

India: RBI holds repo rate steady

Not one of the 42 economists forecasting this Reserve Bank of India (RBI) meeting expected any change in the repurchase rate, and the RBI didn't disappoint. Things could get more interesting next month as food-price inflation surges



Reserve Bank of India
Governor Shaktikanta
Das

6.5% Repurchase rate

As expected

Viewing the world through tomato-tinted glasses

Although next week's inflation data for the July period will likely show Indian inflation surging above 8%YoY, the Reserve Bank of India left the policy repo rate unchanged at 6.5%.

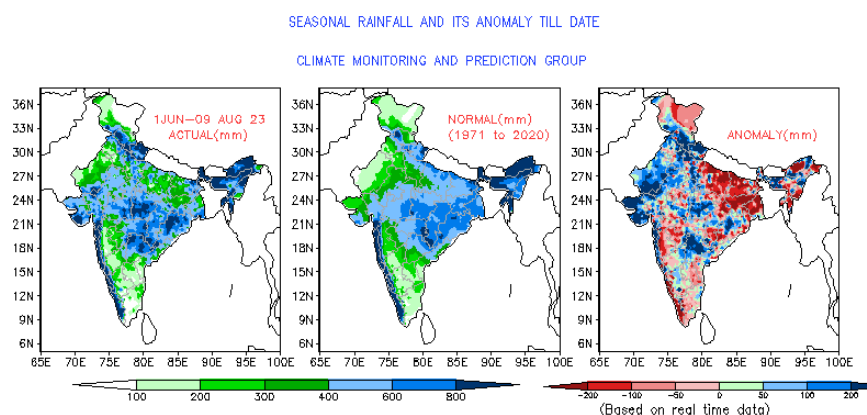
There are some good reasons for that.

Firstly, the coming inflation surge owes very considerably to tomato prices. Sure, other prices have

also risen, but back-to-back monthly 100%+ increases in the price of tomatoes in June and July are doing all the damage on the upside.

The cause of these tomato-price surges? This year's Monsoon started late, with a drier than usual June but wetter than normal July. However, the average rainfall over this entire period has been close to normal. What seems to have undone things is the erratic nature of the rainfall, with some areas experiencing much more rain than normal, while for other areas, it has been much drier. Either extreme will mess up the growing season and lead to shortages and food price rises, which is what seems to have happened.

Monsoon anomalies



Source: India Meteorological Department

What goes up...

The good news here is that such seasonal shortages tend to be just that - seasonal. This will pass - unless there are further seasonal anomalies, which of course are becoming more common these days thanks to climate change.

Assuming that normality is resumed over the coming months, then we can expect prices to slowly subside and return to something a bit more normal over the coming months. So what is a big contributor to inflation currently, can turn into a similar-sized drag over the coming months.

We expect Indian inflation to peak in August at over 8.5%YoY before drifting back down through the end of the year. And while this is unlikely to require any offsetting rate action from the RBI, it may make it harder for them to begin easing rates as soon as we had previously thought. That now looks more likely to be a story for 2024.

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