

## "MEASURED, BALANCED AND OPTIMISTIC"

**Quick View** – MPC has voted in majority (4 out of 6) for no change in rate – repo rate at 6.5 pc and 4 out of 6 members voted to remain focused on withdrawal of accommodation stance to ensure inflation progressively aligns to the target. Uncertainties in food prices would continue to weigh on the headline inflation trajectory (MoM change in headline CPI for April'24 rose by 0.5%, the highest print since Nov'23, driven by food and beverage prices). Nimble and flexible management of liquidity conditions would continue to align inflation at the targeted level of 4 pc.

**Dolat View** – Overall the policy announcements are on expected lines. Concerns around food inflation are reiterated. The recent rise in industrial metal prices also earns close attention as it may get passed to the consumers. Buoyancy around economic growth (Real GDP growth of 8.2% vs. 7.6% est. by NSO in FY24) gives a window of opportunity to the MPC to evaluate developments around geopolitics, budget 2024 and monsoon, before the committee gets into the easing cycle. Probable time for the first-rate cut in Oct'24 policy meeting. Risks to rate cut expectation are factors like rise in commodity, food prices and adoption of populist measures which could be inflationary in nature.

MPC voted in majority (4 out of 6) for no change in rate – repo rate at 6.5 pc and 4 out of 6 members voted to remain focused on withdrawal of accommodation stance to ensure inflation progressively aligns with the target while supporting growth.

Governor Das highlighted that the global economy is rebalancing and is expected to grow at a stable pace in 2024. In terms of outlook on domestic front, he stated that high frequency indicators of domestic activity are showing resilience in 2024-25. Normal SW monsoon augurs well for rural demand and sustained momentum in manufacturing and services activity should enable a revival in private consumption. Investment activity is also likely to remain on track. On the inflation side, core softened for the 11<sup>th</sup> consecutive month since June'23. Food inflation remains an area of concern as the hot summer season and low reservoir levels may put stress on the summer crop of vegetables and fruits. Also, the recent rise in industrial metal prices earns close attention as it may increase the input prices for manufacturers and get passed through to the consumers, thus derailing the trends of disinflation.

CPI for FY25 remains unchanged at 4.5 pc. GDP for FY25 was revised higher from 7 pc to 7.2 pc - Q1 estimate at 7.3 pc, Q2 estimate at 7.2 pc, Q3 estimate at 7.3 pc and Q4 estimate at 7.2 pc.

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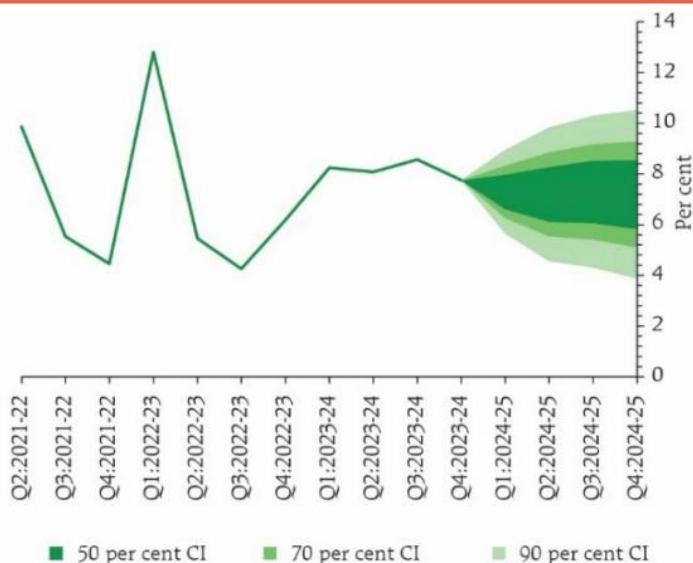
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Liquidity eased between 1st April to 19th April'24 (net liquidity was in surplus with an average of Rs 1 lac cr.) and then liquidity slipped into a deficit till 2nd Jun'24. This was due to an increase in government balances - averaged at Rs 1.4 lac cr. (from 1st April'24 to 19th April'24) vs. Rs 2.8 lac cr. (from 20th April'24 to 2nd June'24). In the post-election period, liquidity condition is likely to improve with resumption of government spending, bond inflows post the inclusion in global index, expected moderation in currency in circulation, et al. On the other side, tax outflows would act as frictional driver. Through main and fine-tuning operations, RBI is expected to manage liquidity in a nimble and flexible manner.

