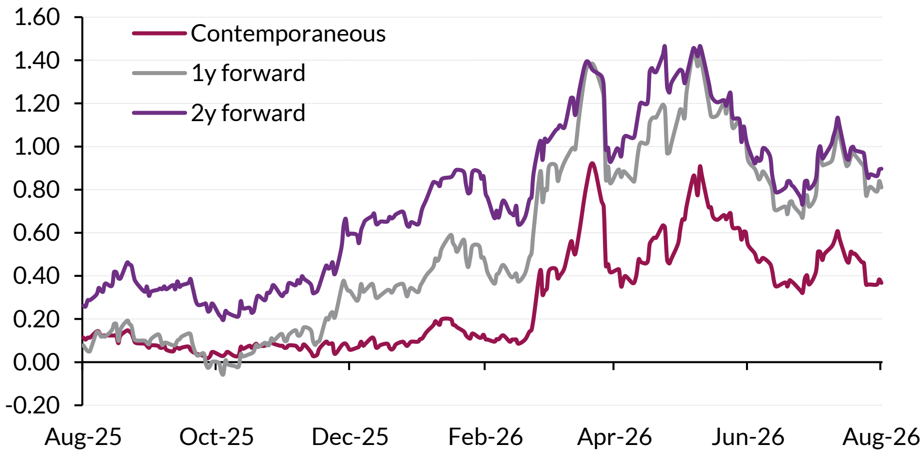
India Economics | **CPI Inflation**

Vegetables and gold mute inflation, but risks building

August 12, 2026
CPI inflation update

Jul CPI inflation came in at a 19m high of 4.45% - just below our expectations. The numbers might have been higher still but for a high vegetables' base (that fades by Sep) as well as lower gold prices that kept core inflation contained at 3.9%. Underlying inflation metrics CPI ex vegetables, supercore inflation, and weighted median are all rising from low levels. These are in line with materialisaion of many of the risks we have been pointing at: increase in wheat and edible oils on global factors, higher domestic sugar, as well as transmission of global shocks into airfares, prepared meals, textiles, electronics and durables. Hardening pressures will likely drive eventual normalisation.

Exhibit 1 - OIS markets price 75-100 bps rate hikes in 12 months' time



Source: MOSPI, Axis Bank Research

Jul CPI inflation rises to 4.45%, food ex-base effects might be higher

CPI inflation rose to a 19 month high of 4.45% - slightly below our projection of 4.50%. The increased inflation was driven largely across subgroups (Fig 2), though this was partly offset by drop in gold/silver (in personal care) bringing core inflation lower. Food inflation showed increases largely throughout (Fig 3), but was pulled lower by a high base in vegetables (Fig 4). Increased prices of cereals (dry European weather) and edible oils (East Asia hit by El-Nino) with global trends (Fig 5) are seen. Apart from this, domestic sugar and ginger (83.6% inflation) indicate food prices would have been higher absent the vegetables' base (Fig 10).

Gradual passthrough of global prices pushing underlying inflation higher

We wrote in our preview of the risks of higher petroproduct prices passing through. These are being seen in as plastics (Fig 6) pushing prices of textiles, ATF (Fig 7) driving airfares, gas (Fig 8) driving cooked meals, and chips (Fig 9) driving domestic electronics and appliances. This is seen driving underlying inflation in terms of services, weighted median, etc., (Fig 10) while oil sensitive inflation is held back by limited passthrough in pump prices.

Normalisation in rates over the next 12 months, Oct MPC language watched

Language at the last MPC meet indicated Dec as the earliest time for the start of normalisation to neutral rates of 2% (on a real basis, Fig 11). OIS markets price 75-100 bps hikes over the next 12 months (Fig 1). While rates markets already price in this normalisation, trading well above the repo rate (Fig 12), the risk of term premium widening with global trends (Fig 13) is a major risk, especially with limited scope for OMO purchases.

