ametra

AMPLIFY | DEEP DIVE

Beyond the Headlines

31 AUGUST 2026

The Return of Food Inflation

AMETRA RESEARCH · DEEP DIVE · AUGUST 2026

The Return of Food Inflation

El Niño is back, the monsoon is the weakest in three years, and food, which is nearly half the CPI basket, has pushed headline inflation to a 20-month high. It's already killed the rate-cut trade. The only question left is whether it stays on the plate or spreads to the whole meal

For most of the last year, India's inflation problem looked solved. Headline CPI fell to just 0.71% in November 2025, and the market began pricing the RBI's next move as a cut. That story is now reversing in real time.

By July 2026, headline inflation had climbed back to 4.45%, its highest since December 2024, and the engine was unmistakable: food inflation at 5.52%, driven by a returning El Niño, the weakest monsoon in three years, and a war-and-oil shock feeding straight into edible oils and transport.

On 5 August, RBI held the repo rate at 5.25% for the fourth consecutive time, kept its neutral stance, and told the market plainly that inflation will rise further and peak near 5.9% in Q3 before easing.

Food inflation is back at the centre of the macro debate. The reason it matters is arithmetic: food is roughly 46% of the CPI basket, so when it moves, headline moves, and **the RBI's hands are tied.**

Macro Snapshot (as of August 2026)

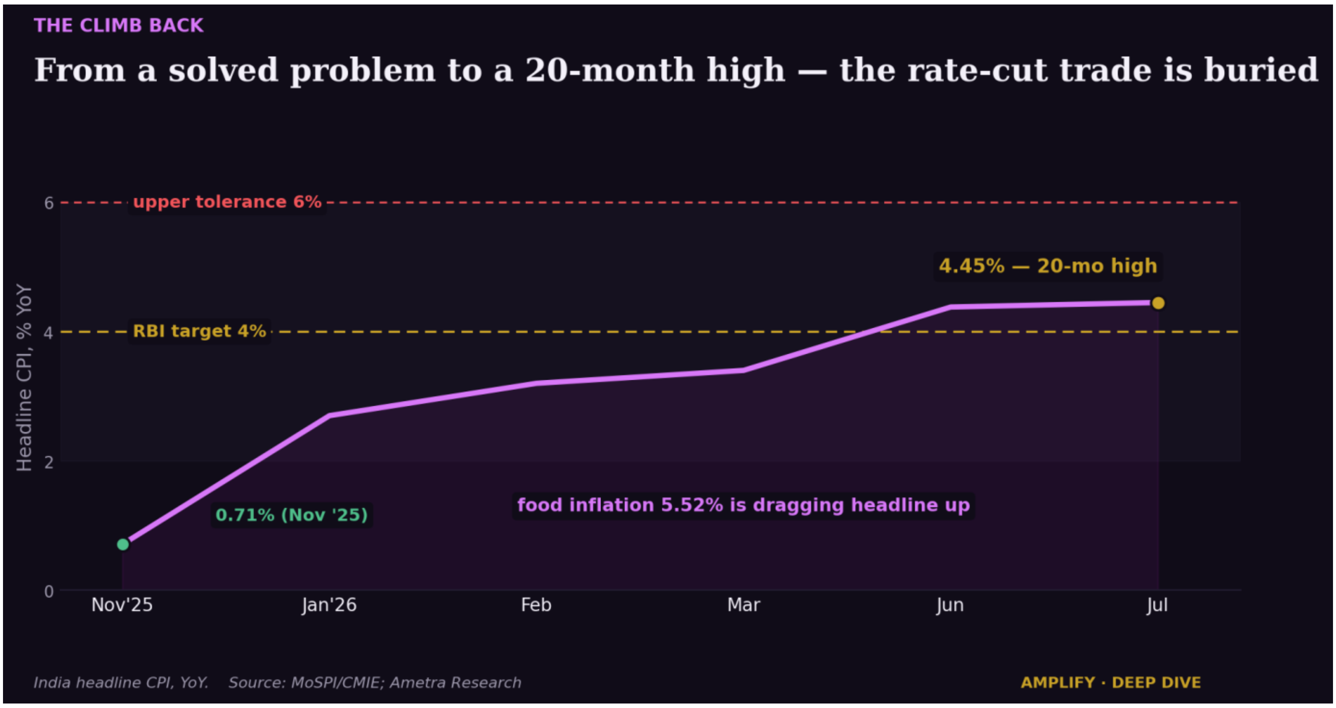
Indicator	Reading	Read-through
Headline CPI (Jul)	4.45% (20-month high)	The climb back from 0.71% in Nov 2025
Food & beverage inflation (Jul)	5.52% (from 5.32% Jun)	Nearly half the basket, doing most of the work
Food weight in CPI	~46%	Why a food shock is a headline shock
RBI repo rate	5.25% (4th consecutive hold, neutral)	Rate-cut trade buried; higher-for-longer
RBI inflation path	Peak ~5.9% in Q3 FY27, then moderating	The peak is expected; persistence is the risk
Core inflation (ex food & fuel)	~4.3% (subdued; lowered)	Not yet generalized, the key tell to watch
Monsoon 2026	Weakest in 3 years; El Niño returns	Kharif (~52% of foodgrain) at risk - the driver
Item spikes	Ginger 50%+, tomato 32%+, edible oils, wheat 3%+	Weather + oil, not demand
Buffer stocks	Well above mandated norms	The offset. Supply can be released
FY27 GDP (RBI)	6.7%	Supply-side inflation, not stagflation

