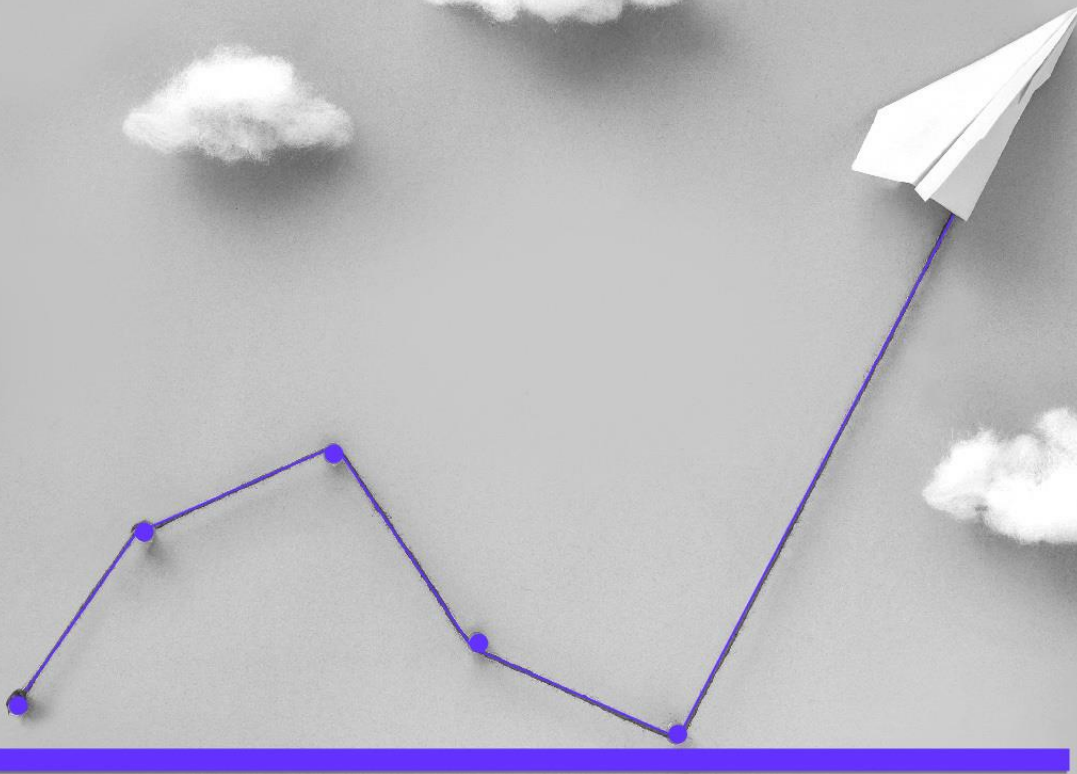


TRENDS & TIDES

**RBI MPC December 2024
maintains the status quo
amid growth optimism and
inflation risks**



RBI adopts a 'cautious' approach, awaits better growth-inflation visibility

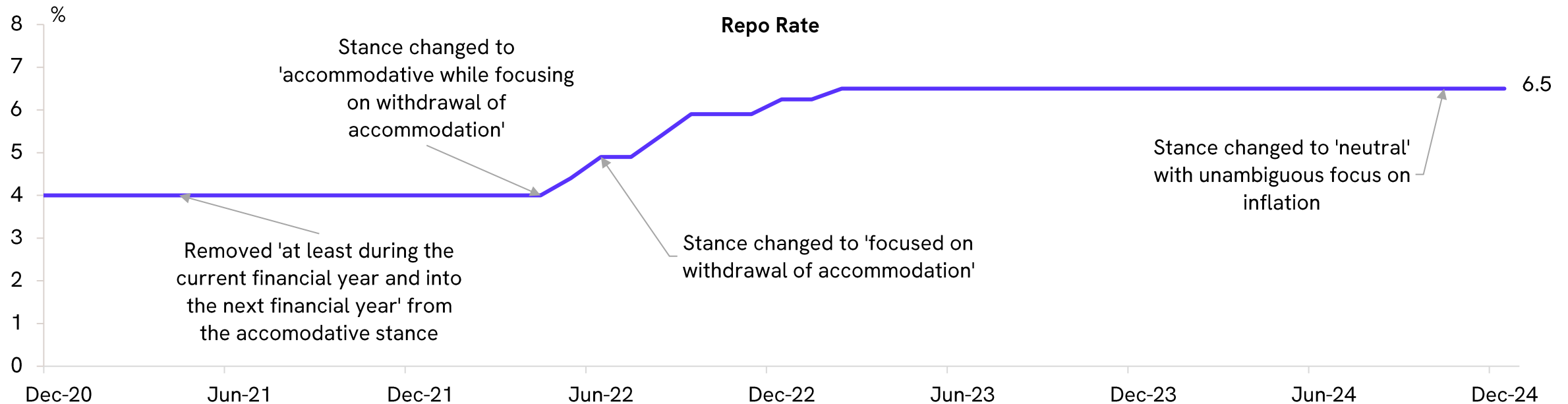
The RBI injects Rs 1.16 tn of liquidity into the banking system through a 50 bps CRR cut to ease potential liquidity stress

The RBI Monetary Policy Committee (MPC) maintains the policy repo rate at 6.5% and keeps the policy stance **neutral with an unambiguous focus on a durable alignment of inflation with the target**

