

India's central bank gets further ahead of the easing curve

The Reserve Bank of India cut its policy rate by another 25 basis points today. With the prevailing accommodative stance, one more rate cut looks more likely than not at the December meeting



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5.15% RBI repurchase rate
After 25 basis point cut today

As expected

Getting ahead of the easing curve

In line with the solid consensus, the Reserve Bank of India (RBI) delivered yet another 25bp policy rate cut at its bi-monthly policy review concluded today. It was also a unanimous decision by all six Monetary Policy Committee (MPC) members, while one of them wanted an even deeper cut of 40bp.

Today's move takes the RBI's repurchase rate to 5.15% and the reverse repurchase rate to 4.90%, putting the central bank further ahead of Asian and most global peers in the current easing cycle, with a cumulative 135bp rate cut year-to-date.

What the policymakers say

The [policy statement](#) noted no change to the 'accommodative' stance. And supporting this position, there was a further downgrade of the RBI's economic outlook for the current fiscal year, with growth now projected at 6.1% against the 6.9% projection at the August meeting (which itself was cut from 7.0%). Here, hopes have been pinned on the monetary policy easing so far this year gradually feeding into the real economy and boosting demand.

Meanwhile, the central bank sees inflation continuing under the 4% target (mid-point of 2-6% target zone), though it did nudge up the expectation for the July-September quarter from 3.1% to 3.4%. It pointed to subdued food price pressure and weak demand conditions, but also admitted "upside risk to the inflation outlook" from crude oil prices amid geopolitical uncertainties.

Are we at the end of it yet?

The continued 'accommodative' policy bias, downgrade of growth forecast, and stable inflation expectations – all point to more RBI easing ahead. The question is: how much more?

We think they have done enough easing and, given a considerable policy transmission lag, which the RBI policymakers acknowledge too, they should now pause and allow the rate cuts so far to work their way through the real economy before taking any further action. Otherwise, they run the risk of aggressive stimulus, via both monetary and fiscal channels, eventually transmitting into higher inflation.

Monetary transmission has remained staggered and incomplete.
- RBI statement.

However, judging by the all-dovish rhetoric, with some MPC members even calling for a rate cut in excess of 25bp, we don't think we are at the end of it. Reluctantly though, we retain our view of one more 25bp rate cut at the next meeting in December.

What this means for the markets

As well-flagged by Governor Shaktikanta Das and unanimously anticipated by economists, today's RBI policy adjustment should have little-to-no market impact.

Yet, there is no end in sight to the unfriendly policy backdrop for the Indian rupee (INR) as at least one more 25bp rate cut looks more certain than not at the next RBI meeting in December. We maintain our end-2019 USD/INR forecast at 73.50. Government bonds have been under selling pressure from a worsening fiscal deficit. Lower interest rates should be some relief to that market, though it's unlikely to be a lasting one.

And, after a knee-jerk positive reaction to corporate tax cuts late last month, investors in

stocks seem to have retrained their focus back on weak growth prospects ahead, both globally and domestically. We don't see RBI easing as a positive here, and indeed, this was evident today with the Sensex down 300 points as of this writing.