1. The Return — From 0.71% to a 20-Month High

Start with the round trip. Indian CPI collapsed to 0.71% in November 2025 on a benign base and soft food prices, then began a steady climb.

2.7% in January, 3.2% in February, 3.4% in March, and has since accelerated to 4.38% in June and 4.45% in July 2026, the highest reading in twenty months. The driver is not broad; it is concentrated. Food and beverage inflation reached 5.52% in July (from 5.32% in June), and within it the spikes are dramatic: ginger up 50%, tomatoes up 32%, sharp increases in mustard and sunflower oil, rice, and even staples like wheat (+3%) and atta, maida and suji (+5–5.5%).

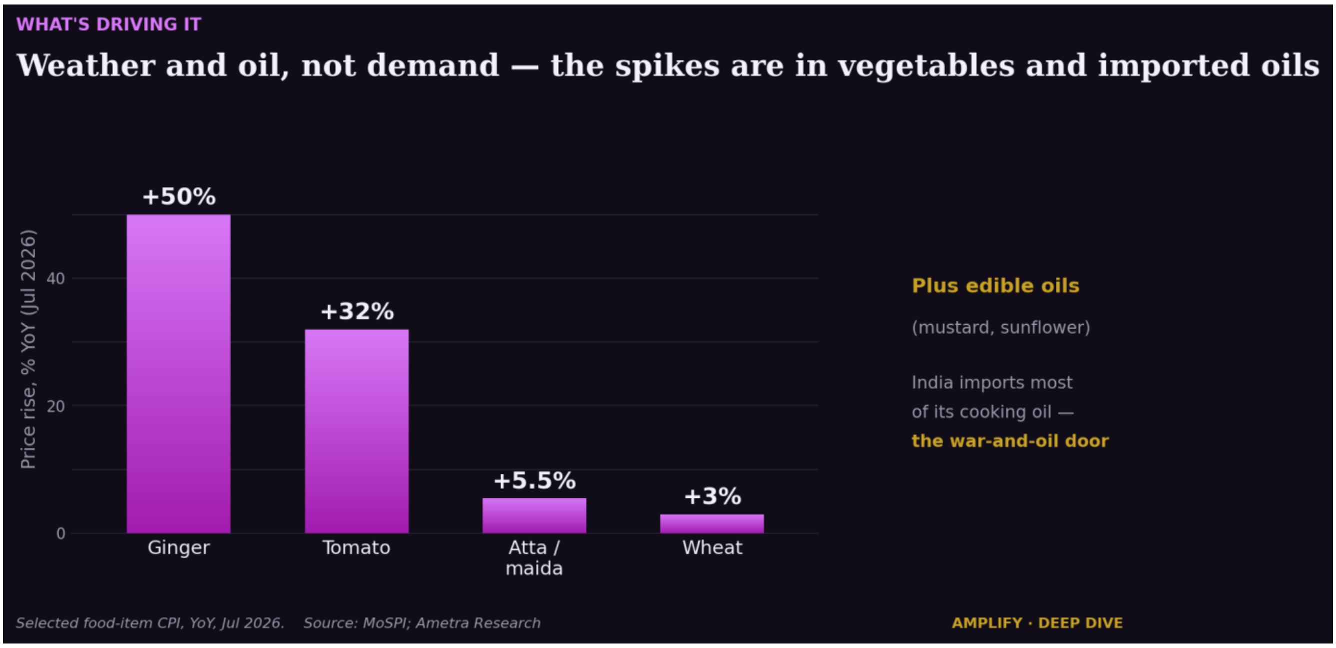
With food carrying ~46% of the basket, this single category is doing the overwhelming majority of the work in the headline number, exactly the dynamic that makes the RBI watchful, because a food shock is a headline shock whether or not anything else is wrong.



