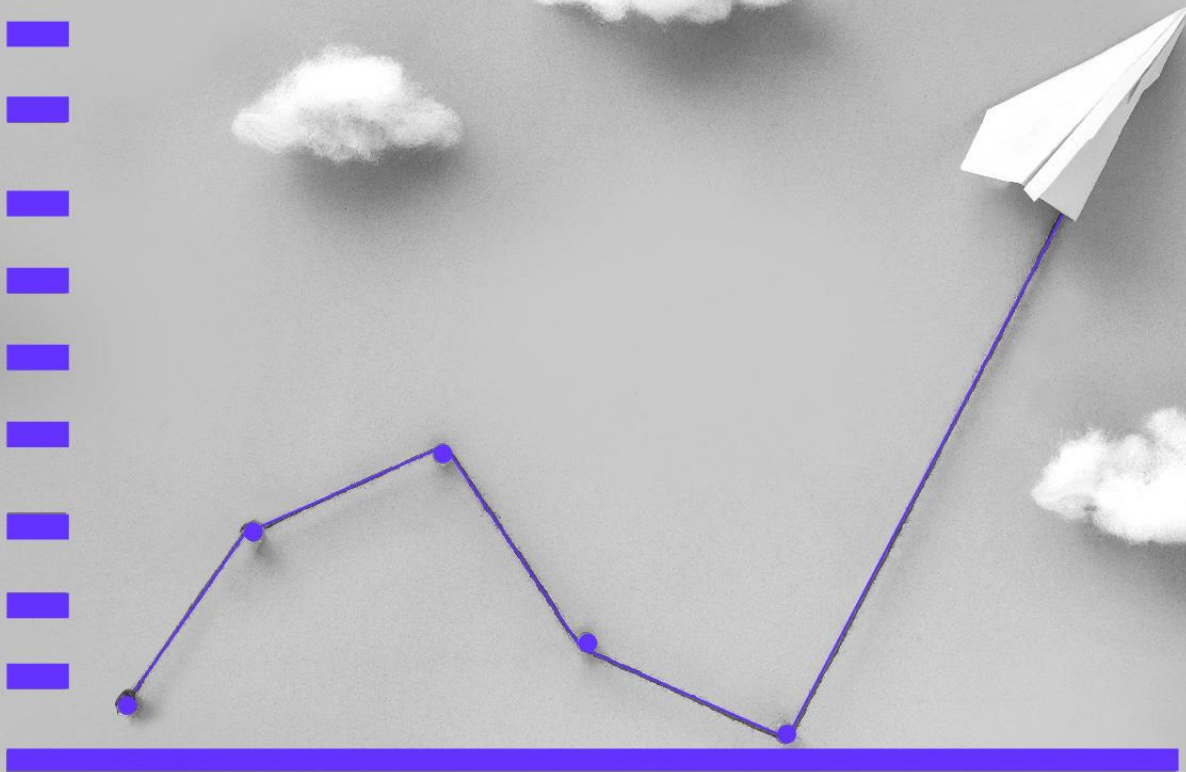


TRENDS & TIDES

**RBI MPC April 2024 maintains
status quo on rates and
stance, with a hawkish
commentary**



Robust growth provides policy space to remain focused on inflation

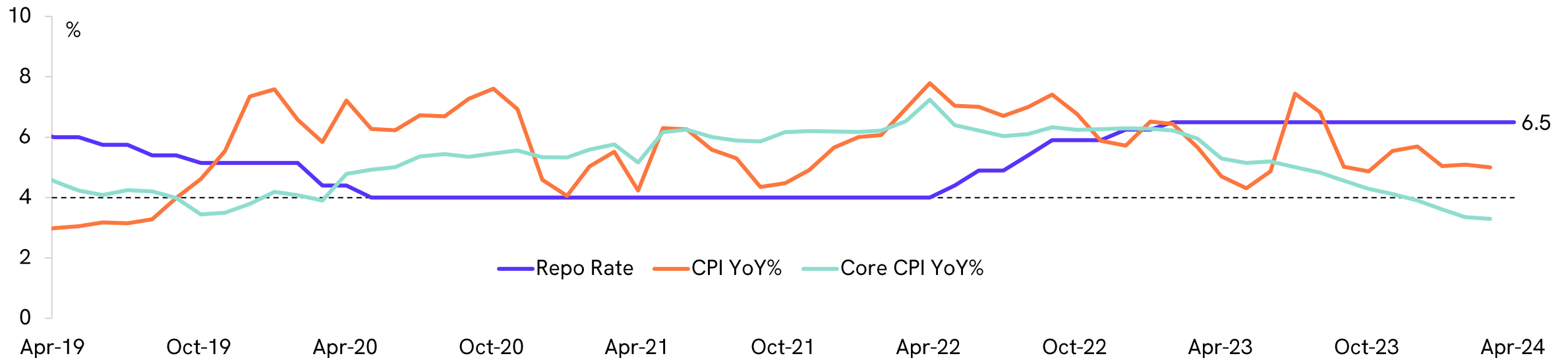
Monetary policy 'actively disinflationary' to ensure anchoring of inflation expectations and fuller transmission of past actions

