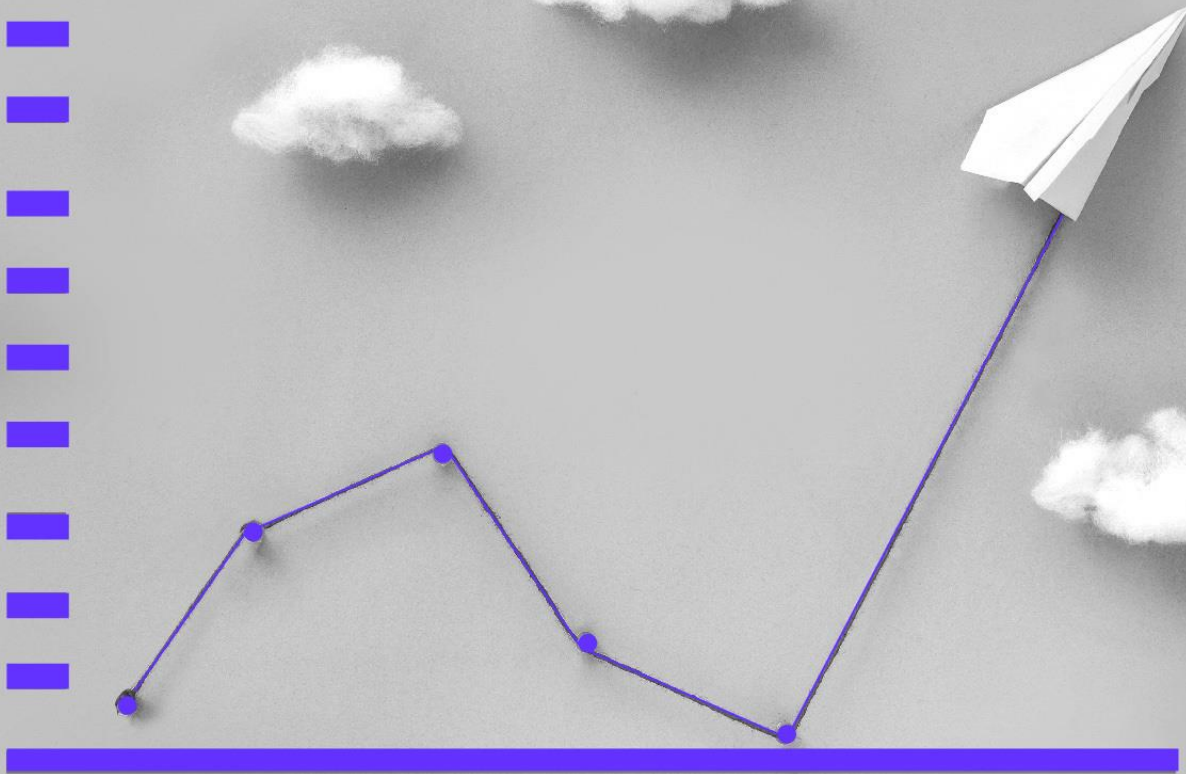


TRENDS & TIDES

**RBI MPC October 2023 holds
repo rate at 6.5%, signals
OMO sales to absorb excess
liquidity**



MPC maintains status quo as policy remains 'actively disinflationary'