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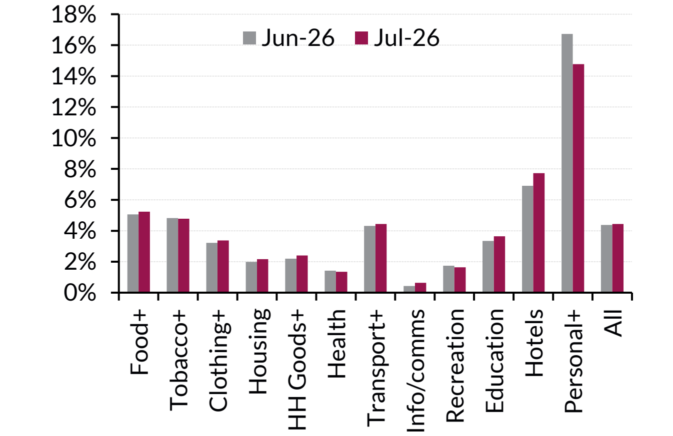
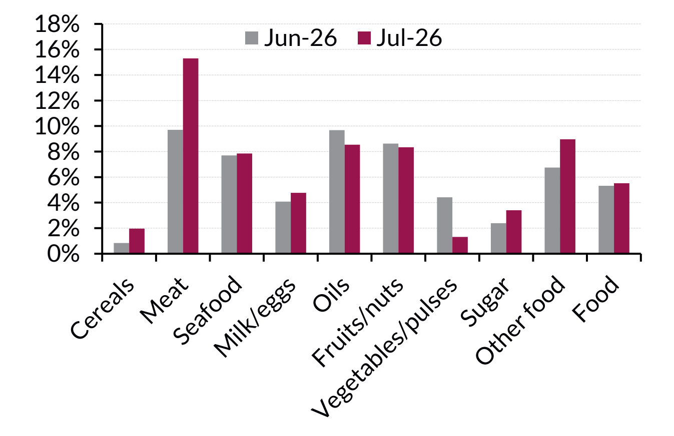
Exhibit 2 - Headline inflation rises across, but pulled down by personal care (gold/silver)



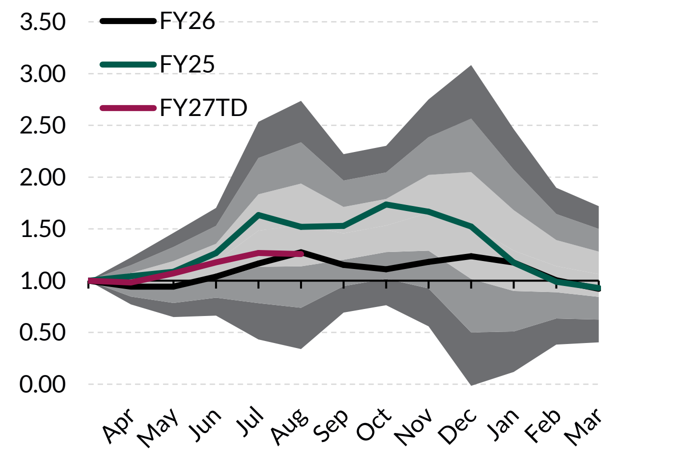
Source: MOSPI, Axis Bank Research

Exhibit 3 - Food prices are generally higher, but for a high base in vegetables (tomatoes) last year



