RBI MPC Preview

Tough task at hand; Policy tone will be key

Hitesh Suvarna
hitesh.suvarna@jmfl.com | Tel: (91 22) 66303351

The RBI has a tough task at hand focusing on its dual mandate of supporting growth while maintaining price stability. Markets are divided on the RBI's monetary policy expectation in December, specifically after the robust GDP print that followed the series low inflation. In addition to being forward looking, the RBI's policy decision should also ensure an effective transmission in yields. We expect RBI to raise its growth projection by at least 20bps to 7% and lower its inflation forecast by 40bps to 2.2% in FY26. The currency has depreciated sharply in recent days; however, currency management does not come within the ambit of the MPC, hence the policy decision will not be aimed in this direction. We believe that the markets lack direction and the need of the hour will be effective communication by the regulator. Hence, regardless of whether a rate cut is delivered or a status quo is maintained, the tone of the policy will be the key monitorable. The RBI can announce OMOs to ensure that appropriate liquidity is maintained, which, along with a change in stance to "accommodative", will soften yields.

- **Tough task at hand:** Market expectation from the monetary policy swung both ways in the last 3 weeks. The benign inflation print at the start of November (0.25%) raised hopes of policy easing while the robust GDP growth in 2QFY26 (8.2%) grounded those expectations. We believe that MPC has a tough task at hand, considering the current growth-inflation dynamics, as it has to juggle various concerns: a) whether to prioritise growth over inflation; b) the extent to which it can be forward looking in this dynamic environment, where forecasting abilities get hampered; c) whether the policy decision should be aimed at protecting the currency (not mandated); and d) how will the bond market react?

- **Focus on the policy tone:** While a rate cut at this juncture will aid the soft growth patch anticipated in 2HFY26 it will risk further depreciation in INR. If the rate cut is not accompanied by a dovish tone, bond yields will harden further. The regulator can take the middle path by maintaining status quo, and guide for policy support in the upcoming months. Concerns around the hardening yields/steepening yield curve can be addressed through Open Market Operations (OMOs). On the liquidity front, currently the LAF liquidity is sufficient at 1% of NDTL (Ex 1) and the call rates are well within the policy corridor; however, the anticipated tax outflows and Fx interventions will warrant liquidity infusion by the RBI. We believe that the markets lack direction and the need of the hour will be effective communication by the regulator. Hence, regardless of whether a rate cut is delivered or a status quo is maintained, the tone of the policy will be the key monitorable.

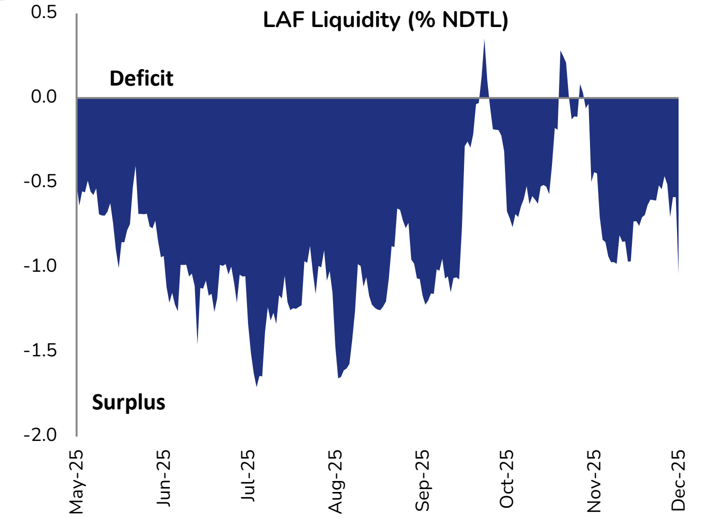
- **Growth and inflation expectation to be tweaked:** The trajectory of growth and inflation has not been in line with the market and RBI's projections in this year. We expect some tweaking in the December policy as well; RBI could lower its annual inflation expectation for FY26 by 40bps and raise its growth projection by at least 20bps to 7% (7.2% JMe). India's external account is expected to widen further due to the deterioration in the net imports position; pressure on the currency (INR) is stemming from the pending India-US trade deal – exerting pressure through the trade route. Although the RBI is not mandated to target a specific level on the INR, it aims to even out excessive volatility. We believe that the rate cut by the Fed next week will take care of the interest rate differential.