The Governor's post-policy statement conveys optimism regarding the recovery in economic growth, while highlighting concerns about high inflation

Governor acknowledges that near-term inflation and growth outcomes in India have turned somewhat adverse since the October policy

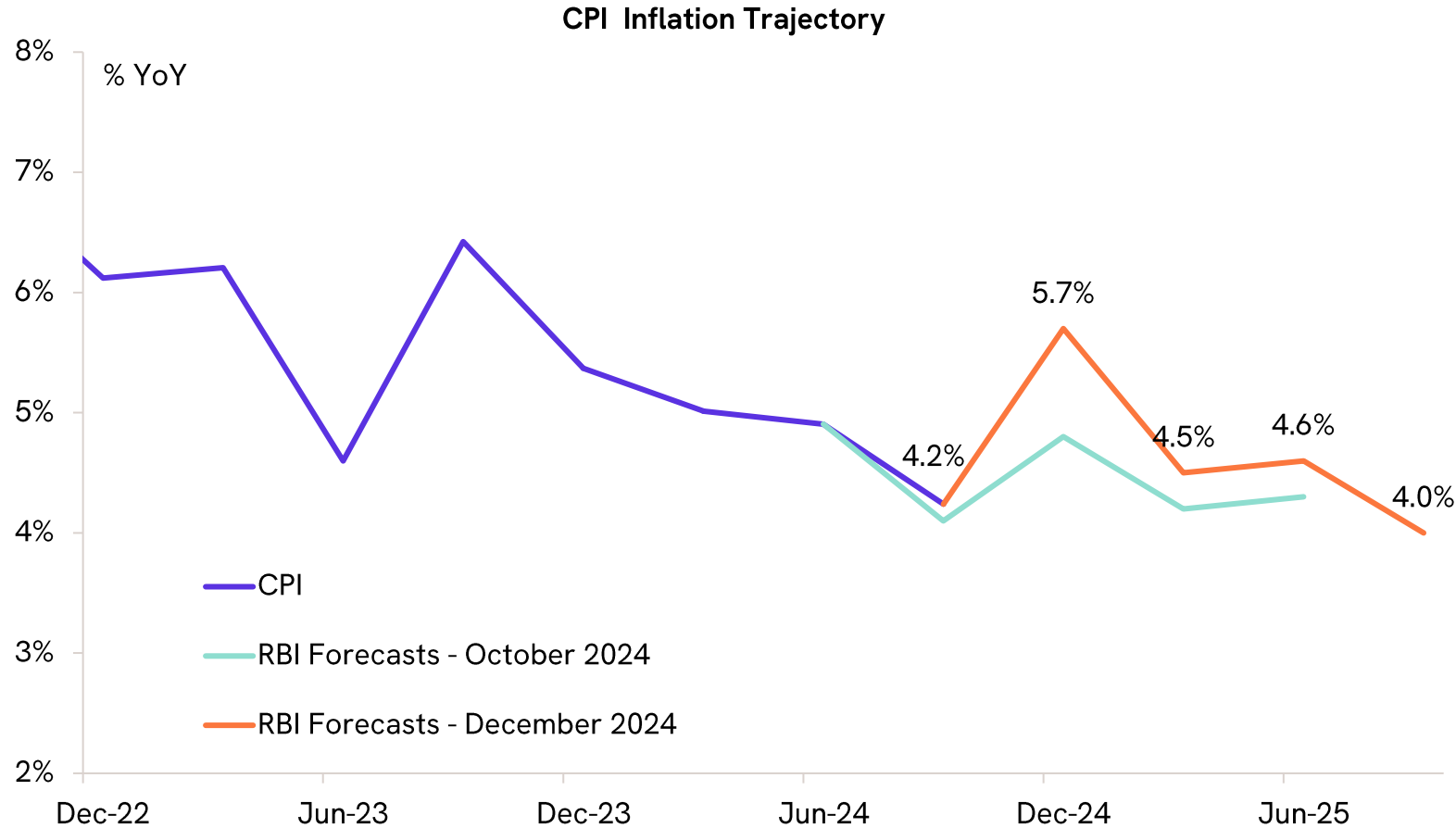
Governor mentions that as food price shocks wane, headline inflation is likely to ease and realign with the target, but it is necessary to monitor incoming data to confirm the decline