2. Why It's Back — El Niño Returns, and a War on Top

Two shocks are stacking, and the first is literally a return. After the favourable La Niña conditions that helped 2024, El Niño is back in the Pacific, and India's 2026 southwest monsoon is now set to be the weakest in three years, with both the IMD and Skymet projecting below-normal rainfall. That matters more than any single statistic because the kharif crop planted in the monsoon accounts for roughly 52% of India's foodgrain production. A weak, poorly distributed monsoon hits vegetables and pulses first and fastest, which is precisely where the July spikes are showing up. This is the same weather channel the reference framework identified in the last cycle, now running in reverse.

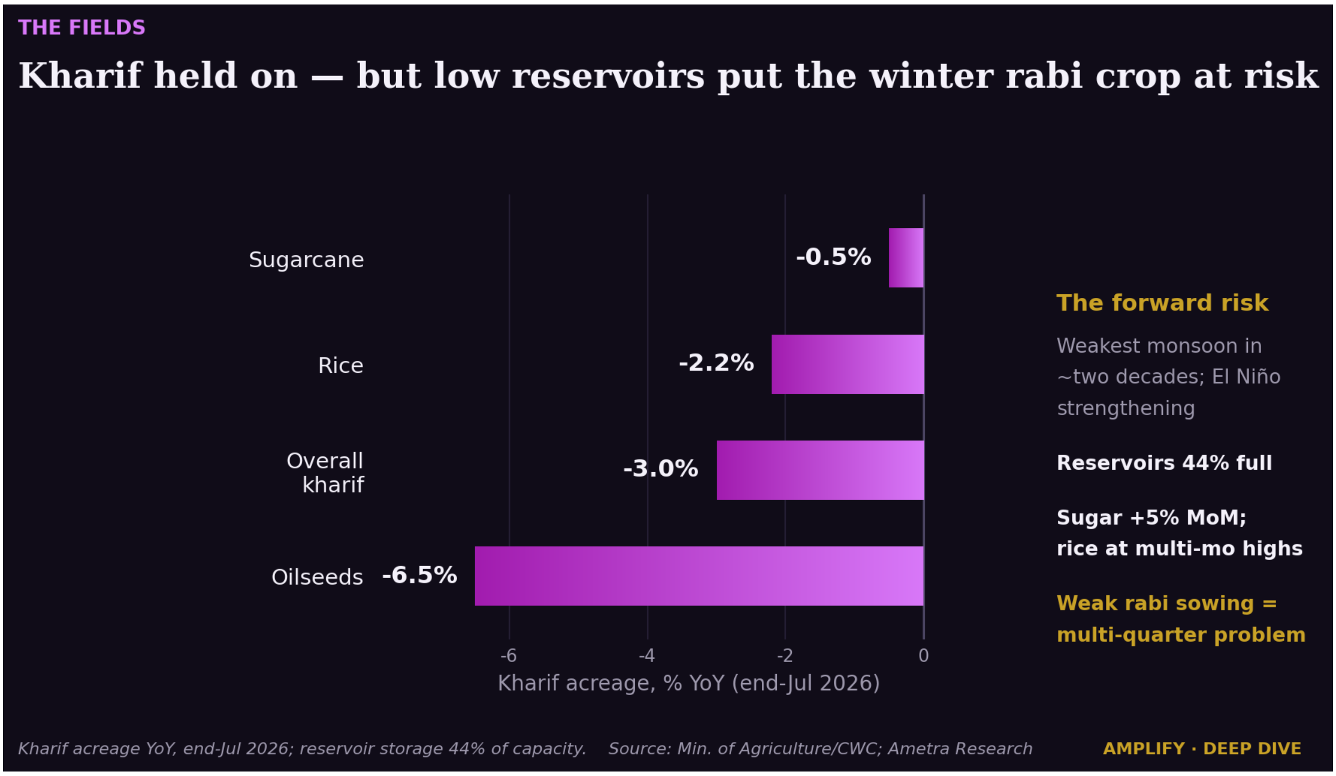
The second shock is imported. The 2026 war-and-oil complex we mapped in Crude Mirage and the August newsletter has pushed crude and global commodities higher, and that flows into the food basket through two doors: edible oils (India imports a majority of its cooking oil) and transport/fuel, which raises the cost of moving every crop to market. Weather would have been enough on its own; weather plus an energy shock is why food inflation has re-accelerated rather than merely ticked up. HSBC has warned that a moderate El Niño could push CPI above the RBI's 6% upper tolerance band if Brent averages around $100, a scenario that is no longer a low-probability event.