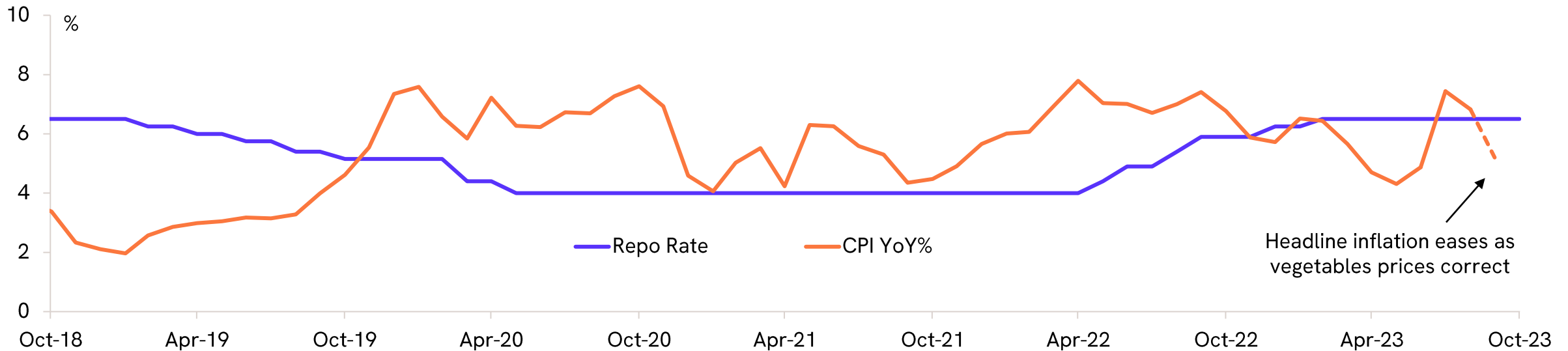
Governor reiterates commitment to align inflation to the 4% target on a durable basis

Monetary policy stance retained at 'focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth'. Governor mentions transmission of the 250 bps increase in the policy repo rate to bank lending and deposit rates is still incomplete and hence the MPC decided to remain focused on withdrawal of accommodation

MPC observed that the recurring incidence of large and overlapping food price shocks can impart generalization and persistence to headline inflation. MPC stressed 'preparedness to undertake appropriate and timely policy actions' to prevent any spillovers from price shocks to underlying inflation trends

RBI to consider **Open Market Operation (OMO) sales to manage liquidity** – timing and quantum to depend on evolving liquidity conditions

Governor cautions against very high growth in certain components of personal loans. Advises banks to strengthen their internal surveillance mechanisms, address the build-up of risks, if any, and institute suitable safeguards