- **Liquidity measures with a dash of dovish tone:** Market expectations of a rate cut in December were dashed by the robust GDP print in 2QFY26, which reflected in the hardening of benchmark yields to 6.58%. The RBI's main objective is to support growth while maintaining price stability, and considering the forward looking nature of the central bank, growth needs to be prioritised over inflation at this juncture. The policy actions need to be well communicated to expect the desired impact in the bond markets. The currency witnessed steep depreciation in recent days; however, currency management does not come within the ambit of the MPC, hence the policy decision will not be aimed in this direction. We reiterate that the policy tone will be the key monitorable, regardless of whether a rate cut is delivered or not in this meet. Although the RBI has multiple policy tools in its kitty to address macro concerns, we believe that a change in policy stance from "neutral" to "accommodative" with announcement of OMOs will ensure that the liquidity needs are met along with the yield management.

Key Highlights

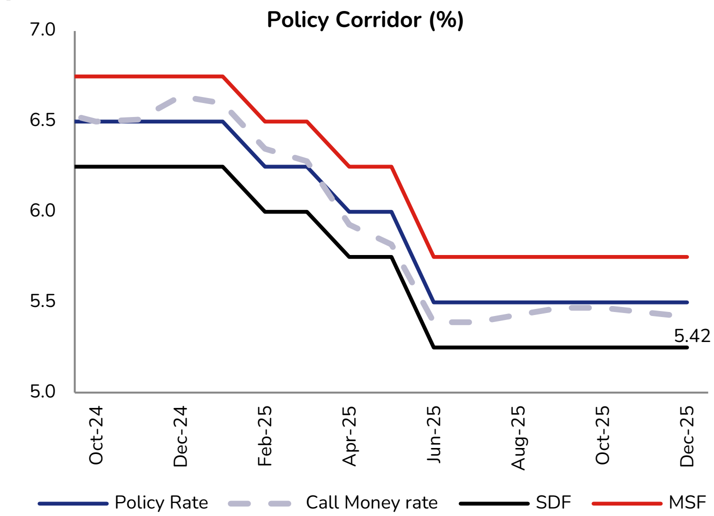
- Markets divided on the expectations from the monetary policy in Dec-25
- Growth expected to moderate in H2 FY26 while inflation gathers momentum.
- Expect growth expectation to be increased by at least 20bps to 7% while inflation lowered by 40bps to 2.2% in FY26.
- We believe policy tone will be key monitorable regardless of whether a rate cut is delivered or not.
- Policy stance may change to "accommodative"