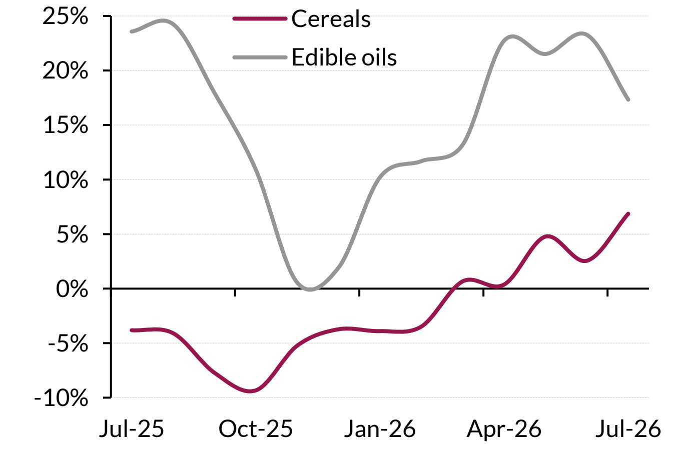
Source: MOSPI, Axis Bank Research

Exhibit 4 - Normalised potato/onion/tomato prices – note the high base in Jul'25



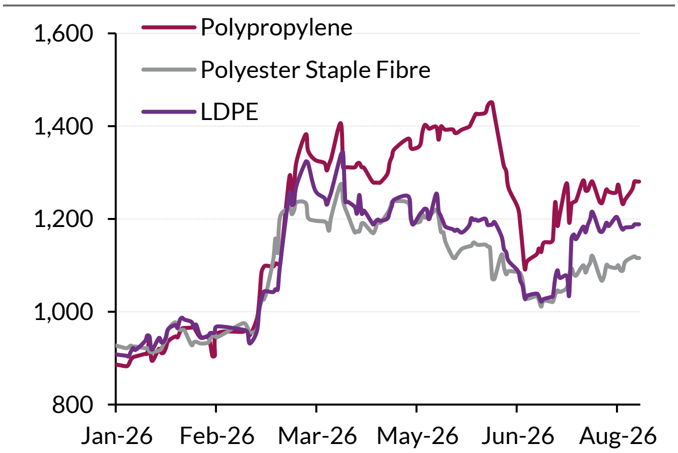
Source: DCA, Axis Bank Research

Exhibit 5 - Global cereal and edible oil prices (INR terms) are higher, transmitting domestically



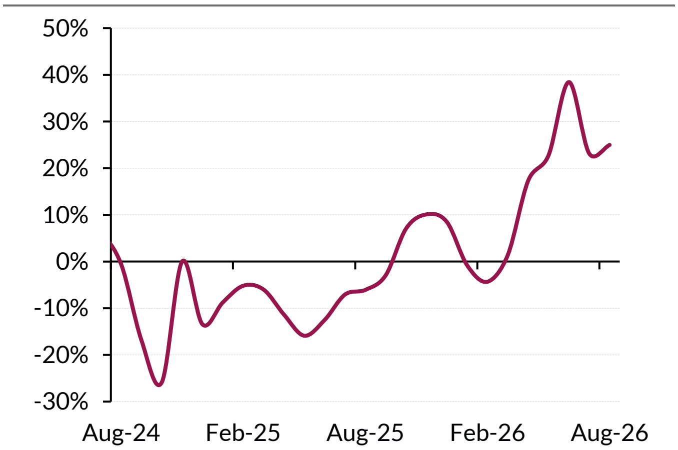
Source: FAO, Axis Bank Research

Exhibit 6 - Plastic prices (USD/MT) are higher, even with crude oil prices having come off