Source: RBI, 360 ONE Asset Research

RBI revises CPI forecasts upward in the December policy

Inflation surged above the upper tolerance level in October propelled by a sharp pick-up in food inflation



RBI inflation outlook:

The FY25 inflation forecast revised upward to 4.8% YoY from 4.5% in the previous policy

The recent spike in inflation highlights the continuing risks of multiple and overlapping shocks to the inflation outlook and expectations

Food inflation is likely to soften in Q4 with seasonal easing of vegetables prices and kharif harvest arrivals

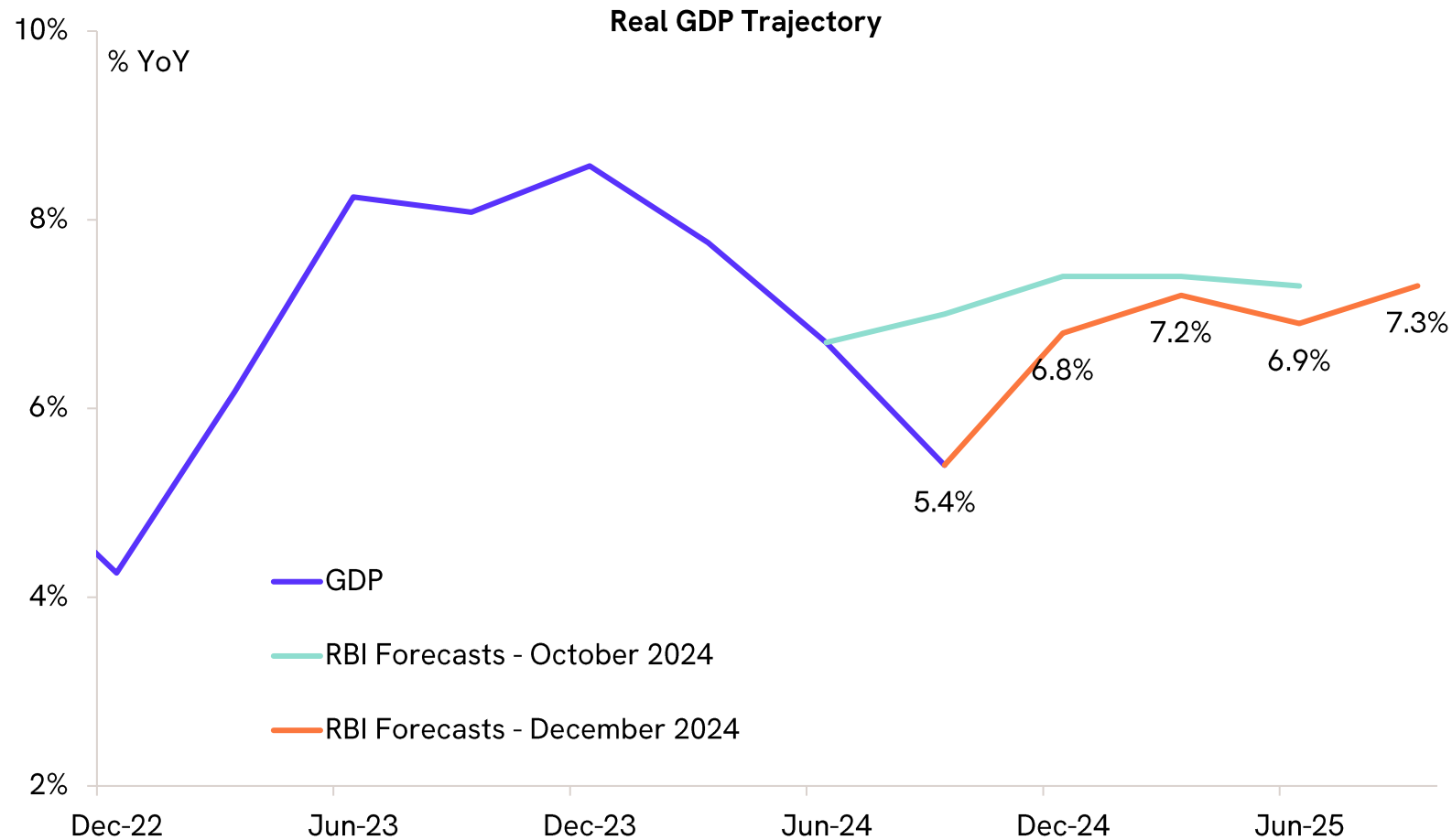
Good soil moisture conditions along with comfortable reservoir levels augurs well for rabi production