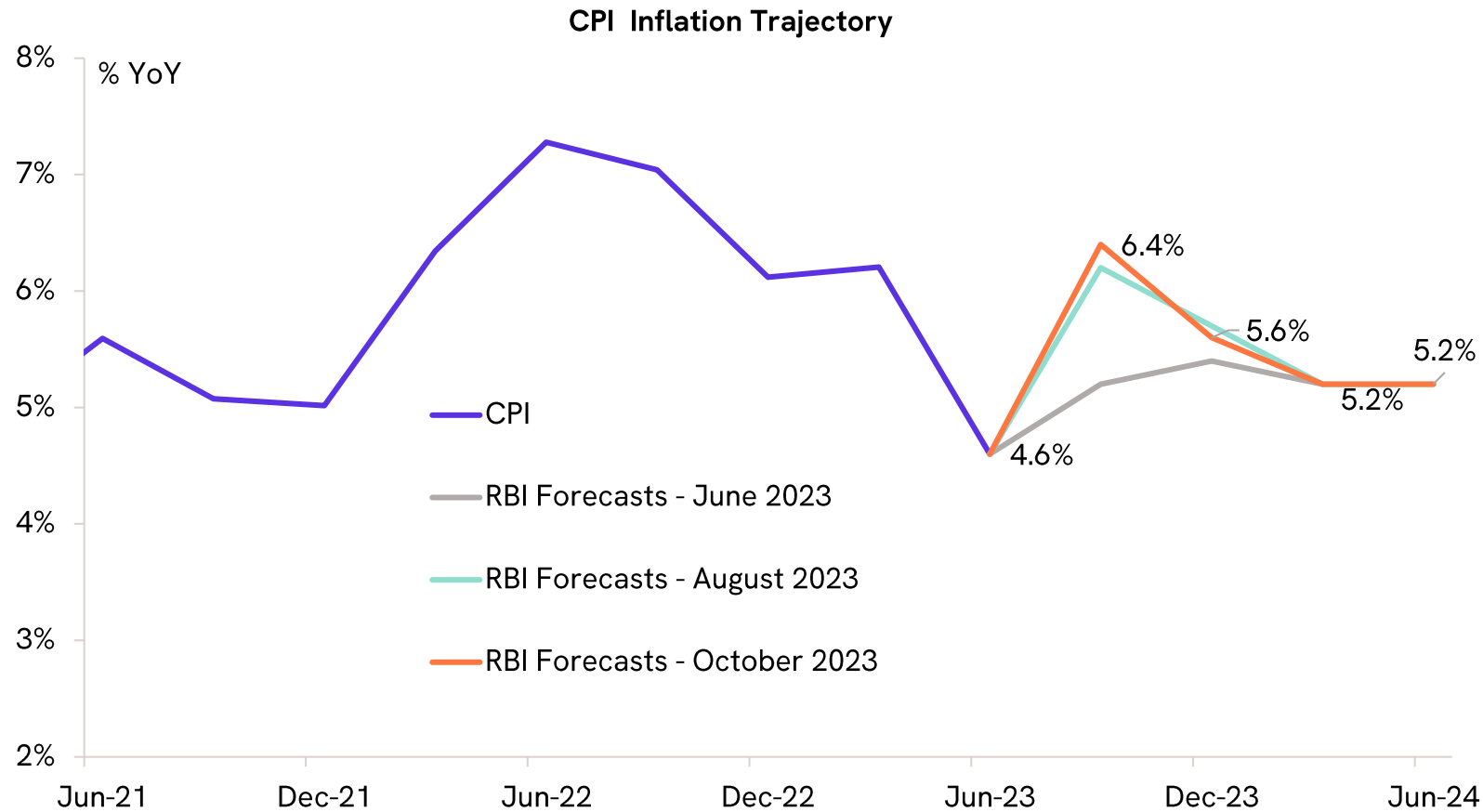


Source: MOSPI, RBI, 360 ONE Asset Research

Note: September 2023 CPI inflation internal forecast

FY24 inflation forecast retained at 5.4% YoY

Q2 inflation forecast revised upwards to 6.4% YoY while Q3 forecasts revised downwards to 5.6% YoY



RBI inflation outlook:

Near-term inflation outlook is expected to improve on the back of vegetable price correction and the recent reduction in LPG prices

