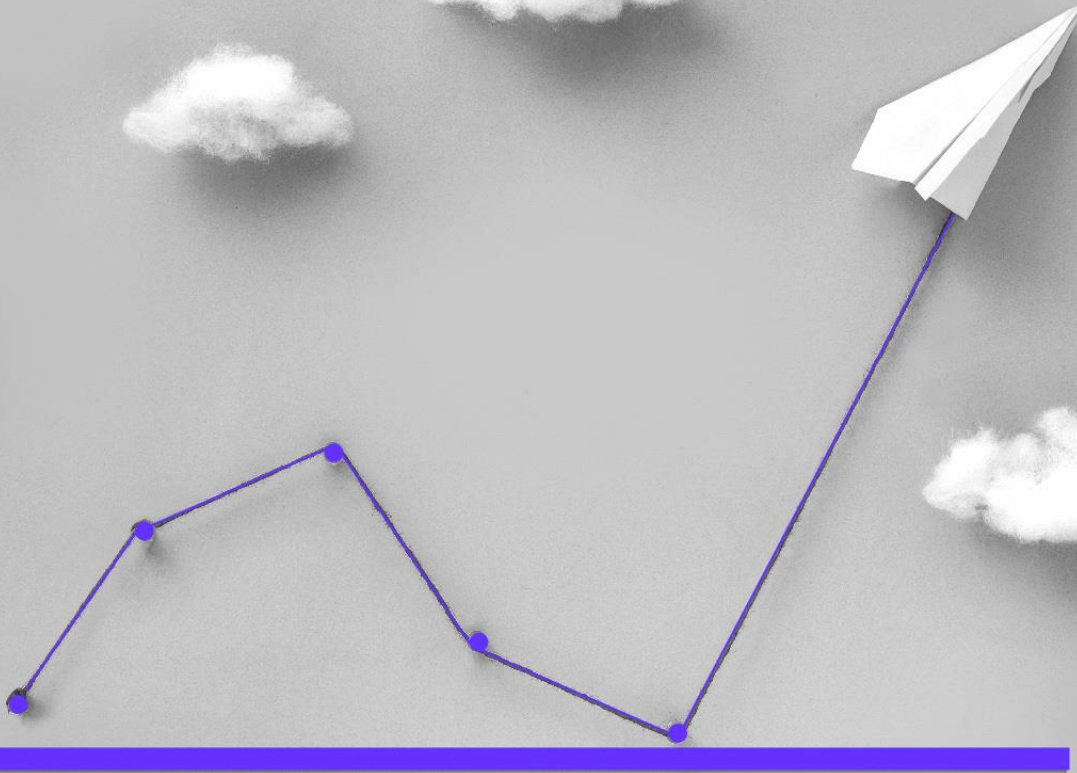


TRENDS & TIDES

**RBI MPC June 2024 maintains
status quo on rates and
stance, as expected**



RBI MPC maintains focus on inflation as growth remains robust

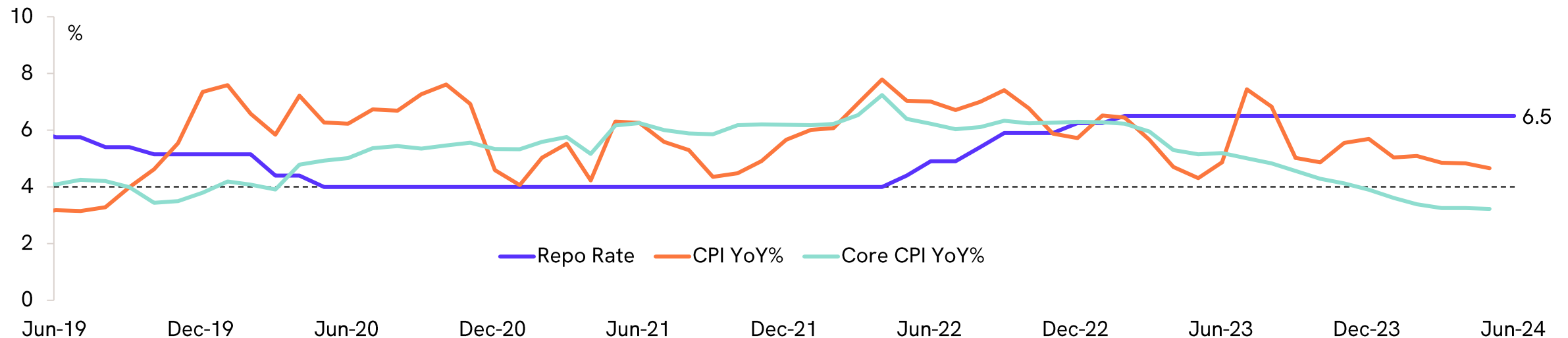
The RBI remains vigilant to upside risks to inflation emanating from overlapping food price shocks