3. The Leading Indicators — Wholesale Prices and the Fields

Two forward gauges say this is a pipeline, not a one-print spike. Wholesale prices, which lead retail food by a month or two, ran at 9.78% in July; the headline is flattered by a high fuel-and-power base, but the WPI Food Index actually accelerated to 6.65% from 6.14% in June, with primary articles at 8.52%. Wholesale food is still building, not fading, so the retail print has probably not yet seen the top of it.

The second gauge is in the ground. The 2026 south-west monsoon is tracking toward its weakest in nearly two decades, roughly 10-15% below normal, with El Niño strengthening into the crucial August–September window. Kharif sowing recovered late, so the summer crop is not the story: overall acreage is down only about 3% year-on-year, rice around 2% and sugarcane broadly flat. The winter rabi crop is the story. With the 166 major reservoirs only about 44% full, a poor monsoon starves rabi of irrigation water, and **it is rabi that sets wheat, pulses and mustard-oil prices into 2027**. Sugar is already up around 5% in a month and rice sits at multi-month highs. That is the mechanism by which one bad monsoon turns a seasonal spike into a multi-quarter problem.



4. The 46% Problem — and the Spillover Question

Here is the mechanism that makes food inflation a macro signal rather than a grocery-bill complaint. Because food is ~46% of CPI, persistent food inflation does two things the RBI cannot ignore.

