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Beyond the Headlines

19 OCTOBER 2026

Rising Inflation, Rising Rates: Are We Looking at a Cyclical Peak?

Rising Inflation, Rising Rates: Are We Looking at a Cyclical Peak?

Inflation is climbing again and central banks from Washington to Mumbai are hiking. The headline asks whether a new tightening era has begun. The more useful question is what kind of inflation this is, and the answer, written in car showrooms and unsold flats, says the peak is closer than the headlines imply.

Nine months ago the debate was how many more rate cuts were coming. It has flipped completely. On 7 October the Reserve Bank of India raised the repo rate by 25 bps to 5.50%, its first hike in almost four years, and swapped its 'neutral' stance for 'calibrated tightening'. Five days later, September CPI landed at 5.54%, up from 4.83% in August and a world away from the 0.71% of November 2025, with food inflation jumping to 7.74%. India is not alone. The US Federal Reserve hiked to 3.75–4.00% on 16 September, its first increase since 2023, and the European Central Bank has hiked twice since June. The US 10-year Treasury yield touched ~5.35% on 8 October, and India's 10-year G-Sec has risen for eight straight weeks to ~7.35%, within sight of the 7.46% it touched in early 2023.

The reflex is to read this as the opening of a long new hiking cycle. We think that is the wrong frame. Look past the CPI print to the showroom and the building site, and the cycle already looks late, not early. Car dealers are sitting on 43–45 days of stock, double the healthy level; India's seven largest cities hold over 6.3 lakh unsold homes, 12% more than a year ago; and US car sales and housing turnover have stalled. The inflation itself is narrow: onions, oil, freight and weather, not wages and credit. This note works through what is driving prices, what demand is already telling us, what history says about how peaks form, and where the genuine risk of an overshoot sits.

Situational Snapshot (as of 12 October 2026)

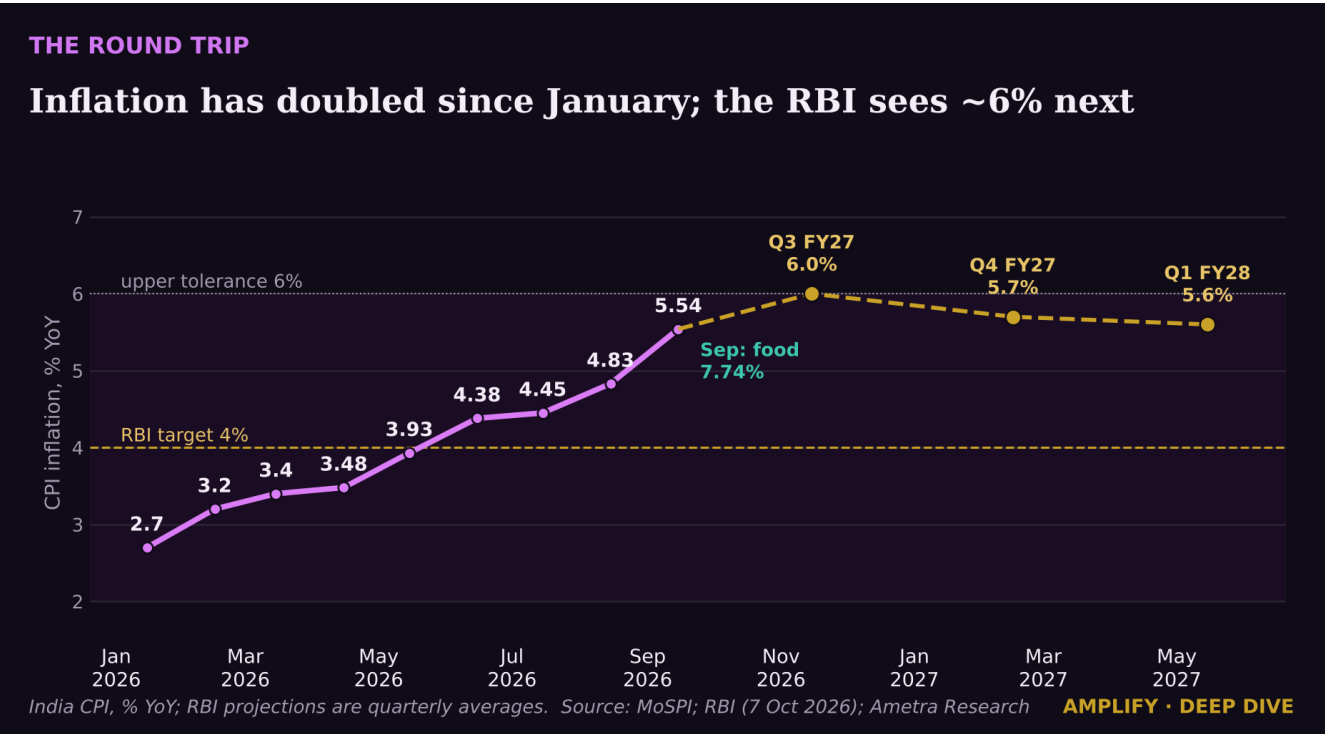
Indicator	Reading	Read-through
India CPI (Sep)	5.54% (Aug: 4.83%)	Fourth month above the 4% target; highest of 2026
India food inflation (Sep)	7.74% (Aug: 5.97%)	Onion +108% YoY; weather and freight, not wages
RBI repo rate	5.50% (+25 bps, 7 Oct)	First hike in ~4 years; stance now 'calibrated tightening'
RBI CPI path	Q3 6.0% · Q4 5.7% · Q1 FY28 5.6%	The RBI itself sees the peak this quarter
India 10-year G-Sec	~7.35% (12 Oct)	Eight weekly rises; near early-2023 levels (7.46%)
US Fed funds	3.75–4.00% (16 Sep)	Dots imply one more hike, then a long hold
US CPI (Aug)	3.4% headline; 2.4% core	Energy-led; underlying inflation contained