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

The RBI Governor reiterated that the **monetary policy must continue to remain disinflationary and be resolute in its commitment to aligning inflation to the target of 4.0 per cent on a durable basis**

While the MPC acknowledged the disinflation achieved so far, it remained concerned about the upside risk from food inflation. The MPC statement mentioned that '**overlapping shocks engendered by the rising incidence of adverse climate events impart considerable uncertainty to the food inflation trajectory**'

The RBI Governor also clarified that while the RBI does consider the impact of monetary policy in advanced economies on Indian markets, its actions are primarily determined by domestic growth-inflation conditions and outlook

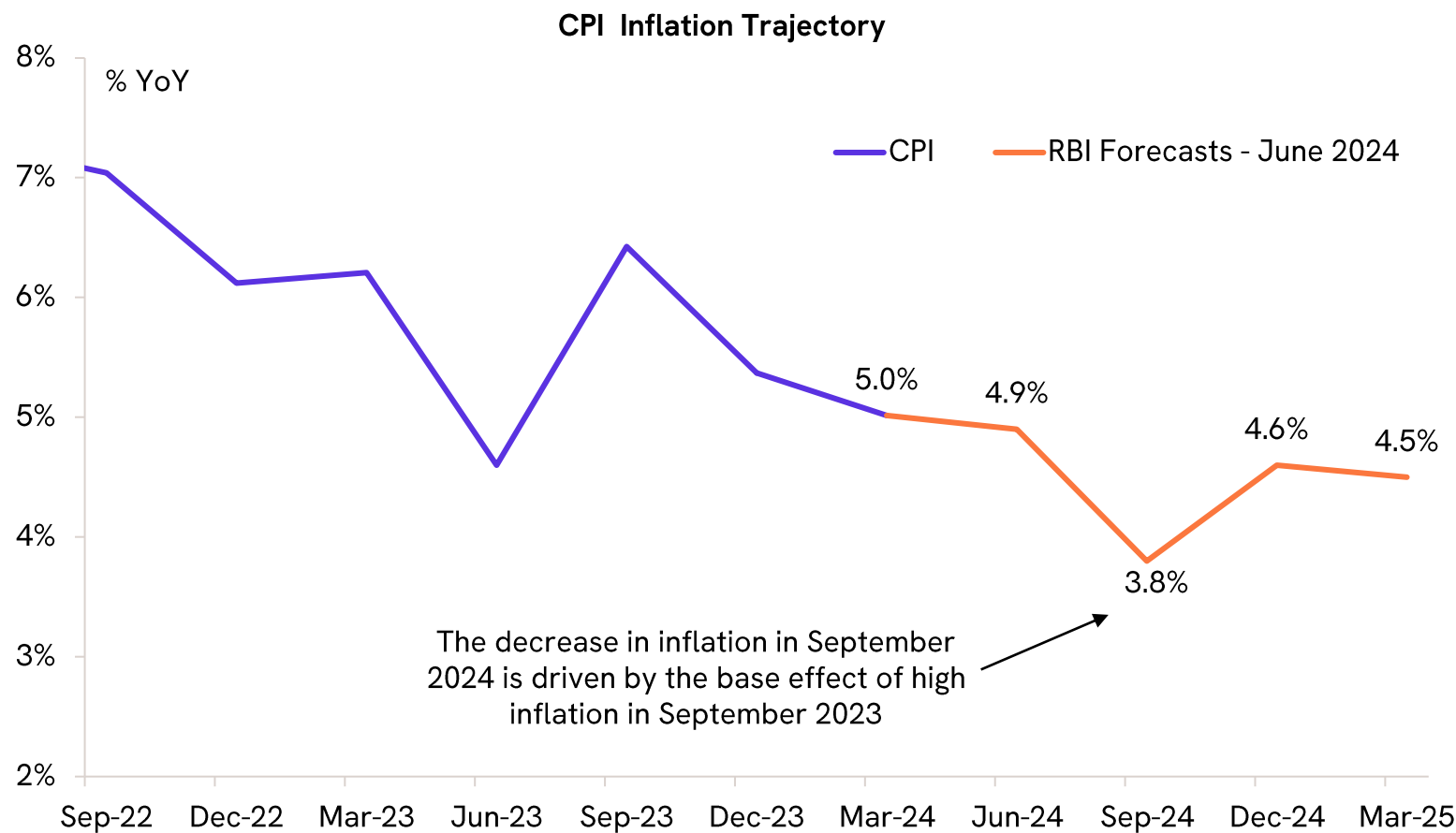


Source: MOSPI, RBI, 360 ONE Asset Research

Note: May 2024 CPI inflation internal estimate

FY25 CPI retained at 4.5% YoY, quarterly projections also unchanged

The MPC stresses that disinflation is hindered by volatile food inflation caused by adverse weather events



RBI inflation outlook:

Market arrivals of key rabi crops, particularly pulses and vegetables, need to be closely monitored in view of the recent sharp upturn in prices

Normal monsoon, however, could lead to softening of food inflation pressures over the course of the year