Monetary policy stance retained at 'focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth'.

The RBI Governor highlighted that food inflation continues to exhibit considerable volatility, impeding the ongoing disinflation process. High and persistent food inflation could undermine the anchoring of inflation expectations.

The Governor stressed the need to "ensure price stability on an enduring basis" and mentioned that "the MPC remains vigilant to the upside risks to inflation that might derail the path of disinflation".

The Governor reiterated that monetary policy remains "actively disinflationary" and committed to durably and sustainably aligning inflation with the 4% target.

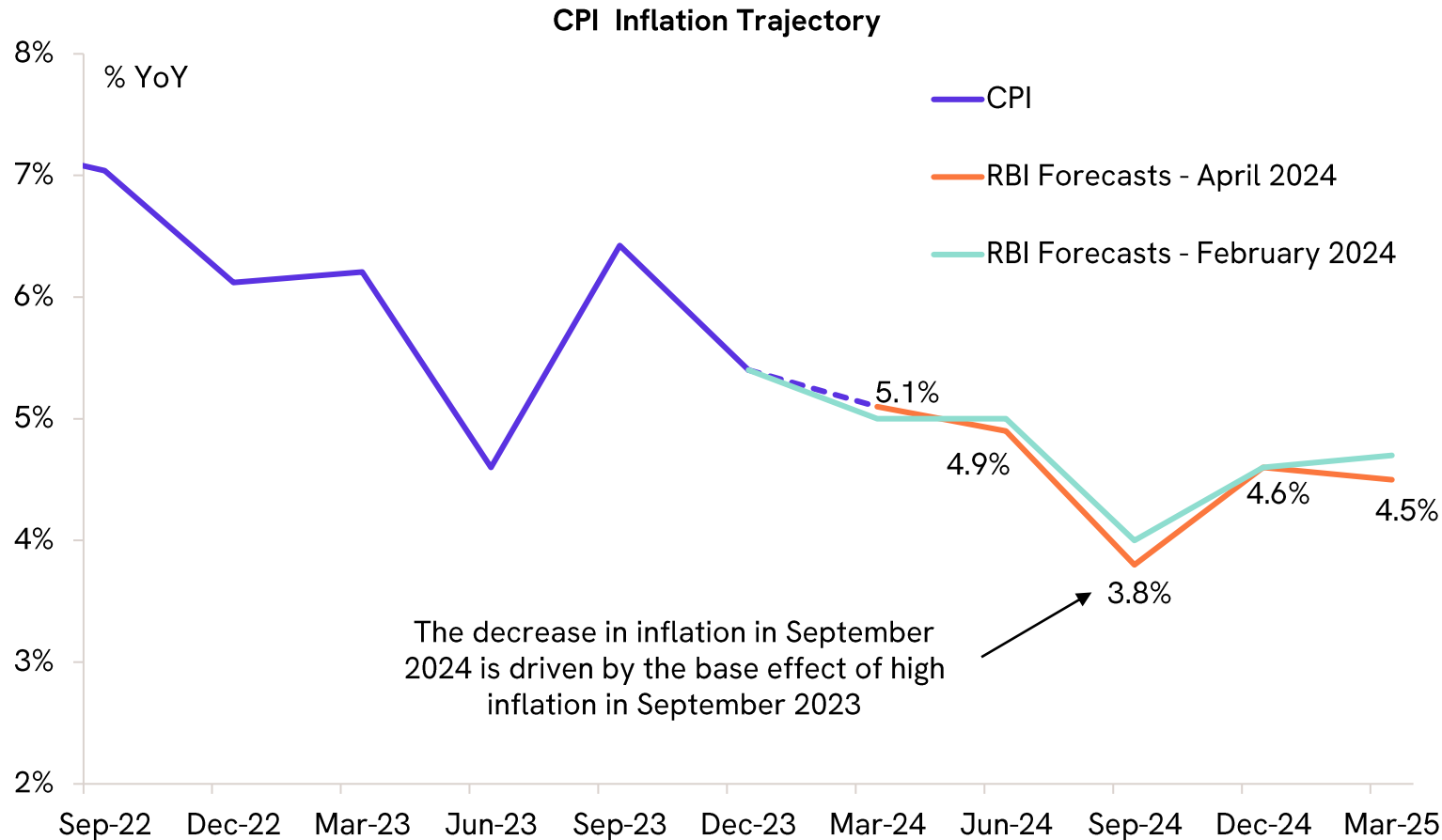


Source: MOSPI, RBI, 360 ONE Asset Research

Note: March 2024 CPI inflation internal estimate

RBI forecasts FY25 CPI at 4.5% YoY, stresses food price uncertainty

