RBI Monetary Policy

JM FINANCIAL
MUTUAL FUND

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Rate cut wait continues: RBI focusses on growth-inflation dynamic

Event: RBI's Monetary Policy on November 06, 2024

Takeaways:

- Reserve Bank of India (RBI) kept **Repo rate unchanged at 6.50%,** Standing Deposit Facility (SDF) at 6.75% and Marginal Standing Facility (MSF) at 6.75%.
- The Monetary Policy Committee **("MPC")** retained its stance as **'Neutral'.** The principal drivers for the status quo stance were RBIs focus on managing the **inflation-growth dynamic** while navigating global and domestic volatility and uncertainty. RBI reiterated its objective of bringing headline inflation towards the targeted **4.00% on a durable basis.**
- RBI significantly lowered its **Gross Domestic Production (GDP)** expectations for FY24-25 to 6.6%. (Vs 7.2% earlier) and hiked its **Consumer Price Index (CPI) inflation** forecast for FY24-25 to 4.8% (Vs 4.5% earlier)
- RBI expressed its view of a **resurgent growth and softening in inflation** in the coming months but reiterated the need for **vigilance** at this juncture, given the risks posed by volatile food prices and uncertainty regarding global commodity prices (especially crude oil).
- In line with market expectations, RBI reduced Cash Reserve Ratio **(CRR)** by 50 bps (to 4%), thereby releasing ~INR1.16 tn. in two fortnightly tranches starting December 14, 2024).
- RBI reiterated its position of being **'nimble footed and flexible'** in managing liquidity conditions.

Our Views

- As such, the policy was **on expected lines,** but RBIs significant decrease in GDP forecast while increasing its projected inflation trajectory proved to be **disappointing** for participants who felt it hinted **at increased complexity and uncertainty in the rates outlook.**
- The CRR cut **releases liquidity** into the system and will help tackle the expected tightening in market **liquidity** during December 2024- January 2025 on account of tax outflows, busy credit season and increased cash in circulation (CIC).
- As of now, **RBI may look to keep rates unchanged** until a clearer picture of the **inflation-growth dynamic** emerges. We feel that over the **medium term, bond yields should trend lower** with participants eventually shifting back to trading the **lowering inflation** and **fiscal consolidation** narratives.
- Strategically, our present view is of a total easing of ~50-75 bps by RBI, albeit with risks of a **shallower cycle**.
- For now, we may see the **benchmark 10-year sovereign bond yields remain in the 6.60%-6.80% habitat.**
- Overall, we remain **constructive** on the bond markets over a **medium to long term** period with an emphasis on **sovereign and curated, quality assets**.