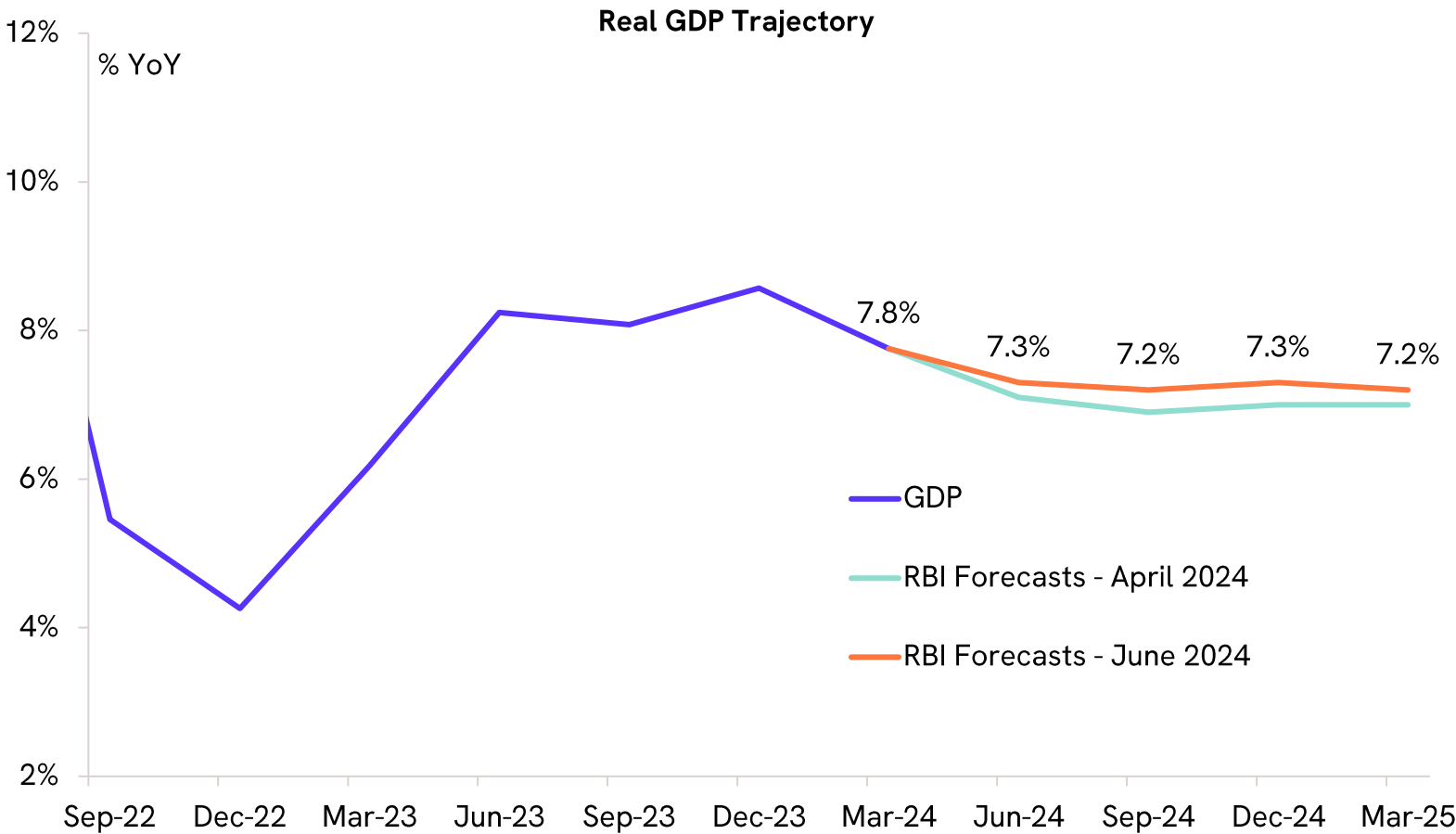
Pressure from input costs has started to edge up, and early results from enterprises surveyed by the Reserve Bank expect selling prices to remain firm

Volatility in crude oil prices and financial markets, along with the firming up of non-energy commodity prices, pose upside risks to inflation

Source: MOSPI, RBI, 360 ONE Asset Research

RBI revises FY25 GDP forecast upward to 7.2% from 7% earlier

Economic activity remains resilient with investment demand gaining ground and private consumption showing signs of revival



RBI growth outlook:

High-frequency indicators of domestic activity are showing resilience in 2024-25

The south-west monsoon is expected to be above normal, which augurs well for agriculture and rural demand

Coupled with sustained momentum in manufacturing and services activity, this should enable a revival in private consumption