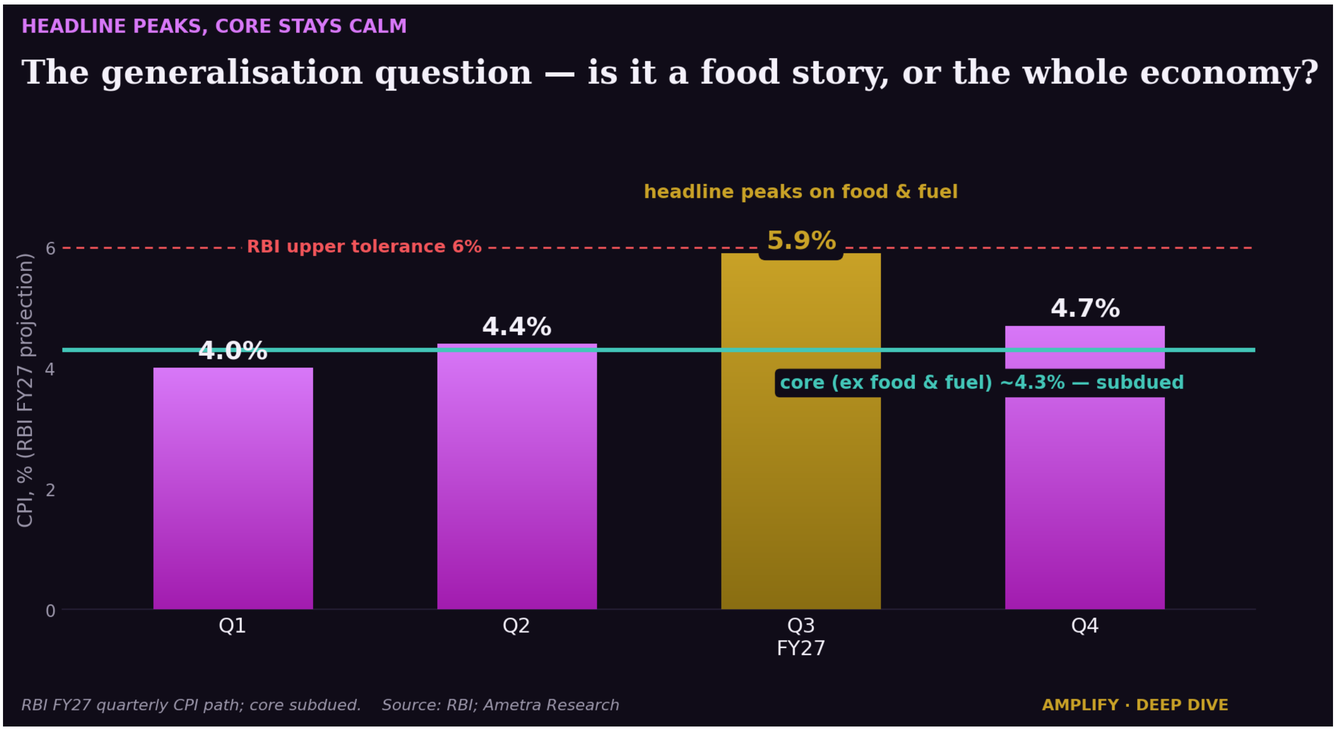
First, it keeps the headline elevated regardless of how well-behaved everything else is. The RBI now projects the print to peak near 5.9% in Q3 FY27.

Second, and more dangerously, it unanchors household inflation expectations: when families see food prices rising month after month, those expectations can seep into wage demands and, through them, into core inflation. That is the "generalization" the RBI fears, and it is the reason a central bank looks through one hot food print but not a persistent run of them.

The crucial nuance and the reason this is a genuine debate, not a foregone conclusion, is that, so far, it hasn't been generalized.

In its August review the RBI was explicit: the uptick is "primarily due to food and fuel," there is "no evidence of inflation getting generalized," and core inflation (ex food and fuel) remains subdued, with the FY27 core forecast actually lowered to 4.3%. So the picture is a headline being dragged up by a narrow, volatile, weather-driven food basket while the underlying economy's price-setting stays calm.

The entire outlook hinges on which of those two forces wins: if food stays a food story and recedes after the Q3 peak, this is a bump; if it drags expectations and wages up with it, it becomes a regime. Watch the persistence, not the level.