With MPC's resolution to align headline inflation to a target of 4 pc, the committee is expected to continue with their disinflation stance going forward. Read through of the meeting minutes of the last policy and current policy statement reflects concerns around higher food inflation and global supply shocks which adds to uncertainties in the inflation trajectory. Albeit there are couple of external members who have expressed concerns of high real rates that could lead to growth sacrifice (as per the last policy meeting minutes) and their voting patterns are reflected in the current policy. At present, when economic growth remains strong, our sense is the MPC members could use this window of opportunity to evaluate developments around geopolitics, budget 2024 and monsoon, before the committee gets into the easing cycle.

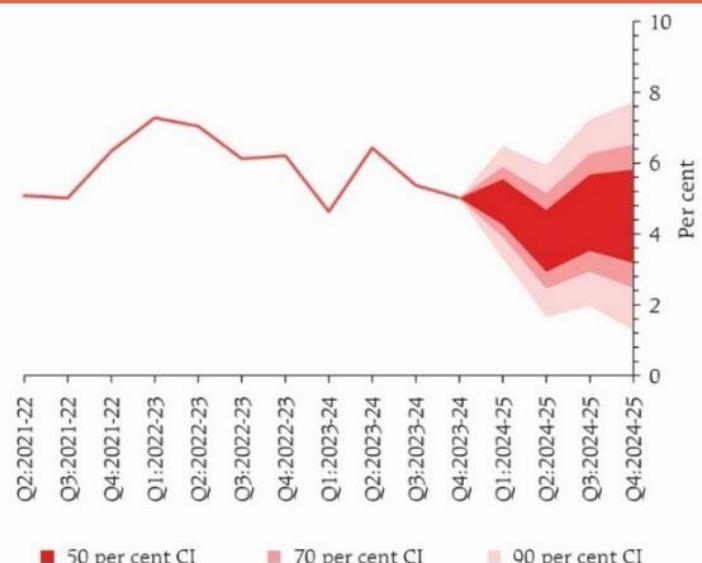
We expect a continued pause in rates in the next policy meeting. Probable time for the first-rate cut in Oct'24 policy meeting. Risks to rate cut expectation are factors like rise in commodity, food prices and adoption of populist measures, which could be inflationary in nature.

**Exhibit 1: Quarterly Projection of Real GDP Growth (YoY)**

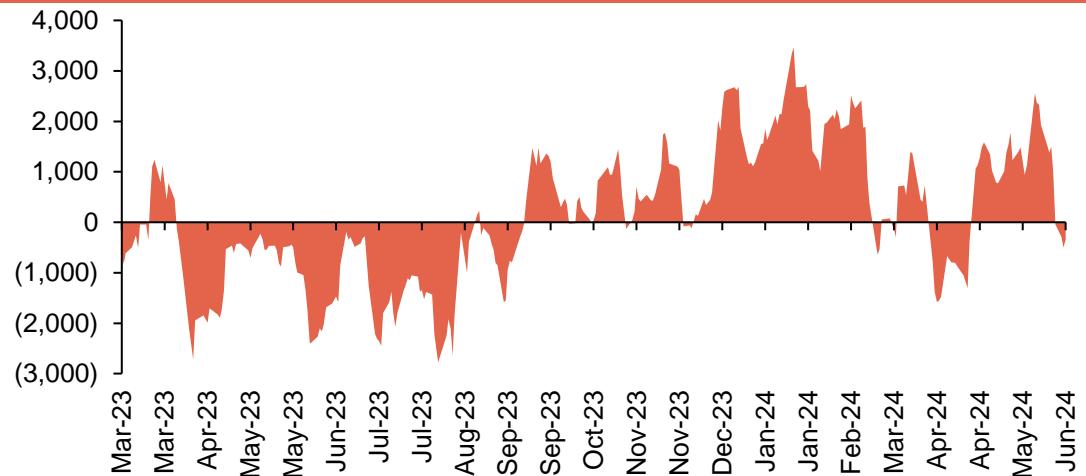


Source: RBI

**Exhibit 2: Quarterly Projection of CPI Inflation (YoY)**



Source: RBI

**Exhibit 3: Outstanding liquidity infused by RBI (in INR bn)**

Source: IndiaDataHub, Dolat Research, Data as on 05<sup>th</sup> June 2024 | -ve amount in the chart implies liquidity surplus, whereas +ve amount implies liquidity deficit

## DOLAT RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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