Future trajectory will be conditioned by several factors like lower area sown under pulses, dip in reservoir levels, El Niño conditions and volatile global energy and food prices

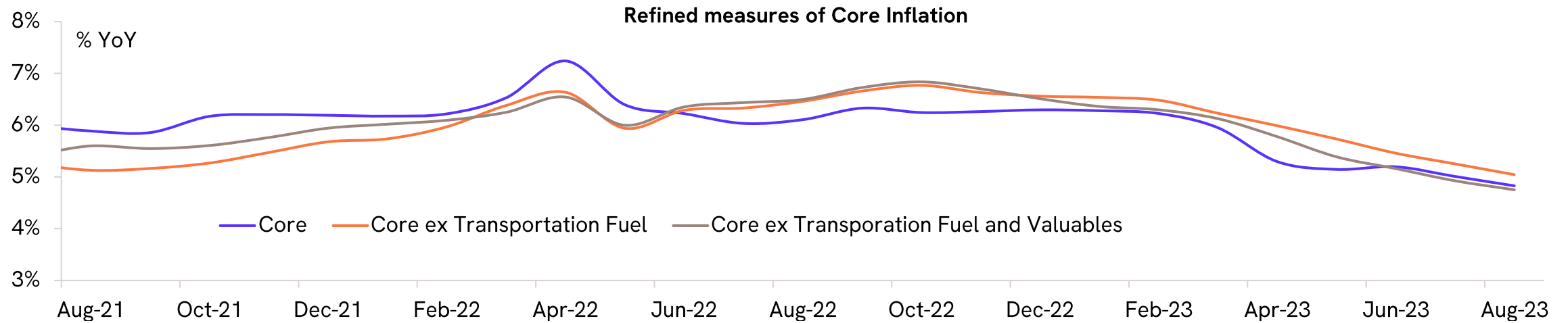
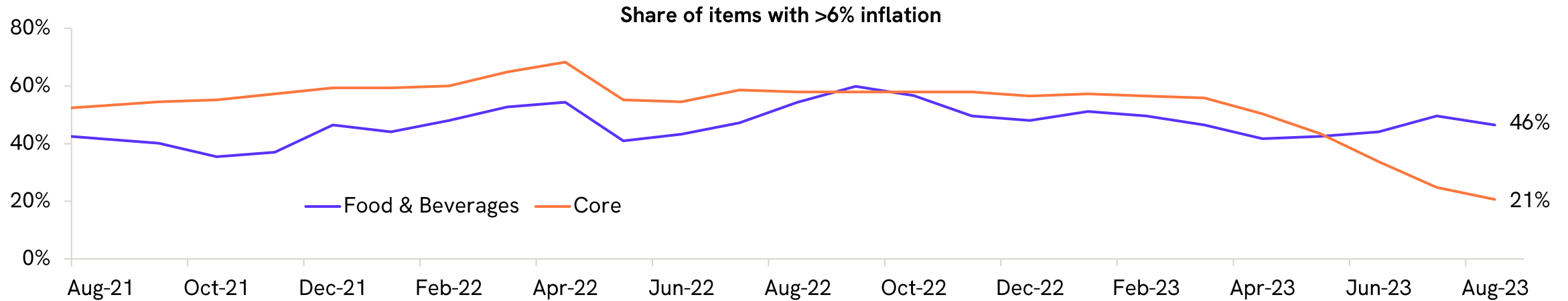
Manufacturing firms expect higher input cost pressures but marginally lower growth in selling prices in Q3 compared to the previous quarter