Brent crude	~US\$103/bbl. (12 Oct)	The swing variable; Hormuz risk keeps it above \$100
Car dealer inventory (Sep)	43–45 days (21-day norm)	Factory dispatches outrunning showroom demand
Unsold homes, top 7 cities	~6,30,600 units (+12% YoY)	Launches +18% vs sales +3%: supply ahead of buyers

1. The Turn – From Cutting Cycle to Hiking Cycle in Nine Months

Start with the round trip. Indian CPI bottomed at 0.71% in November 2025 and has climbed almost every month since: 3.48% in April, 3.93% in May, 4.38% in June, 4.45% in July, 4.83% in August and 5.54% in September. Our Food Inflation note of 31 August identified the engine; what has changed since is the speed. Food inflation jumped 177 bps in a single month to 7.74%, with onions up 108%, ginger 63% and garlic 55% year on year, while the cost of moving goods ('transport services for goods' in the CPI) is up 14.7%. Wholesale inflation, which tends to lead retail prices by a month or two, ran at 9.92% in August.

Policy has followed with a lag. The RBI held at 5.25% from December 2025 through August, arguing that the food spike was not generalising. In October it changed course: a unanimous 25 bps hike, a stance shift, a ₹25,000 crore open-market bond sale and a tighter daily cash-reserve requirement, aimed at the rupee as much as at prices. The same turn has happened worldwide. The Fed under Chair Kevin Warsh hiked in September with a 'predominant focus' on price stability, and the ECB has taken its deposit rate to 2.5% as euro-area inflation hit 3.3%. That synchronicity is what makes the moment feel like the start of something. It is also, as we argue below, what makes a peak more likely: every major central bank is now leaning against the same, largely energy-driven, shock at once.



2. What Kind of Inflation? A Price Shock, Not a Demand Boom

What decides whether rates must keep climbing is not how high inflation is but why. Demand-pull inflation, too much money chasing too few goods, feeds on itself through wages and credit and needs sustained tightening to break. Supply-shock inflation tends to burn out once the shock fades, and over-tightening into it only adds a growth hit. Today's is overwhelmingly the second kind. Three forces are stacked.

