SBI RESEARCH
ECOWRAP

CPI INFLATION LIKELY TO PEAK AT 6.7%-6.8% IN NOV

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India's CPI inflation has recently firmed up, rising to 5.54% in September 2026, compared with 4.82% in August, marking the highest reading under the revised CPI series. The increase is driven largely by sharply higher food prices, with food inflation climbing to 7.74% and essentials like onions, garlic, and lemons recording steep jumps. Inflation pressures are more pronounced in rural areas (6.08%) than urban (4.88%).

However, the inflation trajectory remains subject to significant upside risks from deficient monsoon conditions, ongoing El Niño effects and elevated energy and other commodity prices, which could sustain supply-side pressures. The persistence of inflation generalisation, reflected in the increase in the number of commodities accounting for 75% of CPI's weighted contribution from 25 in August'26 to 31 in September'26, suggests that price pressures are becoming more diffused across the consumption basket rather than being concentrated in a few items. **Against this backdrop, alongside persistent rupee weakness, we believe that the peak policy rate could reach 6.0%, necessitating a calibrated but firm monetary policy response to contain inflation and anchor expectations.**

The RBI could consider couple of options:

First, it could adopt a calibrated tightening approach by raising the MSF rate in the interregnum by 25 bps from 5.75% to 6%, alongside a 25 bps hike in the repo rate in December which will ultimately lead to a MSF rate at 6.25%.

Second, the RBI could opt for a more decisive 50 bps hike in the repo rate in December policy signaling a stronger commitment to containing inflationary pressures. The choice between the two options would depend on the persistence of inflation and the trajectory of the rupee going forward.

Going forward, the RBI's policy response will depend on the persistence of underlying price pressures, the evolution of food and energy prices, and the trajectory of the rupee, with the key priority being to prevent temporary supply-side shocks from translating into broader and more persistent inflationary pressures.

Globally, the FAO Food Price Index increased by 5.8% Y-o-Y in September, reflecting an uptick in international food commodity prices. According to the FAO research, rice yields during El Niño episodes are typically 1.0-1.5% below their expected trend, while wheat and maize yields generally remain near normal levels. Stronger El Niño events are associated with more predictable yield outcomes, though not necessarily more severe declines, whereas weaker events tend to result in greater variability in yield performance.

We expect Q3 CPI inflation would be around 6.5% and Q4 at 5.6%...and full year FY27 inflation average to be around 5.3%. The estimate largely depends upon pressures from supply side on account of the deficient monsoon, ongoing El Niño conditions and high energy and other commodity prices.

CPI INFLATION INCREASED TO 5.54% IN SEPT'2026

- India's retail inflation rose to 5.54% in September, crossing the 5 % mark for the first time in the new CPI series, as a sharp acceleration in food prices pushed up household costs. Inflation remained higher in rural India at 6.08%, while urban areas registered a lower rate of 4.88%. Food inflation reached 7.74% level due to elevated prices for items like onions, ginger, garlic, lemon & Silver Jewellery. Core inflation (ex food and fuel house hold and transport) rose to 4.34% in Sept from 3.67% in March.

CPI Inflation: Division-wise Rate (%)

YoY	Apr-26	Jul-26	Aug-26	Sep-26
Food and beverages	4.01	5.24	5.66	7.36
Paan, tobacco and intoxicants	4.77	4.78	4.70	4.80
Clothing and footwear	2.81	3.37	3.56	3.92
Housing, water, electricity, gas and other	1.70	2.16	2.61	2.75
Furnishings, household equipment and household maint.	1.62	2.40	2.68	3.11
Health	1.64	1.34	1.33	1.41
Transport	-0.01	4.44	4.60	5.01
Information and communication	0.50	0.64	2.02	2.44
Recreation, sport and culture	2.12	1.64	1.73	2.17
Education services	3.16	3.65	3.73	3.94
Restaurants and accommodation services	4.20	7.72	8.38	9.37
Personal care, social protection and misc goods & services	17.67	14.78	15.18	13.75
Overall CPI Inflation	**3.48**	**4.45**	**4.82**	**5.54**

Source: MOSPI, SBI Research

CPI INFLATION GENERALISATION AND POLICY OPTIONS FOR RBI?

