

December CPI: Benign Inflation Trend Continues

Key Takeaways

- Headline CPI rose to a three-month high of 1.3% YoY in December, from 0.7% in November. On a SA basis, it rose 0.6% MoM in Dec, from 0.4% in Nov.
- Food CPI declined at a slower rate of -2.7% YoY in Dec from -3.9% in Nov, led by a broad-based increase in food prices, barring cereals and oils & fats.
- Fuel CPI softened to 2% YoY in Dec from 2.3% last month, even as it edged up sequentially.
- Core CPI (ex food, fuel) hit 4.7% YoY in Dec, a high since Sep-23, vs. 4.4% in Nov. Core core (ex gold, gasoline) stayed at 2.4% for the second month in a row.
- In CY2025, headline CPI averaged 2.2% YoY (vs. 5% in CY2024), led by deflation in food CPI, tracking at -0.2% whereas core CPI stood at 4.3%.

Our view – inflation environment to remain benign: The headline CPI print for December was a tad lower than expectations, the downside surprise led by a sharper-than-anticipated contraction in food prices, particularly vegetables. In our view, the inflation environment should remain benign, as indicated by core core inflation tracking below 4% for the past 26 months.

We are tracking January CPI at ~2.3% YoY (on the current base). We expect inflation to remain below 4% in CY26, even as it picks up from these low levels from 1Q26. From a policy response perspective, we believe that the easing cycle has concluded with the rate cut in December's policy meeting, but the policy stance will remain supportive of growth given the benign trend in inflation.

However, to be sure, the CPI series is slated for a base year change (2023-24 following the HCES survey), from the Jan-26 print, to be released on 12 February.

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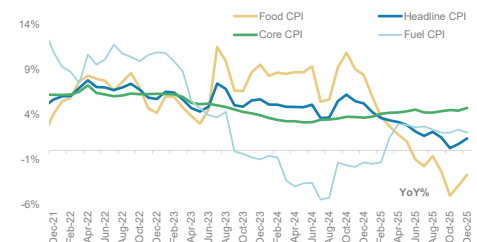
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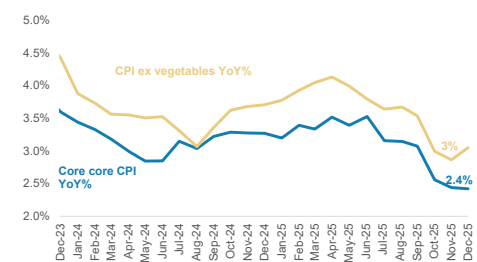
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Exhibit 1 : Tracking Trends in Inflation



Source: CEIC, Morgan Stanley Research

Exhibit 2 : Underlying Inflation Remains Benign



Source: CEIC, Morgan Stanley Research

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