1. Energy: the West Asia conflict we mapped in Crude Mirage has kept Brent above US\$103 on 12 October after ~US\$107 in late September. US petrol prices are up 27.4% year on year and euro-area energy inflation is 14.3%.

2. Weather: the El Niño-weakened monsoon from our food note is now showing up in vegetables and threatens the irrigation-dependent rabi crop that sets wheat, pulse and edible-oil prices into 2027.

3. The rupee: at ₹96.72 per dollar on 9 October, a whisker from its ₹96.97 record low, a weaker currency makes every imported barrel and tonne of cooking oil dearer in rupees.

What is missing is the demand engine. US core CPI is 2.4% and euro-area core is 2.4%; the headline overshoot in both is energy. In India the RBI projects core inflation at 4.4% for FY27, barely above target, and the September CPI release is telling in its detail: housing inflation is 2.74%, and the price of buying a vehicle is actually falling, down 2.56% year on year after last year's GST cuts. Rural inflation (6.08%) is running well ahead of urban (4.88%), the fingerprint of food rather than wages. The RBI now says price pressures are 'becoming broader-based', and that is the risk to take seriously. But a central bank guarding against second-round effects is very different from one chasing an overheating economy.

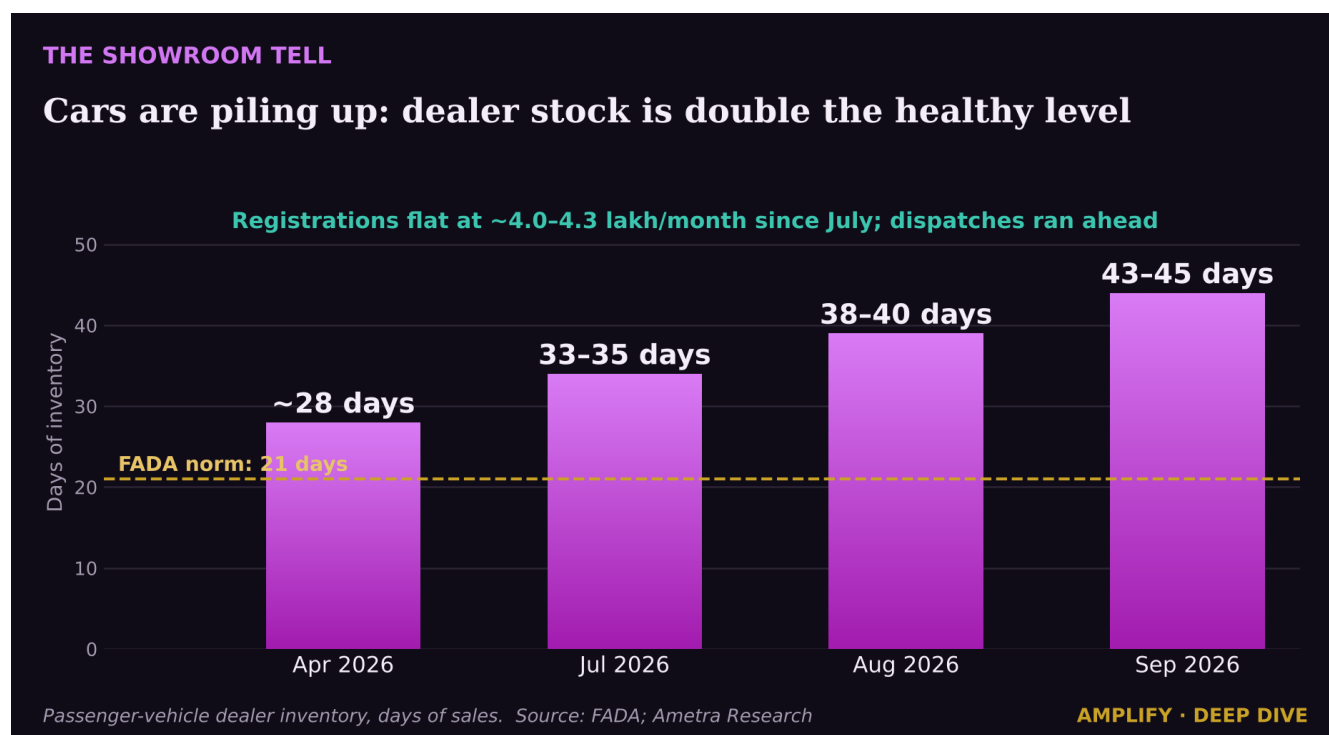
3. The Demand Tell – Stalled Showrooms and Unsold Homes