Adverse weather events and rise in international agricultural commodity prices, however, pose upside risks to food inflation

Businesses expect pressures from input costs to remain elevated and growth in selling prices to accelerate from Q4

RBI lowers FY25 GDP forecast to 6.6% from 7.2% in the previous policy

Real GDP growth dropped to a seven-quarter low of 5.4% in the September 2024 quarter, well below the RBI's expectations



RBI growth outlook:

Economic activity is set to improve along with rising business and consumer sentiments, as reflected in the Reserve Bank's surveys

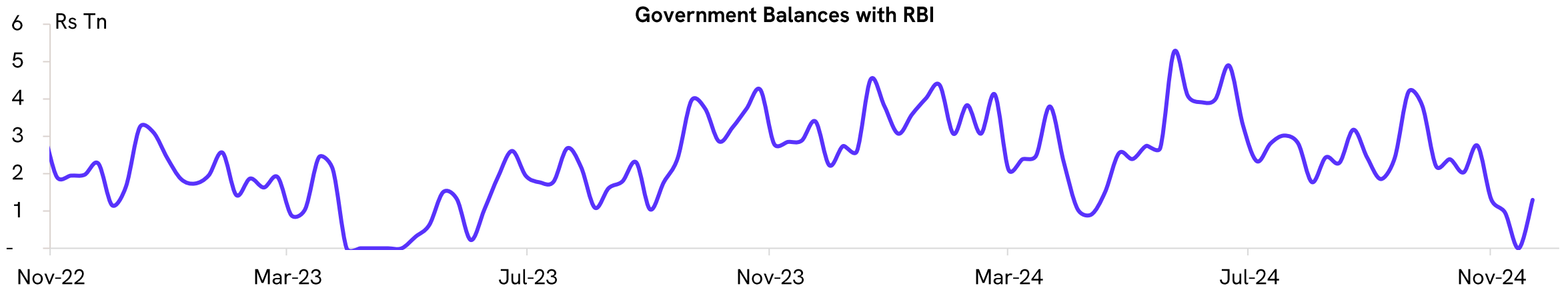
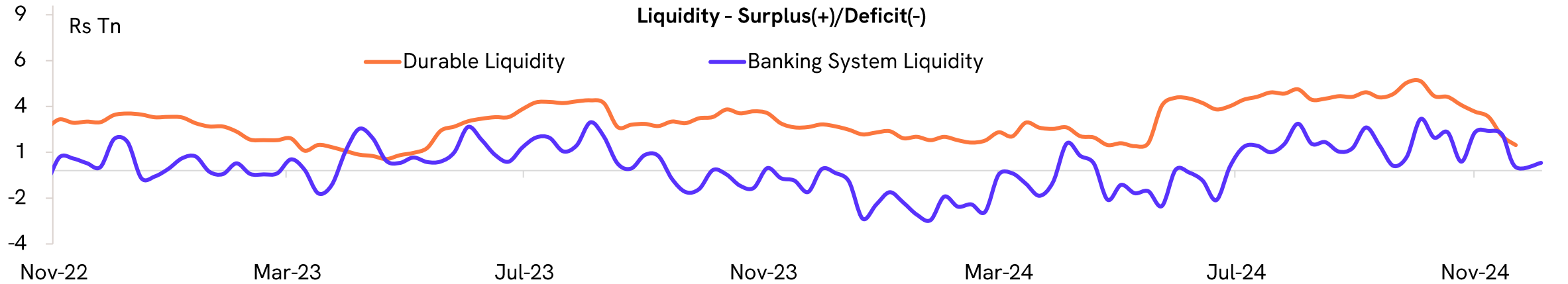
Robust kharif foodgrain production and good rabi prospects, coupled with an expected pickup in industrial activity and sustained buoyancy in services augur well for private consumption

Resilient world trade prospects should provide support to external demand and exports

Headwinds from geo-political uncertainties, volatility in international commodity prices, and geo-economic fragmentation continue to pose risks to the outlook

RBI cuts Cash Reserve Ratio by 50 bps to ease potential liquidity stress

Durable liquidity has declined due to the RBI's FX intervention and an increase in currency in circulation



