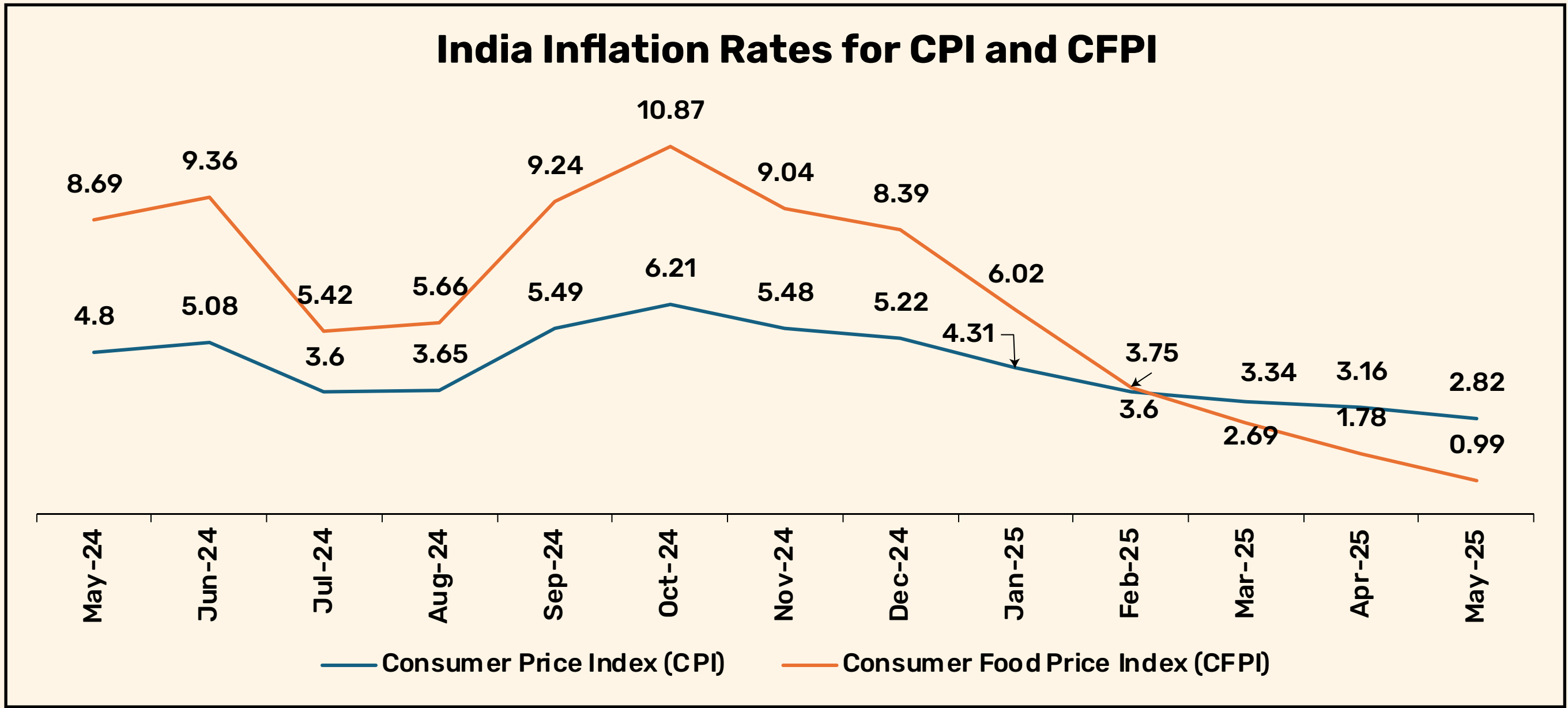




MAY INFLATION EASES TO A SIX-YEAR LOW



Data till 31st May 2025 as on 12th June 2025.



Retail inflation cooled to 2.82% in May, the lowest in over six years and below the RBI’s 4% target for the fourth straight month.



Rural inflation eased to 2.59% in May, down from 2.92% in the previous month, while urban inflation also, declined to 3.07% from 3.36%.



The decline was mainly due to a sharp drop in food inflation to 0.99%, led by lower prices in pulses, vegetables, fruits, cereals, sugar, and eggs.

Further Rate Cuts?

- The MPC in its June 6, 2025 meeting opted for a front-loaded rate cut while reverting to a neutral stance.
- This highlights a measured and flexible approach, supporting near-term growth while remaining mindful of inflation risks.
- We expect the RBI to pause in the upcoming August and October meetings, with future policy moves shaped by evolving data, global uncertainties, tariff-related developments, and the timing and spread of the monsoon.

Way Ahead

- Overnight and money market rates are likely to align with the SDF (Standing Deposit Facility) rate of 5.25%.
- Short to medium duration bonds are expected to remain robust, creating a supportive environment for Banking and PSU Funds, Liquid Funds, and Money Market Funds.
- The current G-sec to repo spread appears favourable, offering a reasonable carry trade opportunity.
- In this context, GILT funds may be well-positioned to deliver over the long term.

Source: RBI, Internal

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