If demand were driving inflation, the car showroom is where it would show first. What it shows instead is an industry pushing stock harder than buyers are pulling it. On the headline numbers India's car market looks strong: FADA recorded 4,27,213 passenger-vehicle registrations in September, a September record and 32% higher than a year ago. But that growth is flattered by a base in which buyers postponed purchases ahead of GST 2.0 in September 2025. Strip the base out and the picture is a plateau: registrations ran at 4.17 lakh in July, 4.02 lakh in August and 4.27 lakh in September, essentially flat for a quarter, while factory dispatches ran ahead every month: by ~41,000 units in July and ~37,000 in August.

The gap is sitting in dealer yards. Inventory has climbed from about 28 days in April to 33–35 days in July, 38–40 in August and 43–45 in September, against FADA's recommended 21; dealers called the festive opening below expectations and urged carmakers to align billing with retail. The US tells the same story: light-vehicle sales slowed to a 16.0 million annual rate in September, down 3.5% on the month, and Q3 sales were 1.3% below Q2 as petrol and financing costs bit. Stagnant volumes and swelling stock are not what an inflationary boom looks like. They are what a consumer at the edge of affordability looks like.

Housing says the same thing at a slower tempo. ANAROCK's data for India's top seven cities show Q3 2026 sales of ~1,00,200 units, up just 3% year on year, against launches of ~1,14,300 units, up 18%. Unsold inventory has risen to ~6,30,600 units, 12% higher than a year ago, even as prices are still up 7%. Developers are building ahead of buyers at prices that assume cheap money, just as borrowing costs turn up.

In the US, the freeze we described in our August real-estate note has deepened: the 30-year mortgage rate hit ~7.4% in early October, the highest since November 2023, new-home supply sits at 8.5 months and existing-home sales are running at 3.98 million a year, near multi-decade lows. **Rising inventories of the things people borrow to buy are a classic late-cycle signal: the tightening already in the pipeline is doing its work.**



4. History's Lesson – Inflation Peaks First, Rates Follow

The last cycle offers a clean template. India's CPI peaked at 7.79% in April 2022; the RBI kept hiking for another ten months, taking the repo rate from 4.00% to 6.50% by February 2023, and the 10-year G-Sec was still trading around 7.46% in early 2023. In the US, CPI peaked at 9.1% in June 2022 and the Fed's last hike came thirteen months later, in July 2023. The sequence is consistent: inflation turns first, policy rates plateau some months later, and bond yields usually peak in between as markets look through to the end of the cycle.

Today's arithmetic points to the same sequence, only compressed. The RBI's own projection has CPI peaking at about 6.0% in the October–December quarter, then easing to 5.7% and 5.6%. Part of that is a base effect: prices were unusually soft in late 2025, so year-on-year readings stay high through December and then face a much tougher comparison in 2027 as this year's increases enter the base. Markets have moved to price the rest. Economists polled after the September print expect another 25–75 bps, with a terminal repo rate of 6.0–6.25% commonly cited, and the Fed's projections imply one more hike to a ~4.125% midpoint and a hold through 2027. These patterns are context, not a timetable, but they suggest inflation is at or near its peak, with policy rates one or two moves behind.

5. The Counter Case – Three Ways the Peak Could Slip

Intellectual honesty requires the other side and it is not trivial. The first risk is crude. Brent at US\$103 already carries a war premium, but attacks on shipping around Hormuz and the gulf have not stopped, and a renewed spike towards the spring level would push India's peak out by a quarter or more.

