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Inflation is likely to align with RBI's projection in Q1

BoB Essential Commodities Index (BoB ECI) has been in deflation territory in Jun'25 as well, declining by -1.8%, on YoY basis. The major support had come from vegetable and pulses, buoyed by better production. However, the usual seasonal build up in TOP (Tomato, Onion and Potato) prices are visible with the sharpest upward correction witnessed for Tomato. The TOP trajectory requires close monitoring as June and July have the usual seasonal trend of reversal in prices for these items as one harvesting period is at its end. However, the outlook for inflation remains comforting for now, as it has the handholding of a favourable statistical base. This is likely to continue in Jul'25 as well. We expect to settle CPI to settle at 2.6% in Jun'25. Thus, giving a breather for RBI in terms of focusing on growth.

To get an idea about the calculation of the index, refer to our [previous edition](#) of BoB ECI.

Price picture using BoB Essential Commodity Index:

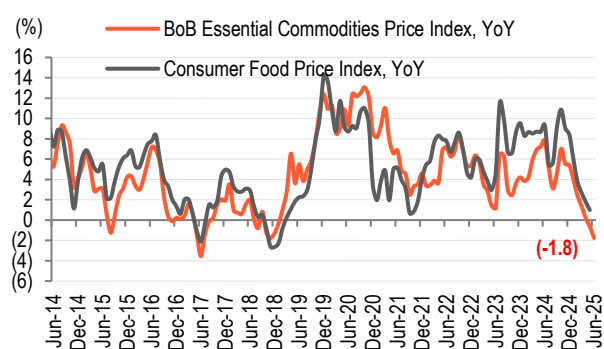
- BoB ECI entered remained in the deflation territory in Jun'25 as well, attributable to an elevated base. On YoY basis, it declined by -1.8% in Jun'25 compared to -0.6% in May'25. 11 out of 20 commodities in the index witnessed deflation with the sharpest pace being observable for TOP vegetables (Tomato, Onion and Potato). For Onion and Potato, the retail prices fell at a sharper pace by -26.1% and 20.3% respectively, in Jun'25 compared to -15% and -16.3% seen in May'25, respectively. For tomato however, the decline is at a slightly slower pace by -24% in Jun'25 compared to -28.5% in May'25. The TOP retail price trajectory is in deflation for the third month in a row. Among pulses as well, most of the sub-components are witnessing successive periods of deflation. Maximum decline is visible for Tur/Arhar which has fallen by -23.8% in Jun'25 compared to -18.9% in May'25. It has recorded the 4th consecutive month of double-digit pace of decline. The other categories of pulses which noted considerable decline are Urad (-8.5% in Jun'25 compared to -6.5% in May'25), Masoor (-6.7% compared to -6%) and Moong (-6.6% compared to -5.6%). This is supported by better production. In fact, in the ongoing Kharif season, sown area of pulses has improved significantly. The retail price of cereals has also shown moderation with rice falling at a steeper pace in Jun'25 by -5.1%. For miscellaneous items such as gur and salt pack, prices were largely contained. For Edible oils, prices are still higher, albeit a favourable international price.
- **Sequential picture:** BoB ECI inched up by 0.6% in Jun'25, on MoM basis. However, on a seasonally adjusted MoM, it has fallen by -0.7%. Thus, the sequential buildup in prices is partly attributable to the seasonal phenomenon.

The major sequential momentum was visible for Tomato and Onion. Apart from this, edible oil components such as Mustard and Groundnut oil and cereals saw some pickup in prices.

Is sequential buildup worrisome? For Tomato, it rose by 36.1% in Jun'25, on MoM basis. This is the strongest monthly gain since Oct'24, on account of the early onset of monsoon. For Potato as well prices have been picking up slowly in the last two months. Onion prices have still been capped, noting a sequential decline of -0.4% albeit at a far softer pace than -9.8% seen in May'25. Jun and Jul generally has the historical trend of price reversal for TOP and the trend is usually upward correction in price, which requires some vigilance. Better supply chain management in terms of cold storage facilities and developing more vegetable clusters will be helpful in arresting any price spiral.