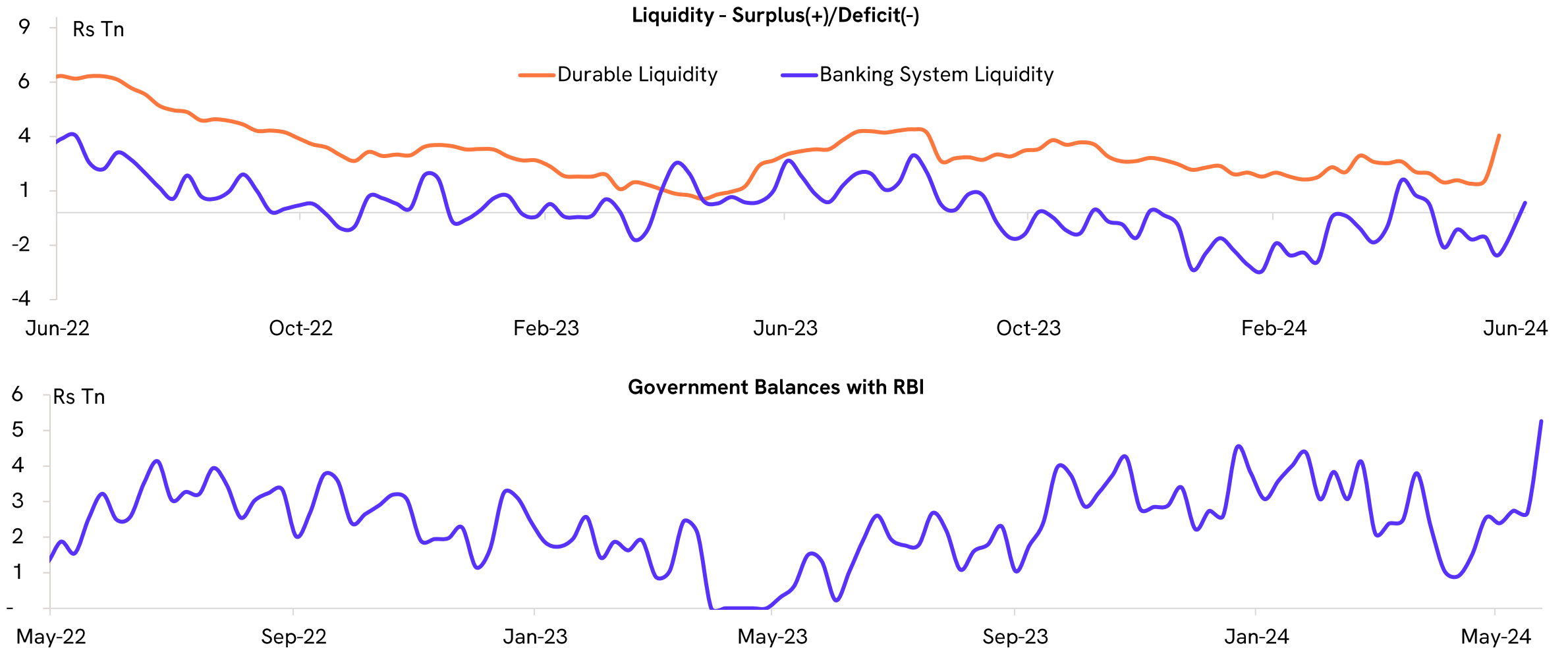
Investment activity is likely to remain on track, with high capacity utilization, healthy balance sheets of banks and corporates, government's continued thrust on infrastructure spending, and optimism in business sentiments

Improving world trade prospects could support external demand

Headwinds from geopolitical tensions, volatility in international commodity prices, and geoeconomic fragmentation, however, pose risks to the outlook

Liquidity conditions ease on govt. spending and likely FX intervention

Government balances witnessed a steep increase in May'24 due to the Rs 2.1 trillion dividend transfer by the RBI



