.71	1.96	3.03	2.68	4.26	3.36	2.46	3.98	13.50
Apr-25	2.08	2.70	2.07	3.06	2.51	4.25	3.67	2.51	4.13	12.95
May-25	2.41	2.75	2.18	3.16	2.51	4.34	3.85	2.45	4.12	13.54
Jun-25	2.41	2.64	2.23	3.18	2.56	4.38	3.90	2.50	4.37	14.81
Jul-25	2.45	2.58	2.17	3.17	2.61	4.57	2.12	2.38	4.00	15.12

Fig 9: Core CPI softens to 4.13% even as core ex-gold CPI edges up to 3.15%, % y/y

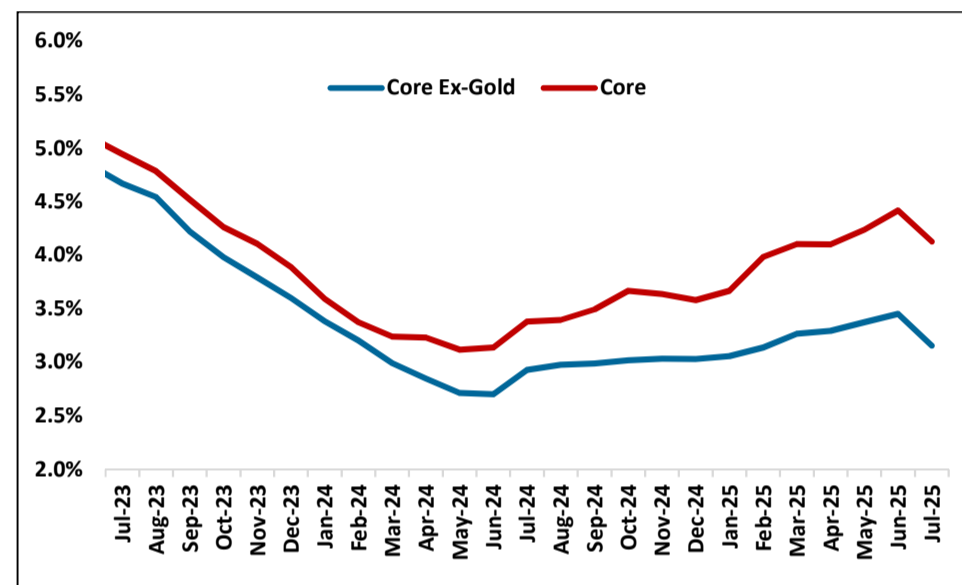


Fig 10: Headline CPI fell sharply to 1.55% y/y in July'25

% Y/y	Headline CPI	o/w Food & Beverages	Cereals	Pulses	Vegetables	Fuel	Core
Apr-24	4.8	7.9	8.6	16.8	27.8	-4.0	3.2
May-24	4.8	7.9	8.7	17.1	27.4	-3.7	3.1
Jun-24	5.1	8.4	8.8	16.1	29.3	-3.6	3.1
Jul-24	3.6	5.1	8.1	14.8	6.8	-5.5	3.4
Aug-24	3.7	5.3	7.3	13.6	10.7	-5.3	3.4
Sep-24	5.5	8.4	6.8	9.8	36.0	-1.3	3.5
Oct-24	6.2	9.7	6.9	7.4	42.2	-1.7	3.7
Nov-24	5.5	8.2	6.9	5.4	29.4	-1.8	3.6
Dec-24	5.2	7.7	6.5	3.8	26.6	-1.3	3.6
Jan-25	4.3	5.7	6.2	2.5	11.3	-1.5	3.7
Feb-25	3.6	3.8	6.1	-0.3	-1.1	-1.3	4.0
Mar-25	3.3	2.9	5.9	-2.7	-7.0	1.4	4.1
Apr-25	3.2	2.1	5.3	-5.2	-11.0	2.9	4.1
May-25	2.8	1.5	4.8	-8.2	-13.7	2.8	4.2
Jun-25	2.10	-0.15	3.73	-11.76	-18.92	2.55	4.42
Jul-25	1.55	-0.84	3.03	-13.76	-20.69	2.67	4.13

Source: CEIC, UBI Research

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