



## View on RBI's likely stance on monetary policy

In our view RBI would refrain from cutting rates in its meeting today though the consumer inflation has been trending down for the last few months and is well within RBI's comfort zone of 4% +/-2%. Ample rains after two years of drought resulting in expected bountiful kharif harvest post October-November 2016 as well as a rise in water table & strong reservoir levels across India presaging a strong rabi season would lead to further softening in CPI & food inflation allowing more leeway to the Central bank in its policy of monetary accommodation.

We are expecting that rates would come down by atleast 50 basis points over the next six months. Although OPEC has announced an agreement to cut oil production to 32.5 to 33 million barrels/day from the current production of 33.4 million barrels/day after reconciling the views mainly of Iran and Saudi Arabia, there are serious doubts about the rigorous adherence to the production cuts in view of severe fiscal pressures faced by the oil exporters necessitating large pumping of oil.

With a high probability assigned by market to a rate increase by the US Fed in its next meeting in November 2016 there is fear of dislocation in global asset markets and hence the new RBI Governor & the Monetary Policy Committee may like to watch the repercussions before any action.

With global demand remaining anemic we expect crude prices to remain range-bound and the benign price outlook should bode well for large energy importers like India. A miniscule current account deficit and stability on the currency front will aid RBI in addition to softening of domestic inflation to lower rates over the medium-term.

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