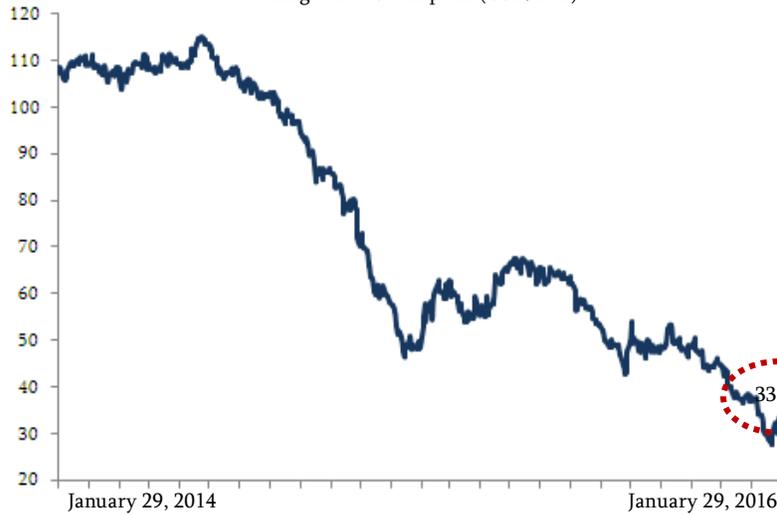


## *Leaves Key Rates Unchanged*

The Reserve Bank of India (RBI) has come out with its sixth Bi-Monthly Monetary Policy review (2015-16), wherein, the policy stance of this meet is in line with the consensus as well as our expectation. Following are the policy measures and vital announcements by the RBI.

- The RBI has left the Repo rate under the Liquidity Adjustment Facility (LAF) unchanged at 6.75%, accordingly Reverse Repo Rate under the LAF determined with a spread of 100 basis points below the Repo rates remain unchanged at 5.75%. Marginal Standing Facility (MSF) and the Bank rate both determined with a spread of 100 basis points above the Repo rate remain unchanged at 7.75%. RBI also left the Cash Reserve Ratio (CRR) of scheduled Banks unchanged at 4% of their net demand and time liability (NDTL).
- The RBI will continue to monitor and manage liquidity in the system through overnight repos at 0.25% of Bank-wise NDTL at the LAF repo rate and the liquidity under 14-day term repos as well as longer term repos of up to 0.75% of NDTL of the banking system. RBI will also monitor and manage liquidity with daily variable rate repos and reverse repos auctions.
- Indian economy pick up in second quarter ended September 2015, Gross Domestic Product (GDP) grew at 7.4% YoY against 7.1% YoY in the previous quarter of the same financial years, on the back of strong growth in manufacturing, trade, hotels, transport & communication services. For FY16, RBI kept its GDP growth projection unchanged at 7.4% with a downside bias. For FY17, RBI projected a GDP growth of 7.6%.
- Retail inflation measured by the Consumer Price Index (CPI) rose for the fifth month in December across all constituent categories. CPI Inflation rose to 5.61% YoY in December 2015 as against 5.41% in the preceding month of same financial year. RBI believes that its January 2016 CPI Inflation target of 6% may meet and also it increased January 2017 CPI Inflation target from 4.8% earlier to 5% under the assumption of a normal monsoon and the current level of international crude oil prices and exchange rates.
- India's Industrial Production contracted by -3.2% in November 2015 (lowest level in over four years) as against 9.9% in October 2015. The contraction in IIP was mainly due to poor performance of manufacturing sector and a sharp decline in capital goods output.
- Liquidity conditions tightened in the second half of December with advance tax outflows. Tightness spilled over into January 2016 backed by a seasonal pick-up in demand for currency, restrained spending by the government and a pick-up in bank credit growth. In order to mitigate these conditions, the RBI injected liquidity. The average daily liquidity injection (including variable rate overnight and term repos) increased from 1200 billion in December 2015 to about 1345 billion in January 2016. In addition, the RBI also injected 200 billion through open market purchase operations on December 7, 2015 and January 20, 2016.
- **RBI clearly mentioned that its stance will continue to be accommodative even as it leaves the policy rate unchanged in this review. The focus of monetary action continues to be data driven like awaiting further development of inflation. Structural reforms in the forthcoming Union Budget that boost growth while controlling spending will create more space for monetary policy to support growth.**