Quarterly inflation projections slightly lowered, possibly due to recent LPG and petrol-diesel price reductions



RBI inflation outlook:

An expected record rabi wheat production in 2023-24 will help contain cereal prices. Early indications of a normal monsoon also augur well for the Kharif season.

Low reservoir levels, especially in the southern states, and the outlook for above-normal temperatures during April-June pose concerns.

Cost-push pressures faced by firms are showing upward bias. The recent firming up of international crude oil prices warrants close monitoring.

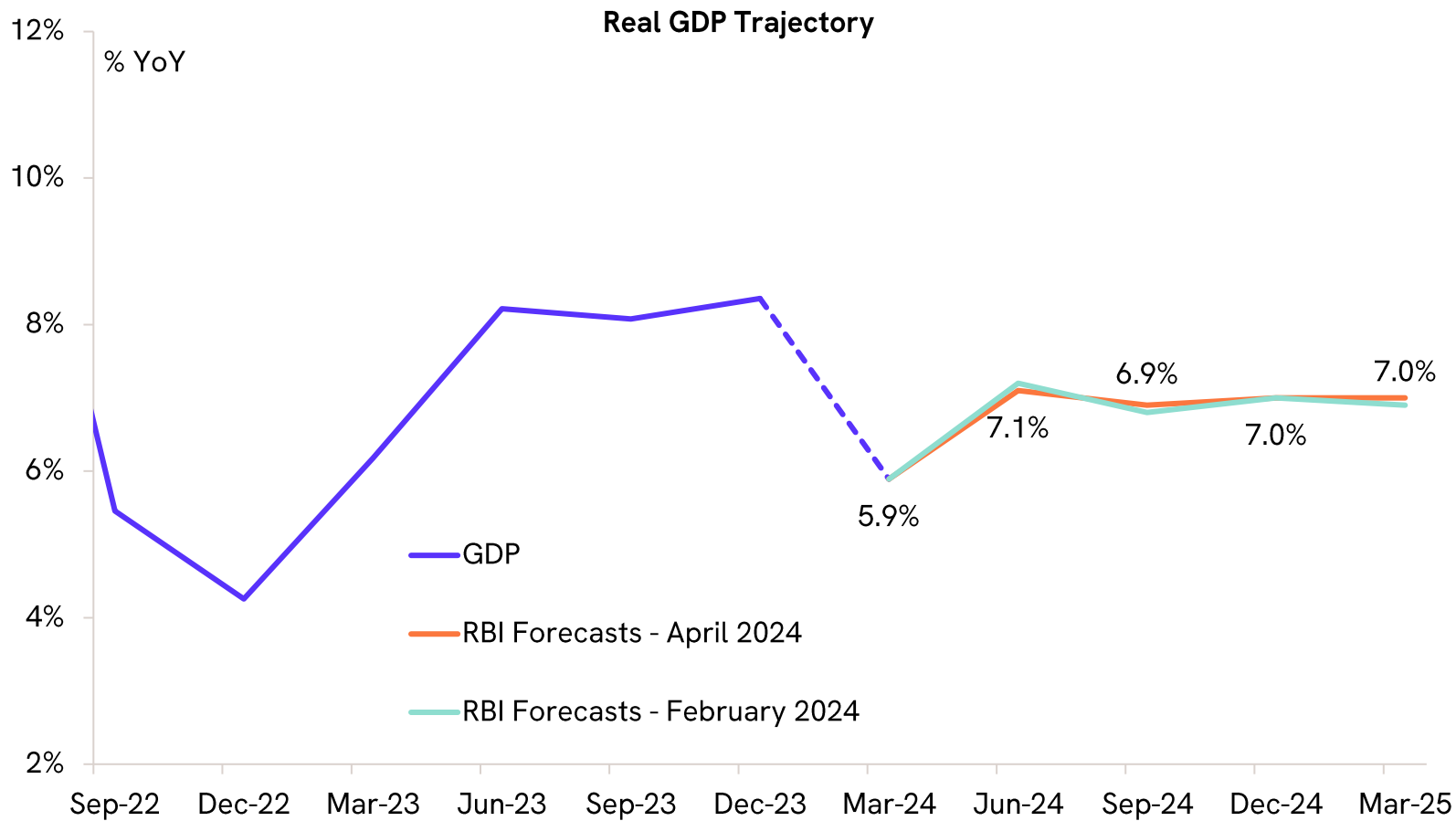
Unpredictable supply-side shocks from adverse climate events and their impact on agricultural production, as well as geopolitical tensions and spillovers to trade and commodity markets, add uncertainties to the outlook.

