

TRENDS & TIDES

**RBI MPC Hikes Repo Rate by
25 bps, Changes Policy
Stance to
'Calibrated Tightening'**



RBI MPC shifts to 'calibrated tightening' with a 25-bps rate hike

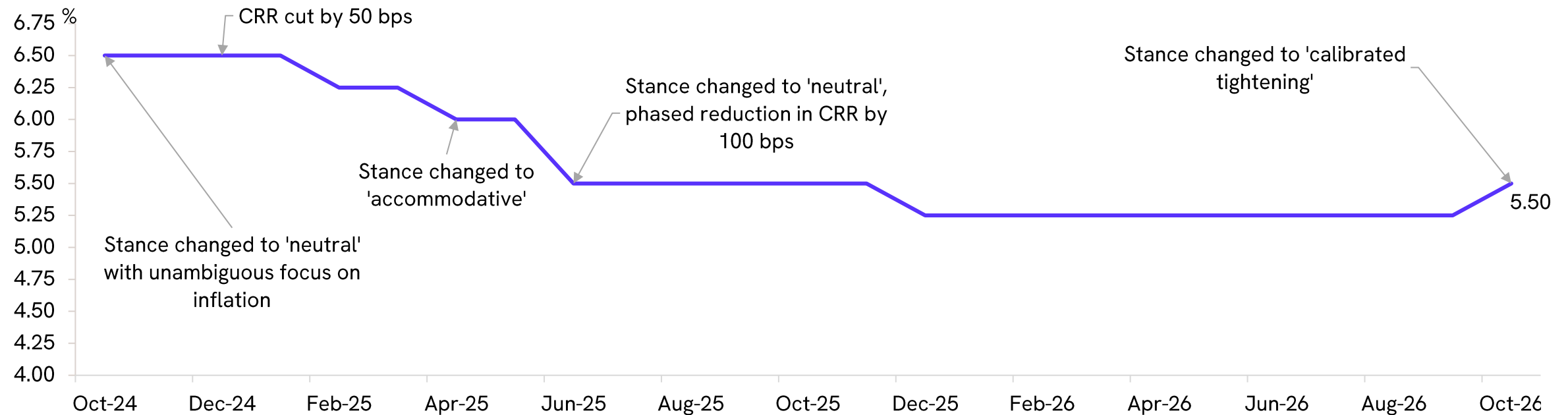
The outlook for inflation has turned less benign, with broadening inflation and elevated inflation expectations

The RBI's Monetary Policy Committee (MPC) decides to increase the repo rate by 25 bps to 5.50%

It shifts its stance to 'calibrated tightening', signalling that the next move can only be a hike or a pause

The MPC notes that the duration and extent of the rate hike cycle will depend on growth-inflation developments, especially underlying inflation and the broadening of price pressures