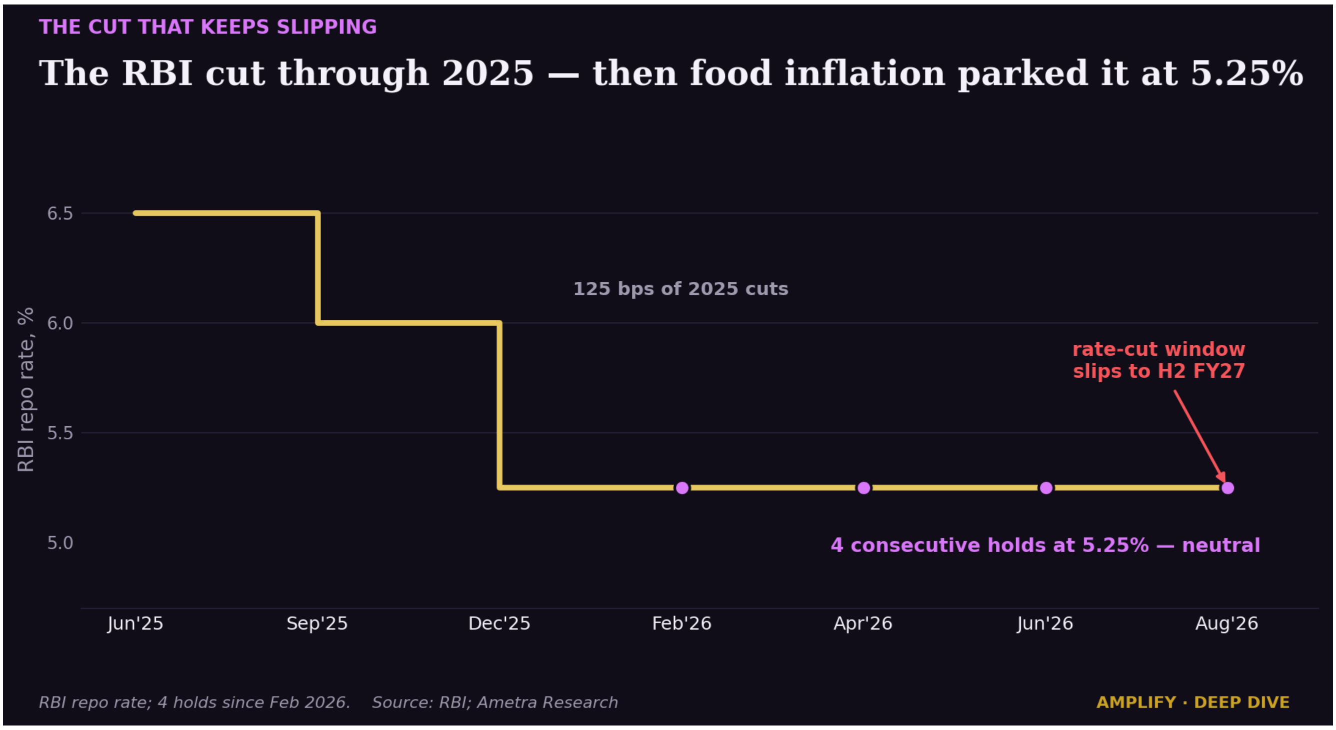


5. What It Means for Rates — The Cut That Keeps Slipping

The immediate casualty is the rate-cut trade. The RBI has now held at 5.25% four times running since February, kept a neutral stance, and guided that inflation will rise before it falls - a narrative that all but rules out a near-term cut.

The market entered 2026 expecting easing; food inflation has pushed that window out to, at the earliest, the second half of FY27, and only if the Q3 peak proves temporary. For a global backdrop in which some central banks are cutting (our gold and US-macro work), India is conspicuously on hold, a higher-for-longer domestic rate environment driven not by demand but by the weather and the oil price.