Source: MOSPI, RBI, 360 ONE Asset Research

Note: The average for the March 24 quarter is based on our internal estimate of inflation for March 24.

RBI retains FY25 GDP growth at 7% YoY, commentary on growth upbeat

Domestic economic activity remains resilient, backed by strong investment demand and upbeat business & consumer sentiments



RBI growth outlook:

An expected normal south-west monsoon should support agricultural activity. Manufacturing is expected to maintain its momentum due to sustained profitability, while services activity is likely to grow above the pre-pandemic trend.

Private consumption should gain steam with a further pick-up in rural activity and steady urban demand. As per the Reserve Bank's consumer survey, urban households are expected to increase discretionary spending.

The prospects of fixed investment remain bright with business optimism, healthy corporate and bank balance sheets, robust government capital expenditure and signs of an upturn in the private capex cycle.

However, headwinds from geopolitical tensions, volatility in international financial markets, geoeconomic fragmentation, rising Red Sea disruptions, and extreme weather events pose risks to the outlook.

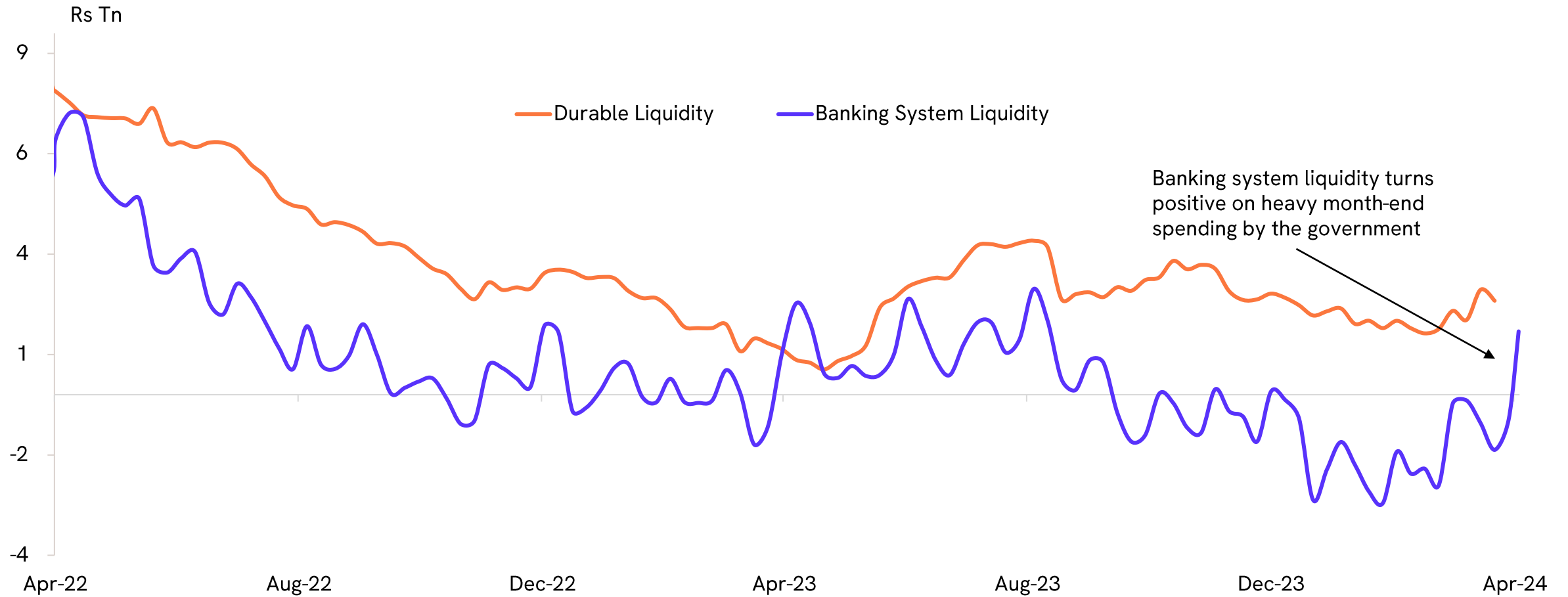
Source: MOSPI, RBI, 360 ONE Asset Research

Note: Q4FY24 GDP for March 2024 is imputed based on the FY24 2nd Advance Estimates.

Liquidity conditions turn to surplus on heavy government spending

Debt FPI inflows, on account of index inclusion, should be supportive of liquidity conditions, but OMO sales cannot be ruled out

Liquidity - Surplus(+)/Deficit(-)



Source: CMIE, 360 ONE Asset Research

Note: Durable Liquidity = Banking System Liquidity + Government Balances with RBI + Excess CRR maintained