The second is the rupee and capital flows. Foreign investors have sold more than ₹4.41 lakh crore of Indian equities in 2026, and reserves have fallen about US\$50 bn from their September record to US\$ 734.6bn as the RBI has defended the currency. With the India–US 10-year spread squeezed to ~194 bps, near a 22-year low and half its ten-year average of 392 bps, the RBI may need to hike to protect the rupee even after domestic inflation turns.

The third is second-round effects. Food inflation near 8% for long enough unanchored household expectations, and expectations become wage demands; the RBI's 'broader-based' language is a warning that it sees early signs. One caveat, stated plainly: a peak in inflation is not a pivot in policy. Even in our base case, rates stay high for an extended period, and the first cut is a question for the second half of 2027, not for this year.

6. The India Angle – A Peak in Prices, a Plateau in Rates

For Indian portfolios the question is one of timing rather than direction. Much of the bond repricing has happened: the 10-year has risen roughly 80 bps from 6.53% a year ago, and the curve already prices most of the terminal rate economists expect. That makes high-quality Indian duration more interesting at the margin than it was in the summer, provided one accepts that the rupee and crude can drive another leg of volatility. In equities, the rate-sensitive parts of the consumption story, autos, residential developers and leveraged discretionary names, are where demand fatigue is already visible and where higher EMIs will bite next. Banks, as our Indian Private Banks note argued, benefit from a higher floor under lending rates, though credit costs in unsecured retail deserve watching if the slowdown spreads.

Growth is the cushion. The RBI still projects FY27 GDP growth at 7.1%: this is a supply-shocked economy, not a stagflationary one. That is what allows the RBI to stop at 'calibrated' rather than aggressive tightening, and why we see a late-cycle plateau rather than a 2022-style hiking campaign. Gold, as in our gold deep dive, remains the cleanest hedge against the scenario in which we are wrong and the peak slips.

Ametra's Read

Inflation is at or very near its cyclical peak, and interest rates are close behind but not yet there: expect one or two more hikes, then a long plateau. This is a peak, not a pivot. The evidence that the cycle is late lies less in the CPI than in dealer yards and unsold flats, which say higher rates are already biting; the risk to that view is imported, through crude and the rupee, not home-grown. Our stance:

- **Position for a plateau, not a spiral:** Plan around a terminal repo rate near 6.0% and a Fed that stops around 4.25%. Avoid positions that need either a 2022-style hiking campaign or an early-2027 rate cut to work.
- **Extend duration in steps, not in one go:** With the 10-year near its early-2023 levels and the RBI forecasting a Q3 peak in CPI, accumulate high-quality duration gradually; keep the core in short-to-medium accrual while the rupee is under pressure.
- **Stay light on rate-sensitive consumption:** Autos and residential real estate are showing demand fatigue first, with 43–45 days of dealer stock and 6.3 lakh unsold homes. Wait for inventories to clear before adding.
- **Favour pricing power and strong balance sheets:** Deposit-rich private banks, staples that can pass on costs and low-leverage businesses hold up best in a high-rate plateau.

— **Watch the four tripwires:** Brent sustained above US\$110; the rupee breaking its ₹96.97 record low; October CPI (due mid-November) printing above 6%; and the RBI's 2–4 December meeting. Any two together would tell us the peak is slipping.

The bottom line: inflation that comes from onions, oil and the rupee does not need years of tightening to cure, and the showrooms are already doing part of the central bank's work. The peak is near; the plateau will be long. Position for the wait, not the war.

Positioning Map

Stance	Where	Rationale
Favour	Short-to-medium high-quality accrual (1–4 years)	Locks in high carry while crude and the rupee keep the long end volatile
Add-on confirmation	Long-duration G-Secs	Yields near early-2023 levels; add as CPI confirms its Q3 peak
Favour	Deposit-rich private banks	A higher-for-longer floor supports margins, per our Private Banks note
Selective	Staples and businesses with pricing power	Can pass on input costs in a supply-shock inflation
Underweight	Autos and residential developers	Inventories building ahead of demand; higher EMIs bite next
Hold	Gold	Hedge against the peak slipping via crude and the rupee
Watch	Brent, INR, October CPI, RBI's December meeting	The tripwires that would turn a plateau into a second leg

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