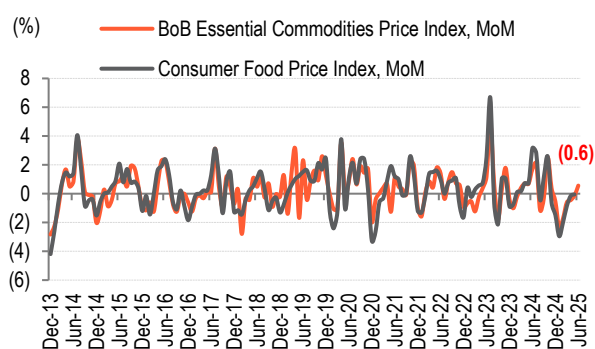
- **Jul'25 trend:** For the first 3 days, the trend continues as BoB ECI is tracking at 0.5% and -4%, on MoM and YoY basis, respectively. The statistical base is acting in favour.

Figure 1: On YoY basis, BoB ECI declined by -1.8% in Jun'25, at a sharper pace compared to May'25



Source: CMIE, Bank of Baroda Research

Figure 2: On MoM basis, however it inched up by 0.6%



Source: CMIE, Bank of Baroda Research

Table 1. Price moderation is seen in major items

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Cereals													
Rice	4.4	9.1	5.1	2.6	1.9	1.2	-0.5	-1.6	-2.9	-3.4	-4.1	-4.7	-5.1
Atta (Wheat)	2.6	2.9	1.7	1.4	2.5	2.5	3	3.9	5.2	5.2	3.9	2.5	1.7
Edible Oils													
Mustard oil (Packed)	1.3	-2	-0.8	3.8	17.2	20.9	23	24.3	24.8	25	25.1	25.5	24.0
Soya oil (Packed)	0.7	-6.1	-7.5	-3.1	9.3	14.4	16.2	17.5	18.8	19.3	18.9	19.3	19.5
Sunflower oil (Packed)	0.7	-8.4	-6.6	-2.5	11.9	19.7	23.8	25	26.3	29	29.6	30.7	30.4
Groundnut oil (Packed)	0.3	-1.6	-3.8	-4.4	-0.4	1	1	1.6	1.4	0.8	0.4	0.2	0.2
Vegetables													
Tomato	0.6	-40	-50	16.6	115.2	33.7	22.4	-5.3	-28.9	-33.5	-34.4	-28.5	-24.0
Onion	0.6	64.9	50.3	53	44	-4.4	-1.2	3.2	11.3	5.8	-5.7	-15.0	-26.1
Potato	1	55.1	53.1	49.4	50.2	49.2	52.3	34.8	16.4	2.1	-11	-16.3	-20.3
Pulses													
Urad dal	0.3	11.9	8.9	6.1	4.9	2.1	0.8	0.6	-1.1	-3.1	-4.5	-6.5	-8.5
Moong dal	0.3	7.1	4.5	1.6	0.3	-0.6	-1.9	-2.3	-3.1	-4.1	-4.9	-5.6	-6.6
Masoor dal	0.3	1.5	-2	-4.3	-4.8	-4.3	-5	-5	-5.1	-5.4	-5.8	-6.0	-6.7

Retail Price of major essential commodities, (% YOY)	Wts in CPI	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25	May-25	Jun-25
Gram dal	0.1	18.9	17.1	15	14.5	14	12.6	11.7	9.2	6	3.8	1.8	-1.7
Tur/Arhar dal	0.8	24.6	19.8	12	7.4	4	2.5	1.1	-5.4	-10.3	-14.6	-18.9	-23.8
Miscellaneous													
Salt pack	0.2	2.3	-0.4	-1.3	-1.3	-0.9	-1.3	-2.7	-4.4	-5.3	-4.9	-4.9	-4.9
Vanaspati (Packed)	0.1	-2.9	-4.5	-2.5	7.2	12.7	15.8	18.2	20	21.6	22	22.8	23.5
Gur	0.1	6.8	5.6	3.6	3.9	3.9	4.2	3.6	3.2	3.1	3.2	2.8	2.4
Milk	6.4	2.8	2.1	0.9	0.5	0.5	0.9	0.5	0	-0.2	0.2	0.3	0.0
Sugar	1.1	4.2	3.7	2.8	2	0.7	0	0.2	1.4	2.7	3.2	2.9	2.7
Tea loose	1	-0.2	-3.3	-4.1	-3.7	-3.5	-3.2	-3.5	-3.5	-3.6	-3.4	-3.5	-3.0

Source: CMIE, Bank of Baroda Research, Note: Green represents moderation in prices, Commodities where price change is more than 6% on YoY basis, have been marked in red.