Services and infrastructure firms expect a moderation in growth of input costs and selling prices

Source: MOSPI, RBI, 360 ONE Asset Research

Food inflation remains broad-based, keeps headline elevated

Core inflation continues to show a downward trend, suggesting that underlying momentum is easing



Source: MOSPI, 360 ONE Asset Research

RBI retains FY24 GDP growth forecast at 6.5% YoY

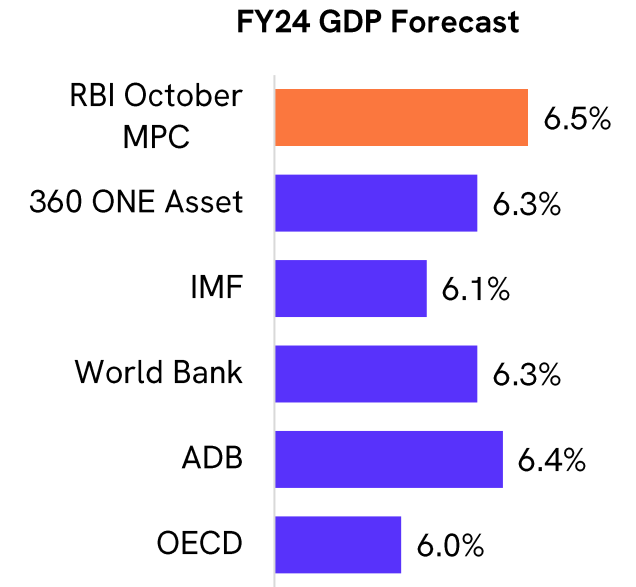
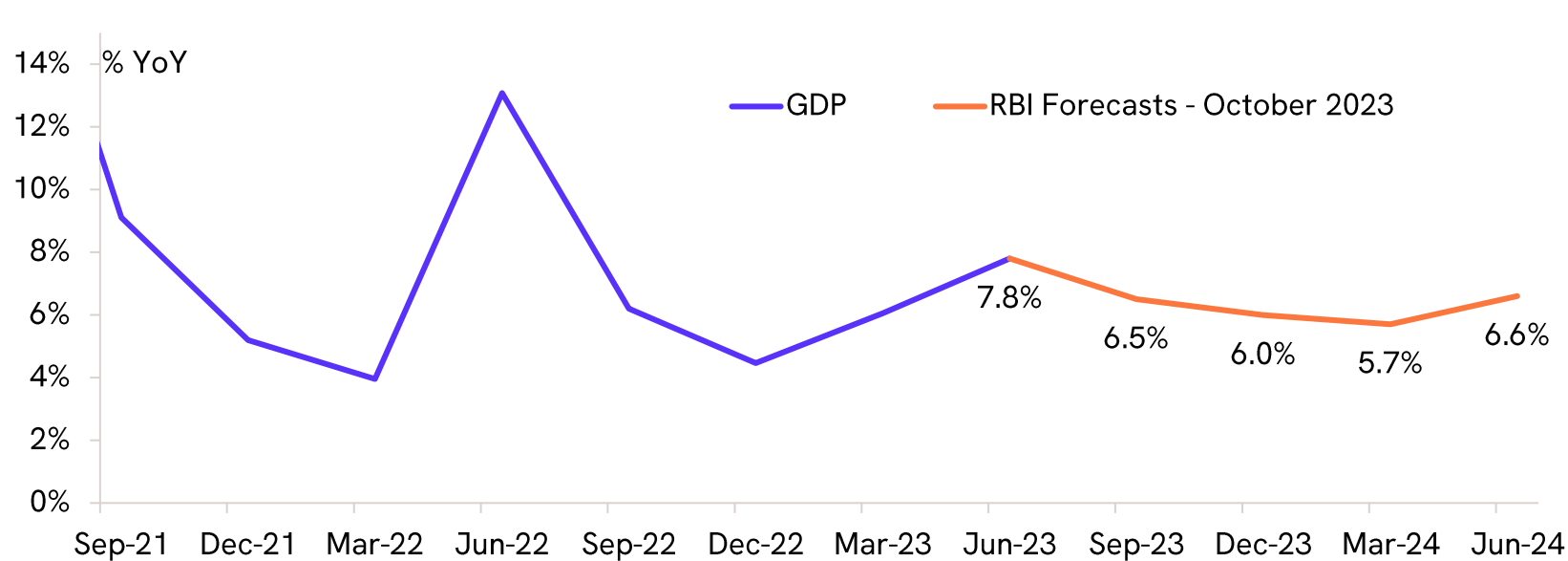
Economic activity exhibiting resilience on the back of strong domestic demand