Exhibit 1. Liquidity needs support in upcoming months



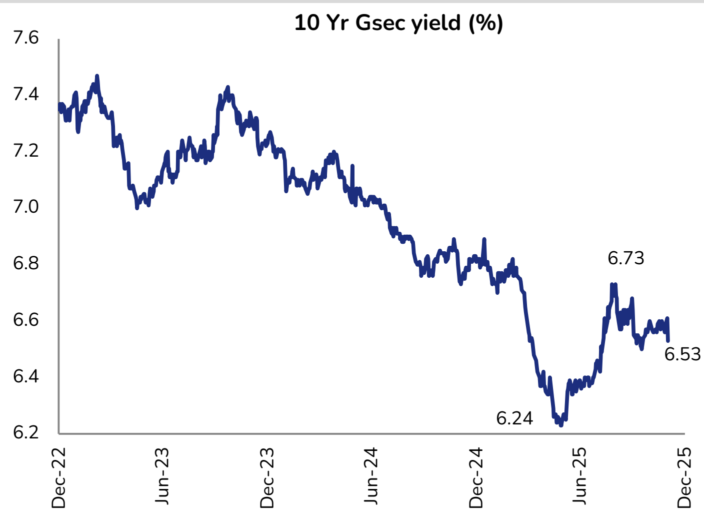
Source: CMIE, JM Financial

Exhibit 2. Call rates trending comfortably within the policy corridor



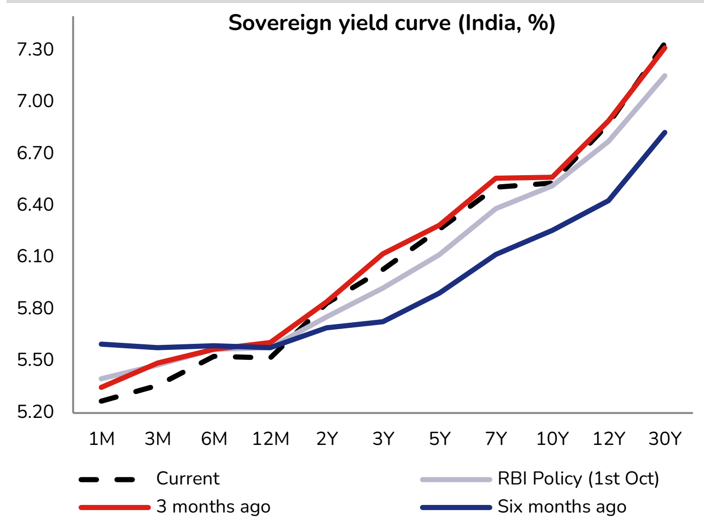
Source: CMIE, JM Financial

Exhibit 3. Yields softened 8bps on 2nd December



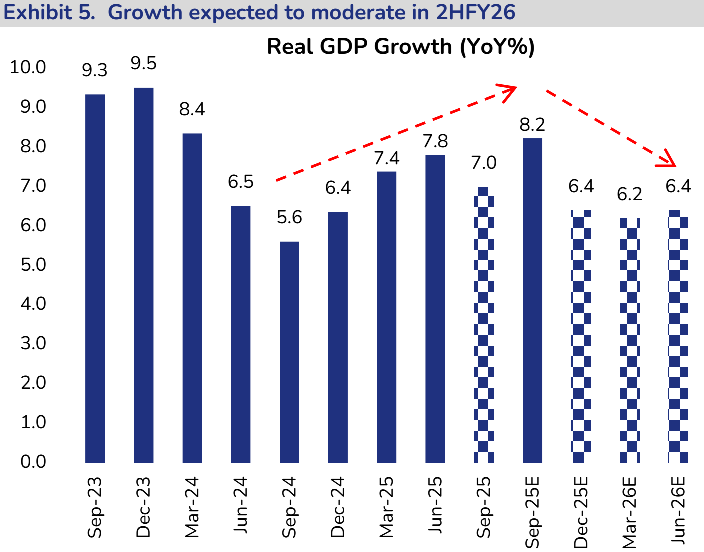
Source: CEIC, JM Financial

Exhibit 4. Yield curve steepened since last policy meet



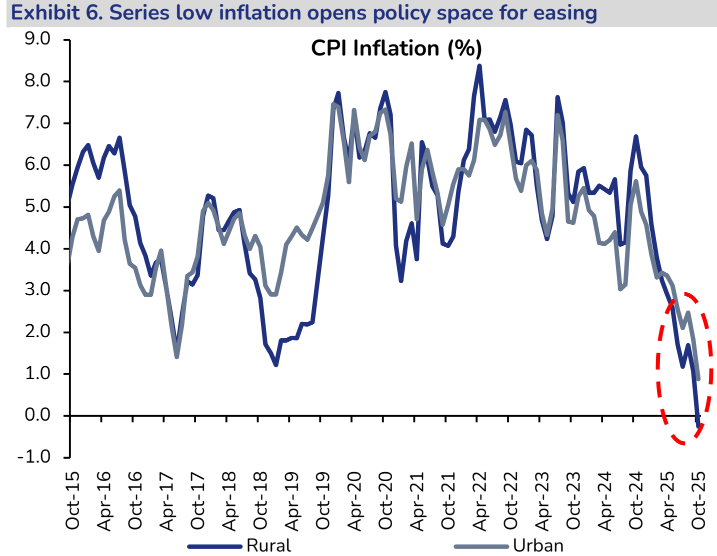