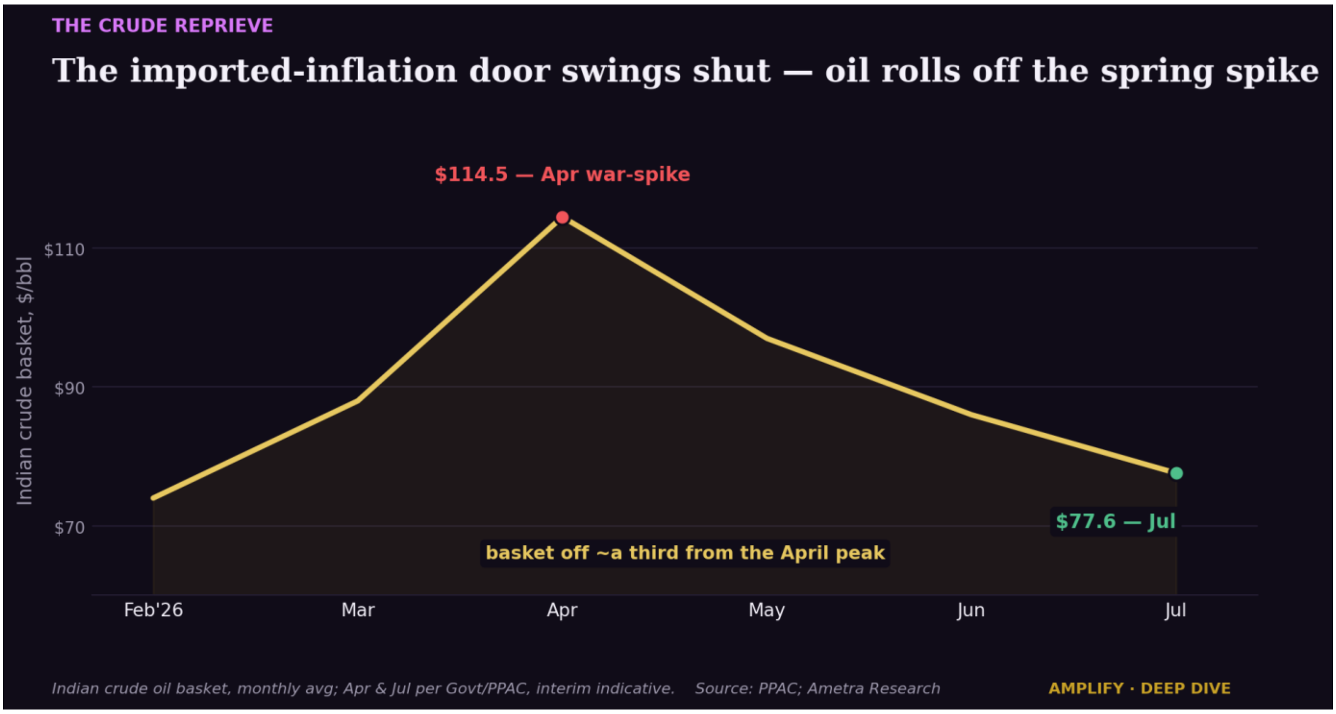
That is not all bad news, and the cross-references matter. A prolonged RBI pause is exactly what our Indian Private Banks note argued repairs bank margins, deposits reprice down while the rate floor holds, easing the NIM squeeze. It is a headwind, though, for anything priced for imminent cuts: long-duration bonds, rate-sensitive discretionary consumption, and the parts of the market betting on a dovish pivot. And it quietly strengthens the case for gold as a rupee and inflation hedge (the theme we built in the gold deep dive) because "inflation up, policy on hold" is precisely the real-rate configuration in which gold does its job.



6. The Crude Reprieve — The Offset Spring Didn't Have

The single biggest imported-inflation risk we flagged in Crude Mirage has, for now, gone the right way. The Indian crude basket averaged about $78 a barrel in July, down from a war-driven ~$114.5 in April, off roughly a third from the spring peak. That feeds straight into the print: WPI fuel-and-power inflation fell to 20.0% in July from 27.4% in June.

This matters for food specifically, because a large part of India's food inflation is imported energy in disguise: diesel for pumps and transport, fertiliser feedstock, and the freight on the edible oils India buys abroad. Cheaper crude loosens all three. It is the offset the spring did not have, and it is the main reason the food spike can be a peak rather than a spiral, provided the basket does not re-spike on the same geopolitics that drove it to $114 in the first place. This is the swing variable behind our 'higher-for-longer, not higher-forever' base case, and it cuts both ways.