- The broadening of inflationary pressures, alongside persistent rupee weakness, calls for close monitoring by the RBI and a calibrated policy response to contain inflation risks and reinforce monetary transmission.
- Our estimates suggest that inflation generalisation persisted in September'26 also, with price pressures spreading across a wider set of commodities amid elevated inflation. **The number of commodities accounting for 75% of CPI's weighted contribution increased from 25 in August'26 to 31 in September'26 suggesting that the bulk of inflationary pressures became more diffused among commodities.** With inflation remaining elevated, such generalisation warrants close monitoring by the RBI.
- With inflation rising to 5.5% in September'26 from 4.82% in August'26, **we believe that the peak policy rate could reach 6.0%, reflecting the need to contain mounting inflationary pressures and anchor inflation expectations.**
- Given the persistent inflationary pressures and ongoing rupee weakness, the RBI has two possible policy options for November'26.
- **First, it could adopt a calibrated tightening approach by raising the MSF rate in the interregnum by 25 bps from 5.75% to 6%, alongside a 25 bps hike in the repo rate in December which will ultimately lead to a MSF rate at 6.25%.**
- **Second, the RBI could opt for a more decisive 50 bps hike in the repo rate in December policy signalling a stronger commitment to containing inflationary pressures.** The choice between the two options would depend on the persistence of inflation and the trajectory of the rupee going forward.

Outlook

- We expect Q3 CPI inflation would be around 6.5% and Q4 at 5.6% and full year FY27 inflation average to be around 5.3%. The estimate largely depends upon pressures from supply side on account of the deficient monsoon, ongoing El Niño conditions and high energy and other commodity prices.

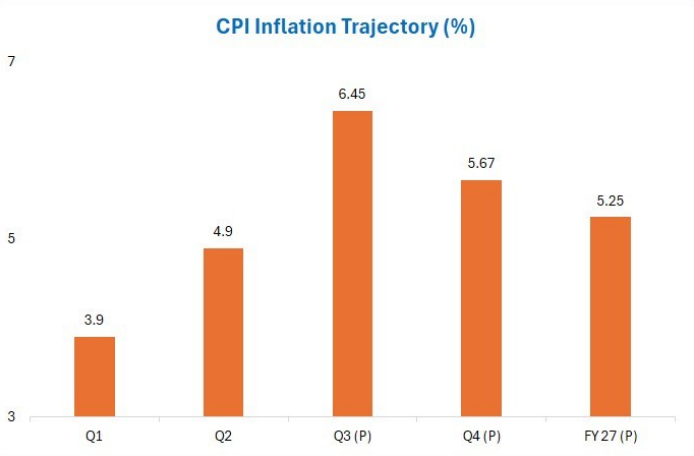
Weighted contribution of Commodities in overall inflation

Month	Share in overall inflation			Number of commodities (ex gold/silver)	
	25%	50%	75%	25	50
Jan-26	2	4	13	83%	65%
Feb-26	2	7	20	72%	55%
Mar-26	2	8	23	71%	55%
Apr-26	2	9	25	69%	54%
May-26	3	9	29	66%	52%
Jun-26	3	10	31	69%	55%
Jul-26	4	10	26	75%	61%
Aug-26	4	11	25	62%	76%
Sep-26	3	11	31	53%	74%

Source: MoSPI; SBI Research

Peak Inflation and policy rates in Governor's tenure

Governor	Period	Peak rate	Peak Inflation
Dr. Raghuram G. Rajan	Sept 4, 2013 to Sept 4, 2016	7.75(Oct'13 and Jan'15)	11.51(Nov 13)
Dr. Urjit R. Patel	Sept 4, 2016 to Dec 11, 2018	6.5(Aug to Dec 18)	3.7(Sep'18)
Shri Shaktikanta Das	Dec 12, 2018 to Dec 10, 2024	6.5(Feb'23 to 06 Dec'24)	7.44(Jul'23)
Shri Sanjay Malhotra	Dec 11, 2024 onwards	6 (Dec'26)	6.74 (Nov'26, SBI Estimate)



Source: MOSPI, SBI Research

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