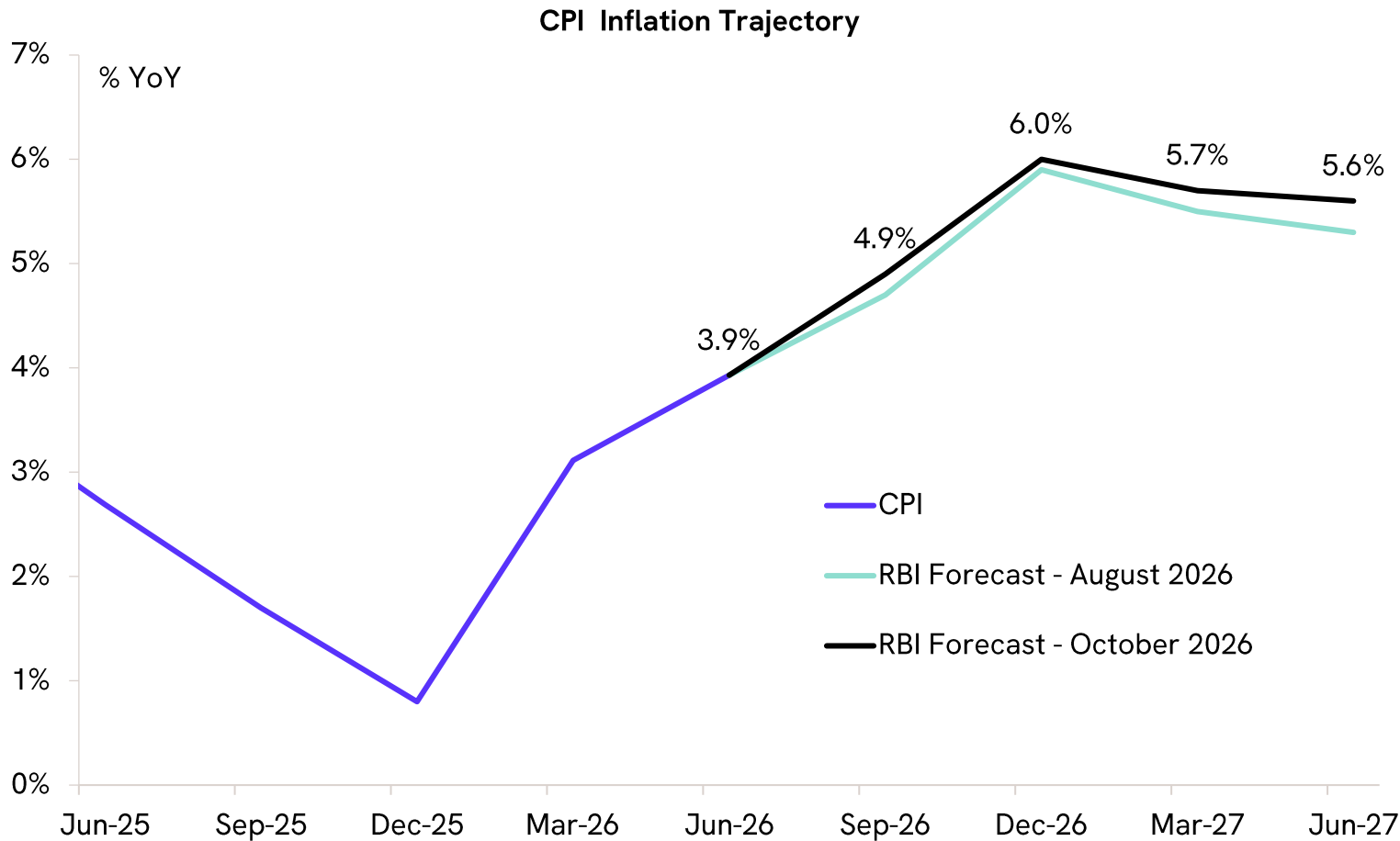
The statement also acknowledges the difficulty of separating second-round effects from the indirect impact of supply-side pressures, as both are present



Source: RBI, 360 ONE Asset Research

RBI raises FY27 inflation projection to 5.2% YoY from 5.0% earlier

MPC flags continued supply-side inflation pressures from a deficient monsoon, El Niño, and high commodity prices



RBI MPC Inflation Outlook:

Core inflation is projected at 4.4% for FY27, up from the 4.3% projection in the August policy

Food price increases have become broad-based along with notable spikes in certain items such as sugar and onion