7. The Offsets — Why It's a Peak, Not a Panic

Intellectual honesty requires the other side, and it is substantial. India today is a food-surplus country with real buffers. Central pool foodgrain stocks have run well above the mandated norms, giving the government ample room to release supply and calm cereal prices. The policy toolkit comprising export curbs, stock limits, targeted imports of pulses and oils, and the vast food-security programs, is well-practiced at smoothing exactly this kind of shock.

Globally, food prices have been easing, which caps the imported component over time. And the RBI, by design, looks through the volatile food basket: one 5.5% print does not move policy; a persistent run does. Growth, meanwhile, is strong. The RBI raised its FY27 GDP forecast to 6.7%, so this is supply-side, weather-driven inflation against a healthy demand backdrop, not stagflation. The base case, consistent with the RBI's own projection, is a Q3 peak followed by moderation, not a runaway spiral.

8. Ametra's Read

Our answer: food inflation is the single most important swing factor for Indian rates over the next two quarters, and it has already done its first job, which is to bury the rate-cut trade. Whether it does its second job, generalizing into core, is the question that decides everything after Q3.

— **Higher-for-longer is the base case into Q3 FY27:** With headline set to peak near 5.9% and the RBI explicitly neutral and watchful, the market's rate-cut hopes belong in H2 FY27 at the earliest, and only if food recedes. Fade positions that need a near-term cut.

— **Watch core and expectations, not the food headline:** The food print will be high and volatile by definition; the signal that matters is whether it spreads. RBI's inflation-expectations survey and core (ex food and fuel, now ~4.3%) are the tells. Core breaking higher is what turns a bump into a regime.

— **The pause is a quiet positive for banks:** As our Indian Private Banks note argued, a prolonged hold lets deposits reprice down and repairs NIMs. Food inflation, perversely, extends the very pause that helps the lenders.

— **Consumer and FMCG — input-cost and rural-demand pressure, but staples defend:** Food inflation squeezes both margins and real rural incomes; favour staples with pricing power over discretionary names priced for a rate cut and a spending revival.

— **Gold earns its place:** “Inflation up, policy on hold” is the configuration in which gold hedges best, reinforcing the core strategic allocation from our gold deep dive.

— **The monsoon is the master variable:** Kharif progress, reservoir levels and rainfall distribution over the next six weeks will decide whether this peaks with the RBI's Q3 forecast or overshoots it. That, not any single CPI release, is the number to watch.

Food inflation did not return because India's economy overheated. It returned because it rained too little and oil cost too much, and that distinction is the whole investment case. It is a supply shock the country is well-equipped to absorb, but not one the RBI can cut into. Until the monsoon and the food basket say otherwise, the rate-cut trade stays parked, and the burden of proof sits with the weather.

Positioning Map

Stance	Where	Rationale
Fade	Near-term rate-cut trades	Headline peaking ~5.9% in Q3; RBI neutral, 4 holds; cuts belong in H2 FY27 at the earliest
Beneficiary	Strong private banks	A prolonged pause lets deposits reprice down, repairing NIM
Caution	Long-duration bonds & rate-sensitive discretionary	Priced for a dovish pivot that food inflation has postponed
Selective	Consumer / FMCG - staples over discretionary	Input-cost + rural-demand pressure; staples with pricing power defend
Hold	Gold - INR / inflation hedge	'Inflation up, policy on hold' is where gold hedges best
Watch	Monsoon / kharif · core · inflation expectations	Persistence, not the food headline, decides bump vs regime

Disclaimer

Ametra Investment Managers Private Limited | SEBI Registered Portfolio Manager | Reg No. INP000008905

ameträ

AMPLIFY · DEEP DIVE

AMETRA

SEBI REGISTERED PORTFOLIO MANAGER

INP000008905

support@ametra.in

+91 90194 69258

www.ametra.in