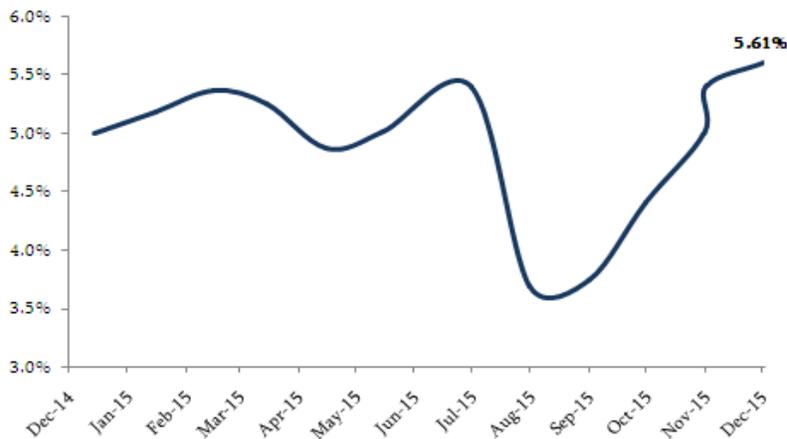
Falling Brent Crude price (USD/BBL)



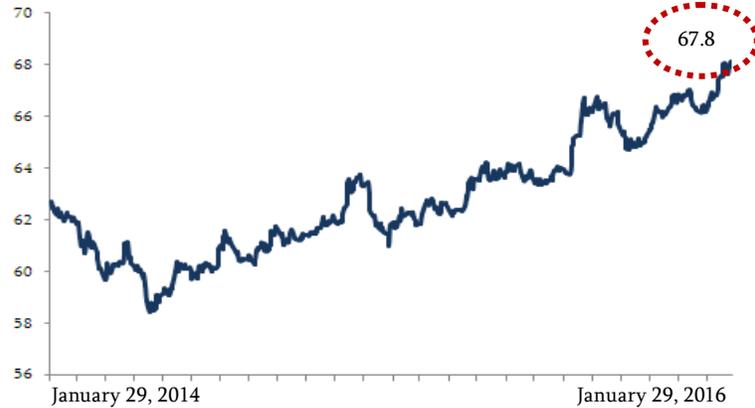
The Brent crude Price has fallen ~48% within 7 months (from June 29, 2015 to January 29, 2016). It is mainly because of supply outpaced as the U.S, Saudi Arabia and the OPEC nation's stance of continued strong production despite slowdown in the global economy led by China and poor oil demand.

We believe, lower crude price along with the expectation of normal monsoon and the government's effort to improve the supply side bottleneck may keep the inflation under control. Consequently, it may give room to RBI to cut the key rates. We expect 50bps cut in Repo Rate till March 2017.

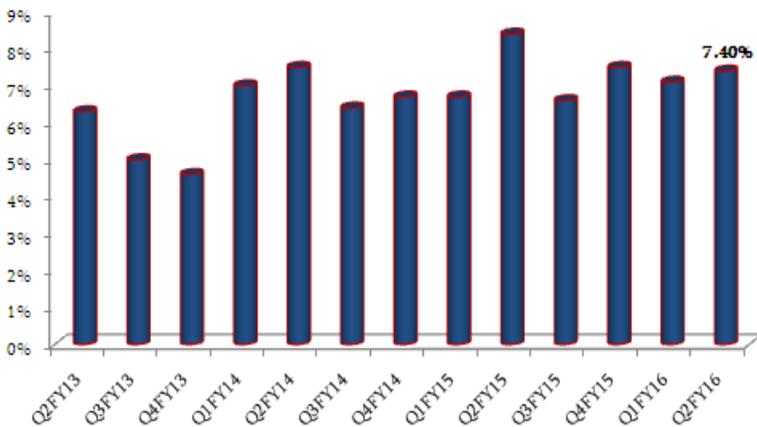
CPI Inflation Trend



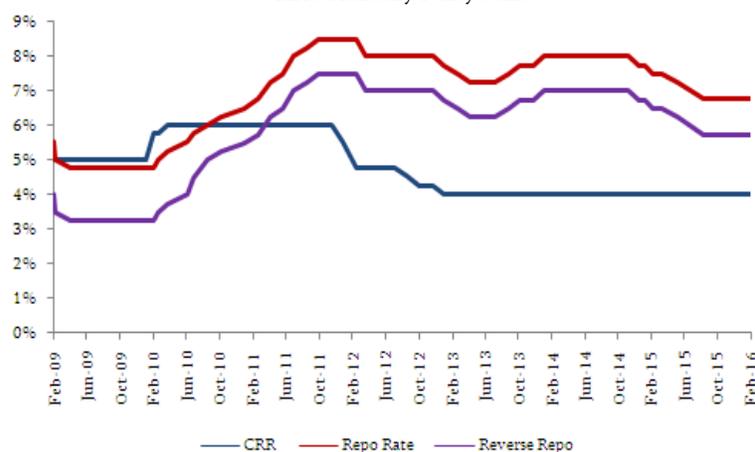
INR Vs.USD



Indian GDP Trend



RBI's Monetary Policy Stance



Source: RBI, Trading Economics & AUM Research

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