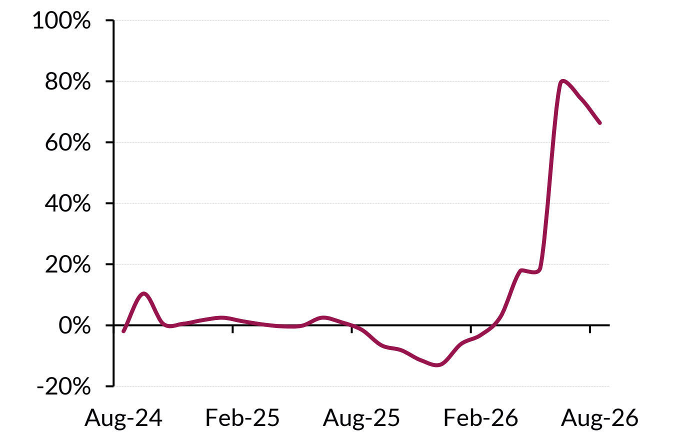
Source: Bloomberg, Axis Bank Research

Exhibit 7 - Domestic ATF prices are higher



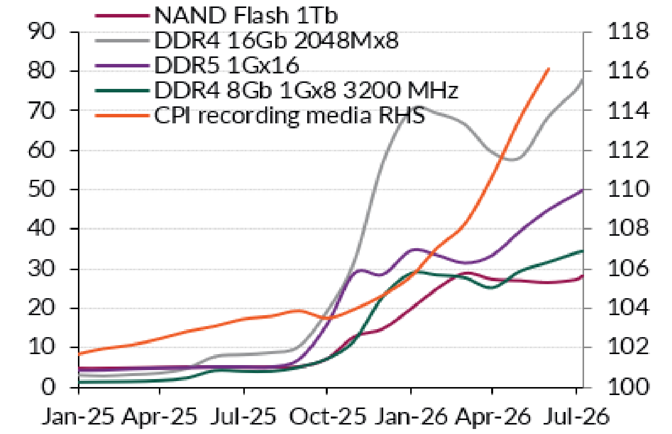
Source: IOCL, Axis Bank Research

Exhibit 8 - Commercial cooking gas prices are also up



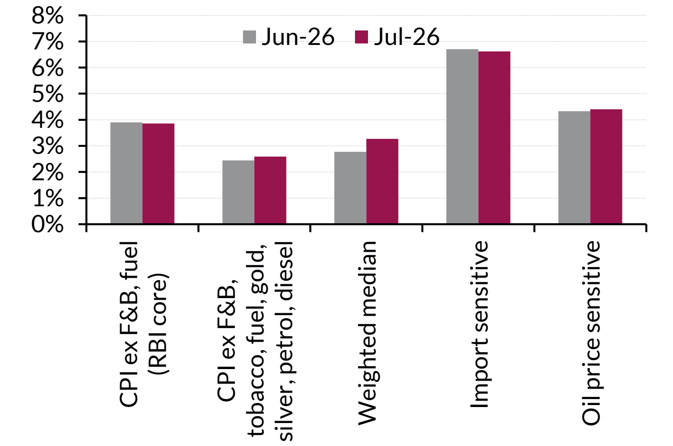
Source: IOCL, Axis Bank Research

Exhibit 9 - Global chips prices are also higher



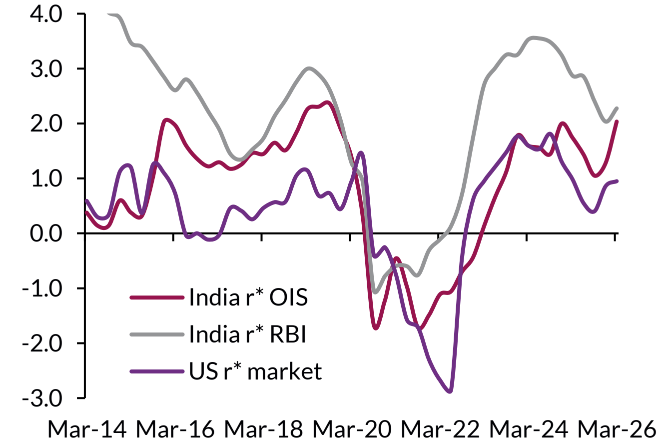
Source: Bloomberg, Axis Bank Research

Exhibit 10 - Underlying inflation measures are beginning to rise



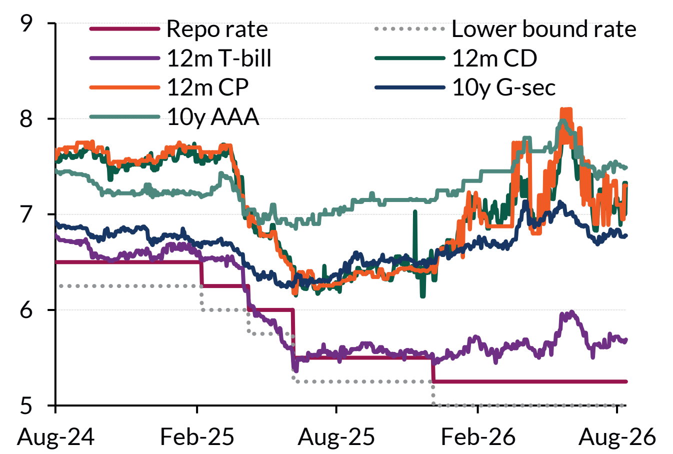
Source: MOSPI, Axis Bank Research

Exhibit 11 - India neutral rates have risen with global trends



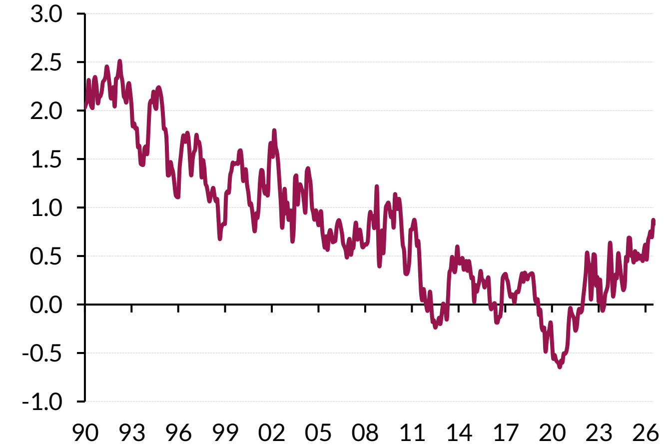
Source: RBI, MOSPI, Bloomberg, Axis Bank Research

Exhibit 12 - India rates markets are already behaving as though rates are at a 6% neutral



Source: Bloomberg, Axis Bank Research

Exhibit 13 - Global 10y term premium is widening – this is a bigger risk than rate hikes for G-sec



Source: Bloomberg, Axis Bank Research

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