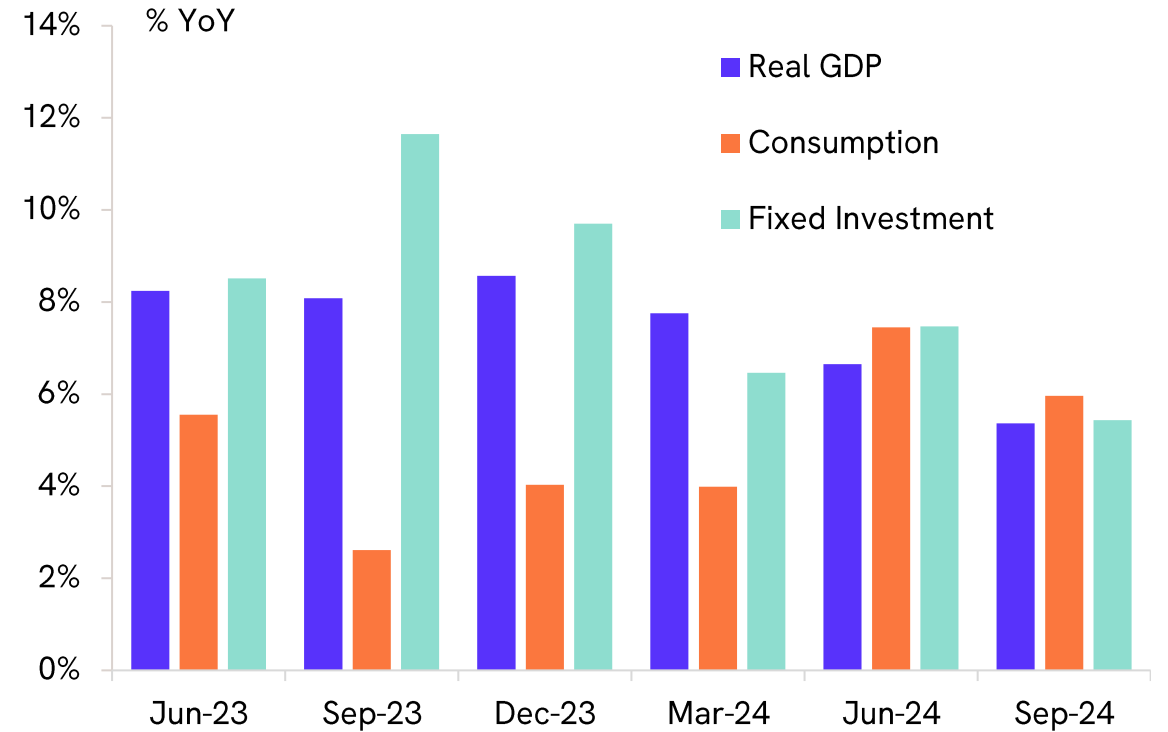
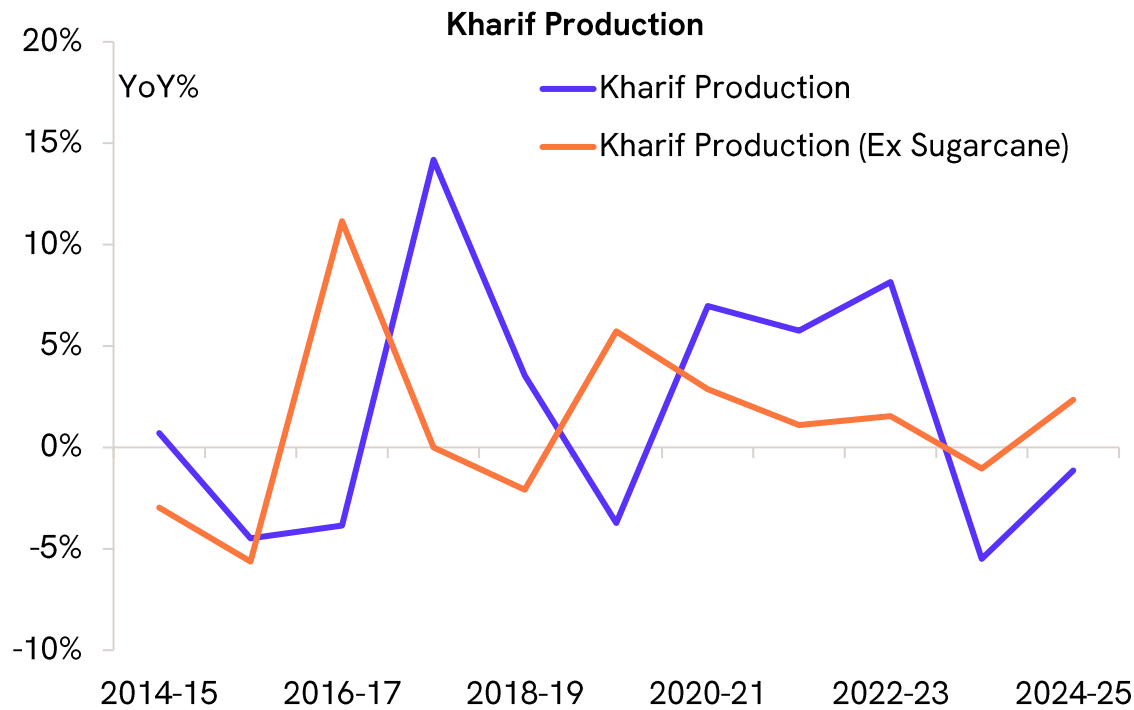
Outlook: We expect RBI to initiate the rate cut cycle from Feb'25

The inflation outlook appears favorable, supported by healthy kharif production and promising prospects for the rabi season

We expect inflation to durably align with the 4% target by H2FY26

As the Governor aptly noted, monetary policy is forward-looking; therefore, we assign a high probability to a rate cut in the February 2025 policy

Furthermore, as Q2 GDP numbers suggest, growth has slowed significantly and may require policy support



Source: CMIE, 360 ONE Asset Research

Note: 2024-25 Kharif production are first advance estimates

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