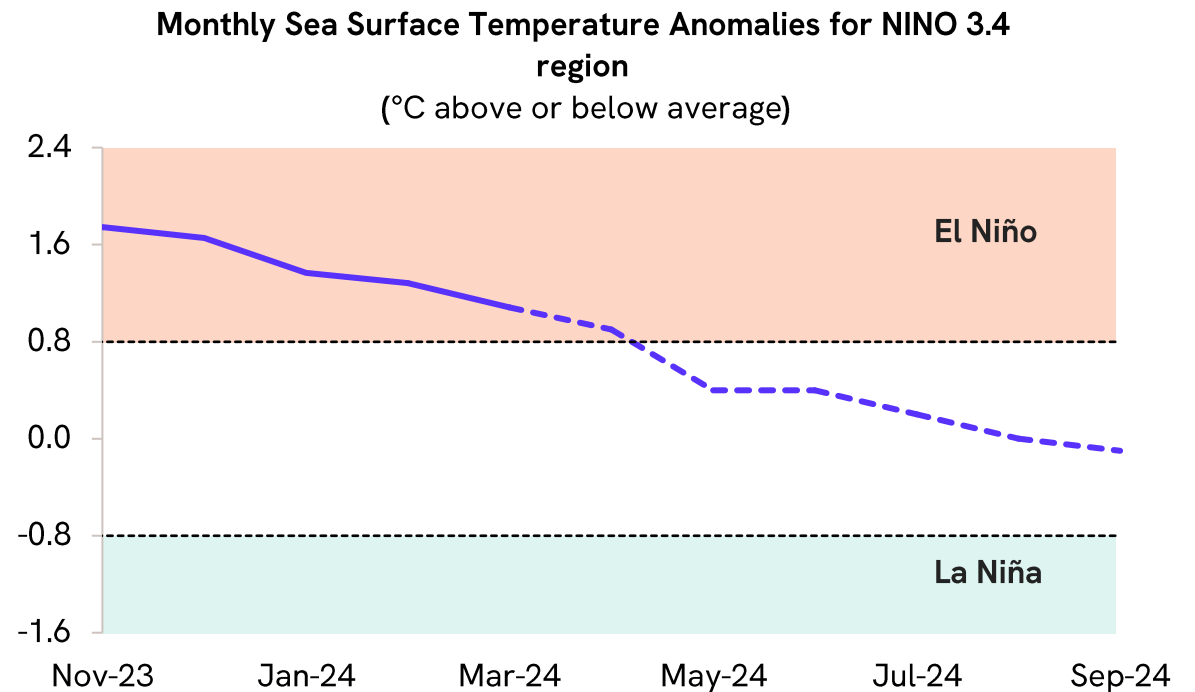
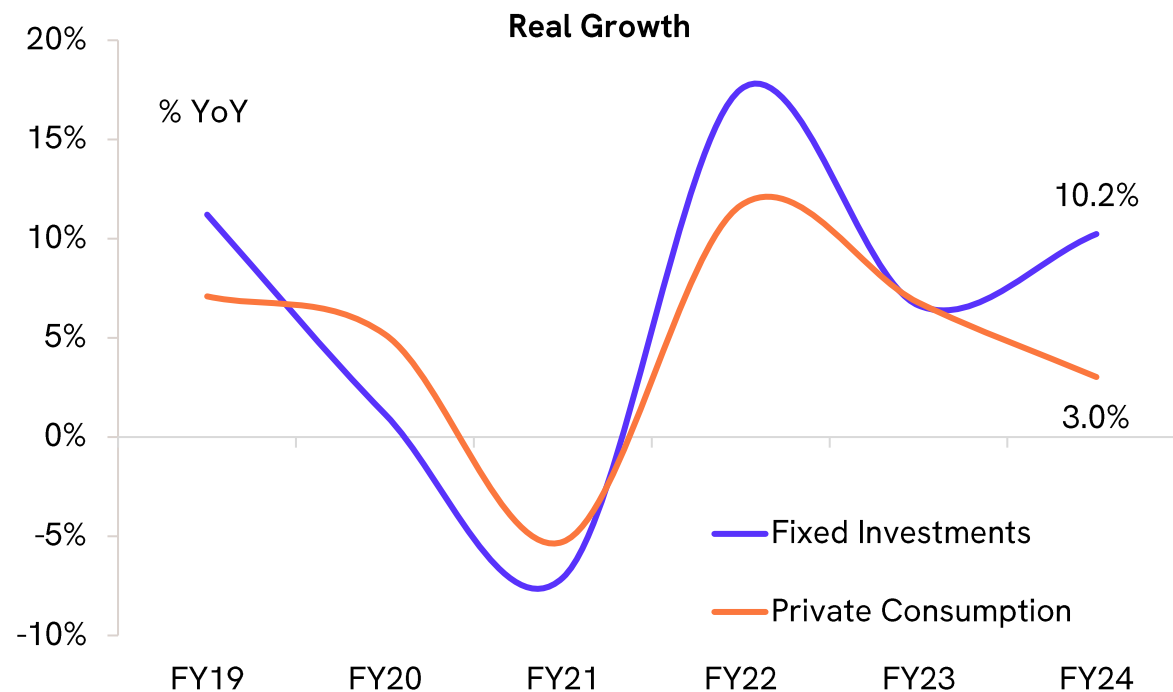
Outlook: A shallow rate cut cycle of 75-100 bps expected in FY25

Assuming a normal monsoon, the RBI MPC could consider changing the policy stance to 'neutral' in June or August

Private consumption growth has slowed down considerably in FY24. This weakness is also reflected in the series-low core CPI. The RBI should factor in weak consumption in upcoming policy decisions, as this will drag growth down and hinder the nascent recovery of private investment.

Early forecasts suggest that climatic conditions favor a normal monsoon, which is positive for agricultural production and food inflation.

The RBI will likely maintain liquidity close to neutral levels due to financial stability and inflationary risks associated with excess liquidity.



Source: Australia Bureau of Meteorology (Model Run: 30th March 2024), MOSPI (GDP 2nd Advance Estimates), 360 ONE Asset Research

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