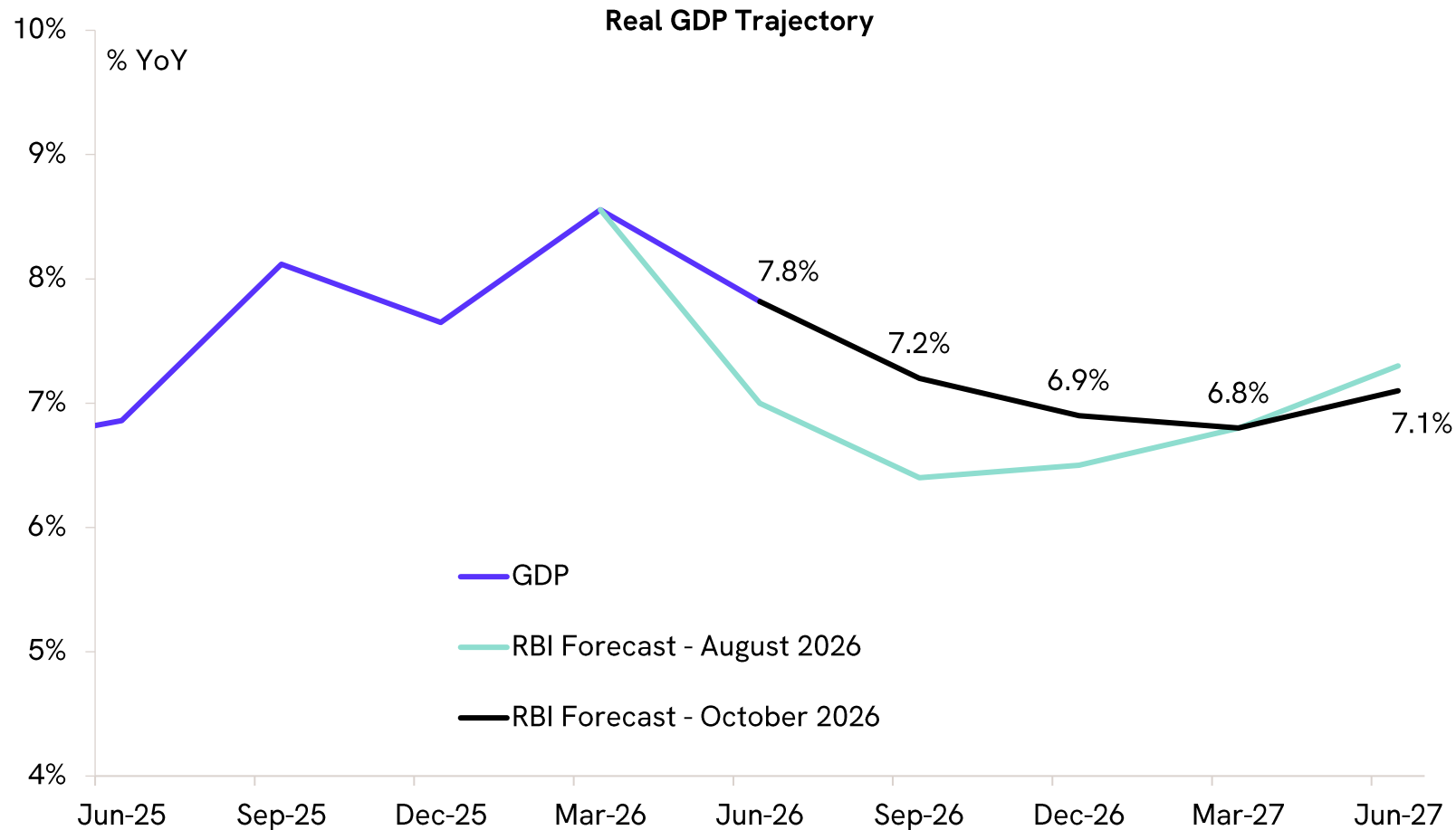
The weighted share of items in headline CPI recording inflation above 4% increased steadily to about 37% in August

The near-term inflation outlook points to continued supply-side pressures from a deficient monsoon, ongoing El Niño conditions, and high energy and commodity prices, with pass-through still underway

Source: MOSPI, RBI, 360 ONE Asset Research

RBI raises FY27 GDP projection to 7.1% YoY from 6.7% earlier

MPC flags that global economic uncertainty will continue to have some bearing on domestic economic activity



RBI MPC Growth Outlook:

While energy prices and supply chain pressures have continued, their near-term trajectory remains uncertain amidst the lingering West Asia conflict

