



RBI POLICY RESPONSE

The MPC voted unanimously to keep the repo and reverse repo rates on hold at 4.00% and 3.35% respectively today was but the enormous economic slump means it is likely to resume its easing cycle soon. The decision was correctly forecast by many while markets were pricing in further easing. The main reason for inaction was concerns over the inflation outlook. Governor Shaktikanta Das stated in the press conference that “supply-chain disruptions related to COVID-19 persist with regard to food and non-food inflation”.

Our view is that inflation will drop sharply over the coming months as the collapse in demand more than offsets supply constraints. More important, the outlook for economic growth is bleak as confirmed coronavirus cases continue to post new highs. Several high-frequency indicators such as the July PMIs show that the post-lockdown recovery has stalled before it ever really got going.

Certainly, it looks like that further policy will be loosened. Indeed, the RBI has maintained its “accommodative” policy stance today and Governor Das stated that further policy space is available. We are still forecasting a further 50bp of cuts before the end of the year. Policy could be loosened even further if the growth outlook continues to worsen. Based on the policy outcome, we still maintain our bearish stance in rupee looking at the domestic vulnerabilities.

Policy Reviews

Date	Outcome/Forecast
7th Feb. 2019	Repo cut by 25bp to 6.25%, reverse repo cut by 25bp to 6.00%
4th Apr. 2019	Repo cut by 25bp to 6.00%, reverse repo cut by 25bp to 5.75%
6th Jun. 2019	Repo cut by 25bp to 5.75%, reverse repo cut by 25bp to 5.50%
7th Aug. 2019	Repo cut by 35bp to 5.40%, reverse repo cut by 35bp to 5.15%
4th Oct. 2019	Repo cut by 25bp to 5.15%, reverse repo cut by 25bp to 4.90%
5th Dec. 2019	No significant policy changes
6th Feb. 2020	No significant policy changes
27th Mar. 2020	Repo cut by 75bp to 4.40%, reverse repo cut by 90bp to 4.00%
17th Apr. 2020	Repo on hold at 4.40%, reverse repo cut by 25bp to 3.75%
22nd May 2020	Repo cut by 40bp to 4.00%, reverse repo cut by 40bp to 3.35%
6th Aug. 2020	No significant policy changes
Oct. 2020	Repo cut by 25bp to 3.75%, reverse repo cut by 25bp to 3.10%
Dec. 2020	No significant policy changes
Feb. 2021	Repo cut by 25bp to 3.50%, reverse repo cut by 25bp to 2.85%
Jun. 2021	No significant policy changes



On daily charts, USDINR is well placed above 200 days exponential moving average however trading below its short term exponential moving average indicating sideways momentum for short term view. For now witnessed sideways momentum after making a high of 77 marks which is also acting as major resistance while on downside taken a support near 74.37 levels. For short term view USDINR has support placed around 74.50 followed by 74.37 while on higher side resistance is seen near 75.50 followed by 76.30 levels for short to medium term view.

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