RBI growth outlook:

Domestic demand conditions are expected to benefit from the sustained buoyancy in services, revival in rural demand, consumer and business optimism, the government’s thrust on capex, and healthy balance sheets of banks and corporates

Domestic economic activity is expected to be boosted by festive consumption demand and pick up in investment intentions

Headwinds from global factors like geopolitical tensions, volatile financial markets and energy prices, and climate shocks pose risks to the growth outlook



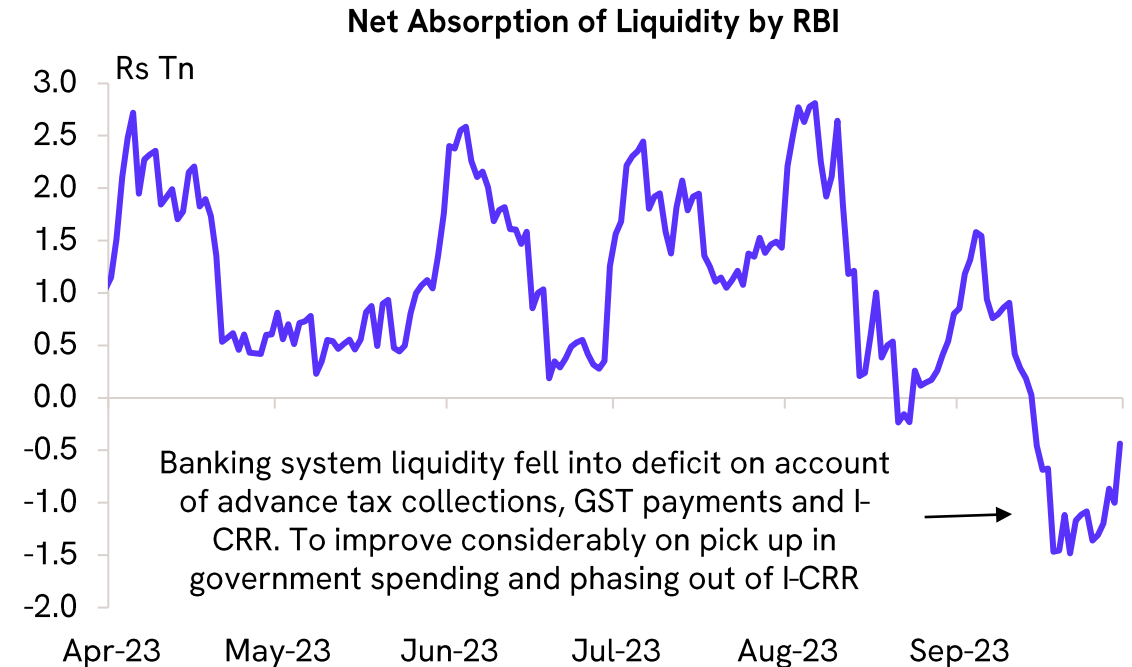
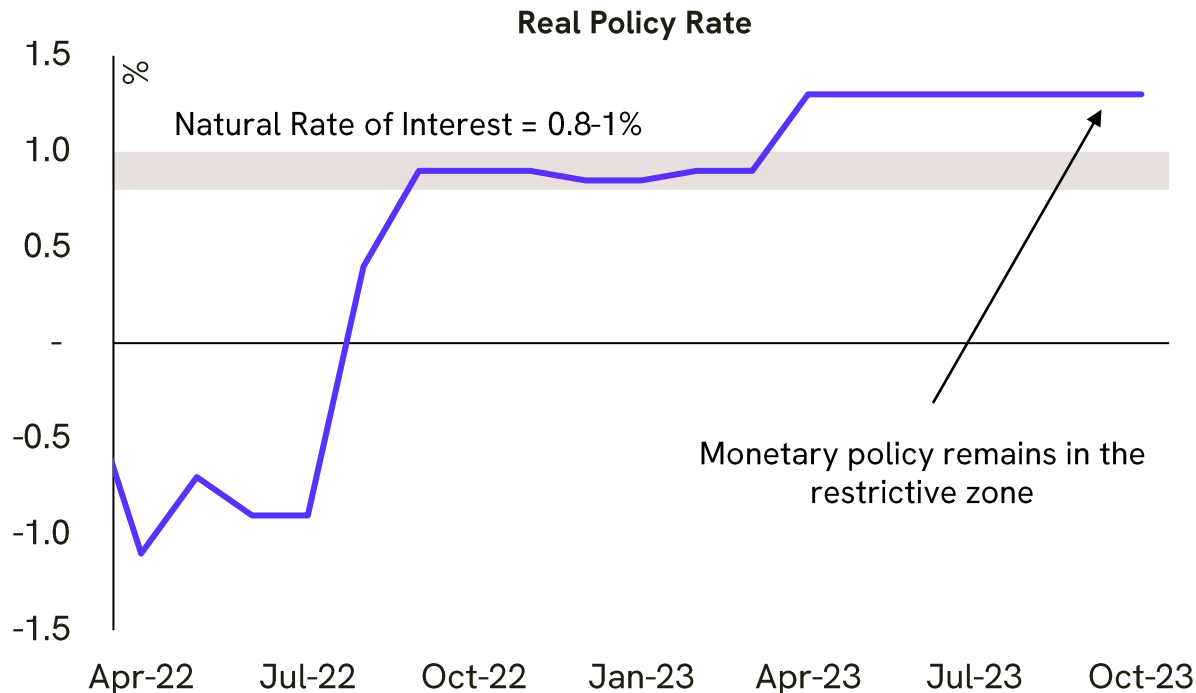
Source: MOSPI, RBI, CMIE, 360 ONE Asset Research

Outlook: RBI likely to maintain the repo rate at current levels in FY24

Deficient & uneven rainfall could reduce kharif crop yields and impact rabi sowing, keeping food inflation elevated

RBI MPC is expected to maintain a prolonged pause until there is visibility of inflation sustainably coming down to the 4% target

RBI is likely to maintain liquidity close to neutral levels due to financial stability and inflationary risks associated with excess liquidity. As indicated in policy, OMO sales may be utilized to reduce excess liquidity



Note: The natural rate of interest—the real interest rate that neither stimulates nor contracts the economy

Revisiting India's Natural Rate of Interest (RBI Bulletin Jun'22) estimated natural rate for the post-pandemic period in the range of 0.8 to 1% for Q3FY22

Source: MOSPI, RBI, CMIE, 360 ONE Asset Research

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