Prices are still comforting:

We expect CPI in Jun'25 to be at 2.6%. The broader comfort will be provided by a favourable base. Even globally, food and metal prices were in favour. Within food, even international edible oil prices are largely in check, especially palm oil and soybean prices, on account of higher supplies in South America. The prices of international sunflower oil also moderated due to muted demand. Thus, this is likely to break away the stickiness of domestic edible oil prices which are still running in double digits. Energy prices were elevated mainly on account of the Iran-Israel conflict. The ceasefire has provided much degree of comfort on that front. However, for retail energy prices, it is not much of a worry as the buffer is with the OMCs. Thus, inflationary pressure is still residing on the downside. The volatile TOP prices, albeit some sequential aberrations, are largely contained driven by better supply dynamics. As per UPAJ data, arrival statistics for TOP cumulatively have risen by 35.7% in Q1FY26 compared to -15.9% in the same period of the previous year. The gap between retail and wholesale prices for tomato is still higher than historical average, thus it indicates that some pass-through of lower wholesale prices will be visible in retail print. However, for Potato and Onion, it seems that the gap is in line with historical average, hence caution is required for any reversal in prices. A moderation in gold price in Jun'25 would also largely cap core inflation. In Jun'25, international gold prices have softened by 1.3%, on MoM basis compared to the 2.9% increase seen in May'25.

How are the risks distributed?

World Bank data has shown that prices of metals and minerals such as aluminum, iron ore, copper, lead, zinc and gold softened in Jun'25 as global growth concerns remain amidst uncertainty and unpredictability on tariff front. Thus, from the angle of intermediate input cost, it is largely capped. On the demand side, some stickiness in core inflation is expected to prevail, going forward. This is because sowing is progressing well. There also might be visible frontloading of consumption demand due to tax benefit given in the Budget on the backdrop of muted inflation especially on non-discretionary spending.

The spatial distribution of monsoon holds the key for any upward spiral in prices. These volatile TOP prices are already showing some degree of monthly buildup in prices. Majority of the TOP producing States are recording large excess or excess rainfall. Also, Jun and Jul coincide with the seasonal bump in TOP prices as it nears the end of one harvesting cycle. Thus, prices are mostly contingent on post-

harvest management of the produce where an efficient supply management policy of the government comes into play.

Table 2. Rainfall situation in major TOP producing States and arrival statistics

Arrival, in tonnes	Apr'25	May'25	Jun'25	Rainfall status (cumulative)
Tomato				
Andhra Pradesh	27,118	78,419	92,561	Normal
Gujarat	28,914	30,556	32,680	Large Excess
Karnataka	20,760	40,731	95,443	Normal
Madhya Pradesh	3,816	4,631	6,169	Excess
Odisha	4,211	3,677	4,206	Excess
Onion				
Gujarat	2,19,369	1,85,689	1,08,222	Large Excess
Karnataka	12,155	11,947	10,851	Normal
Madhya Pradesh	2,99,206	2,87,017	2,63,438	Excess
Maharashtra	5,62,496	7,05,322	6,98,288	Normal
Rajasthan	58,068	50,793	30,372	Large Excess
Potato				
Bihar	6,696	6,897	5,923	Deficit
Gujarat	66,827	62,177	61,507	Large Excess
Madhya Pradesh	26,357	27,009	20,910	Excess
Uttar Pradesh	10,40,913	8,53,180	7,80,066	Normal
West Bengal	52,337	53,776	47,047	Normal

Source: UPAJ, IMD, Bank of Baroda Research

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