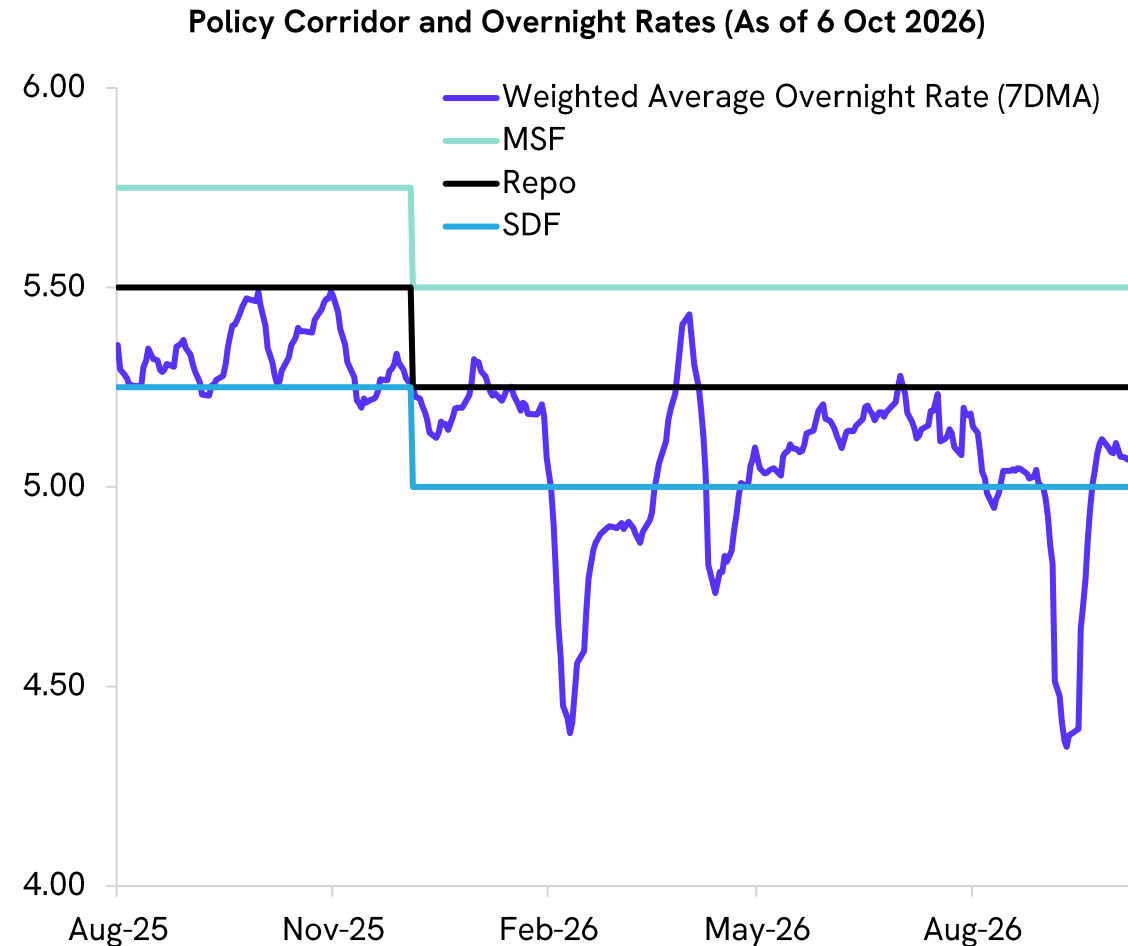
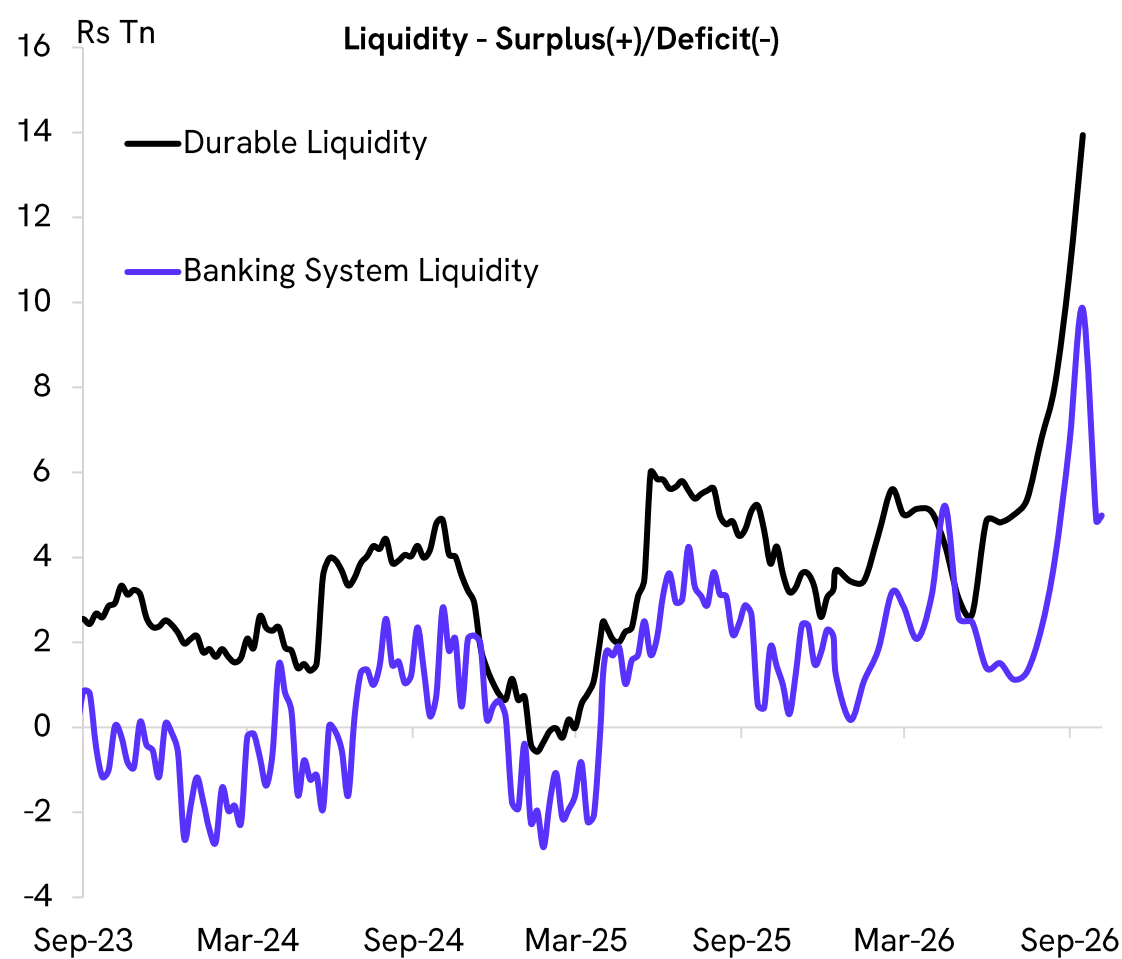
Deficient south-west monsoon and strong El Niño conditions pose risks to agriculture sector's outlook and rural demand