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 50-75 bps expected in FY25

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

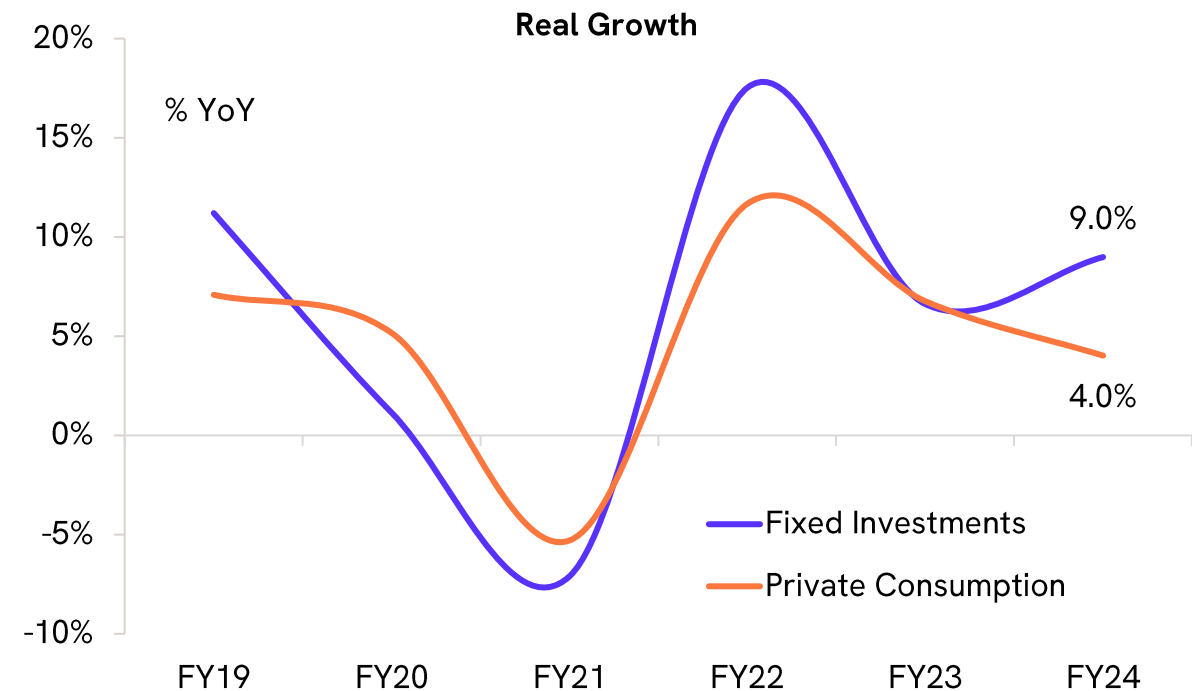
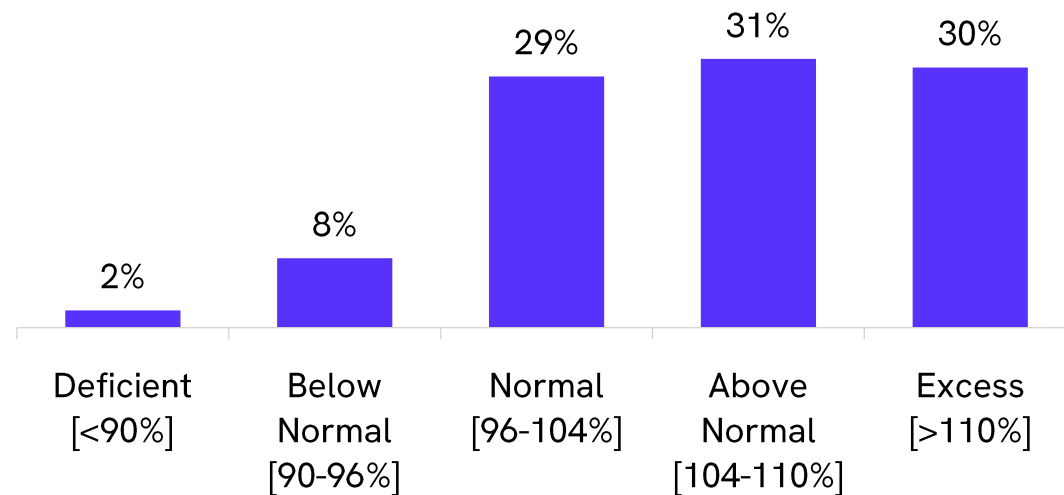
The current growth-inflation dynamics favour shifting to a neutral policy stance in the next meeting

Food inflation is expected to ease as IMD forecasts an 'above normal' monsoon at 106% of the long-period average

Meanwhile, a slowdown in private consumption may impact growth and potentially undermine the revival in private capital expenditure

Adopting a neutral policy stance will allow the RBI to respond swiftly with a rate cut if warranted by the data

IMD 1st Stage Long Range Forecasts
Probabilities for Rainfall Range (% of Long Period
Average – LPA)



Source: IMD, MOSPI, 360 ONE Asset Research

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