Continuing momentum in services and broadly stable employment conditions are likely to support urban demand

While services exports are expected to remain buoyant, bilateral trade agreements should boost merchandise exports

Surge in liquidity unanchors the overnight rate from the repo rate

The RBI commits to aligning the weighted average call rate with the policy repo rate using appropriate tools



Source: CMIE, RBI, 360 ONE Asset Research

Note: Durable Liquidity = Banking System Liquidity + Government Balances with RBI + Excess CRR maintained
7DMA: 7 day moving average, MSF: Marginal Standing Facility, SDF: Standing Deposit Facility

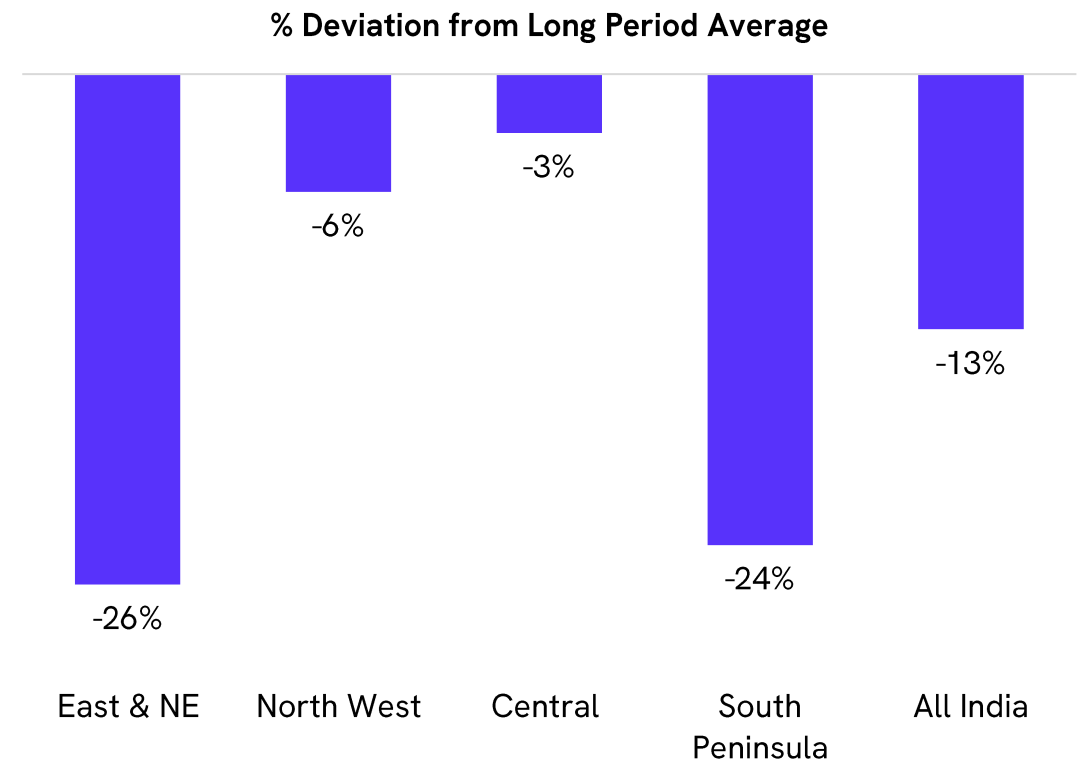
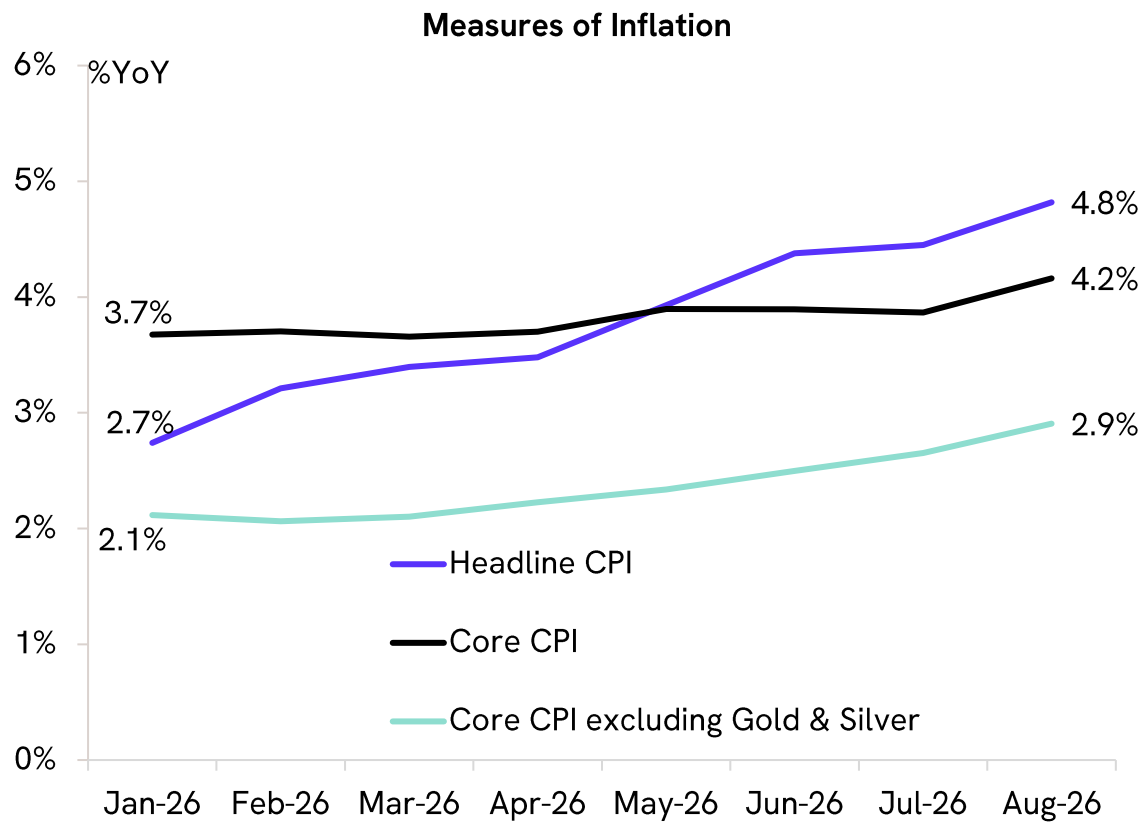
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Outlook: We expect another 50 bps of rate hikes by the RBI in this cycle

Weak monsoon's hit to kharif yields, low reservoirs' drag on rabi output, and energy price pass-through remain key risks

The increase in core inflation excluding gold and silver signals that inflation is gradually becoming broad-based

The weak monsoon could hurt kharif crop yields, while low reservoir levels may weigh on rabi output



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

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