Source: Bloomberg, JM Financial

Exhibit 5. Growth expected to moderate in 2HFY26



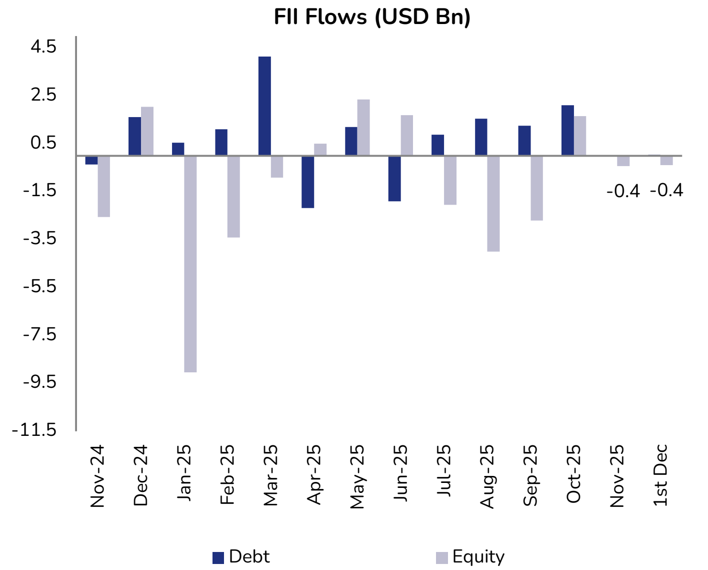
Source: MOSPI, RBI, JM Financial

Exhibit 6. Series low inflation opens policy space for easing



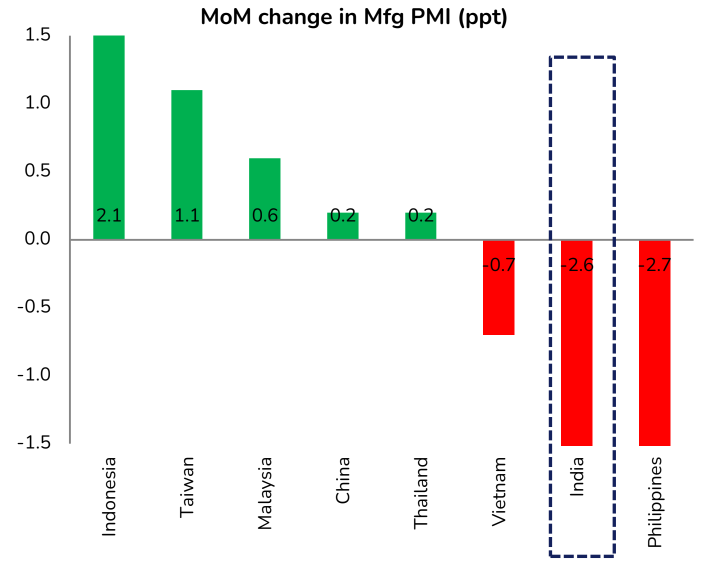
Source: CMIE, JM Financial

Exhibit 7. FII's sold equities to the tune of USD 17bn in 2025



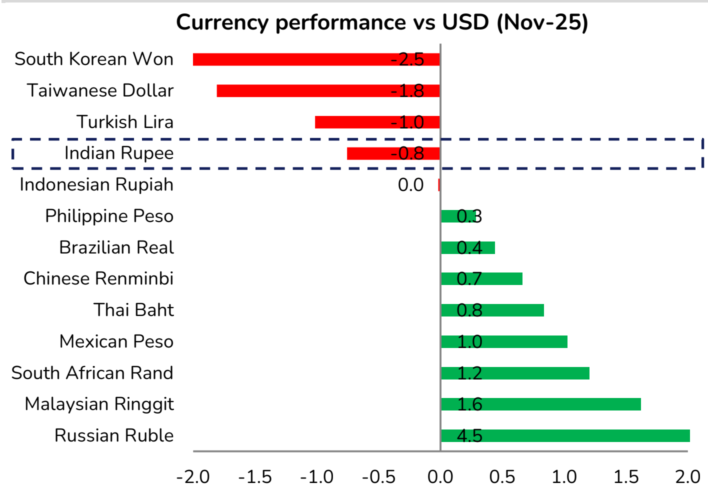
Source: CMIE, JM Financial

Exhibit 8. Steep moderation in Manufacturing PMI reading in Nov'25



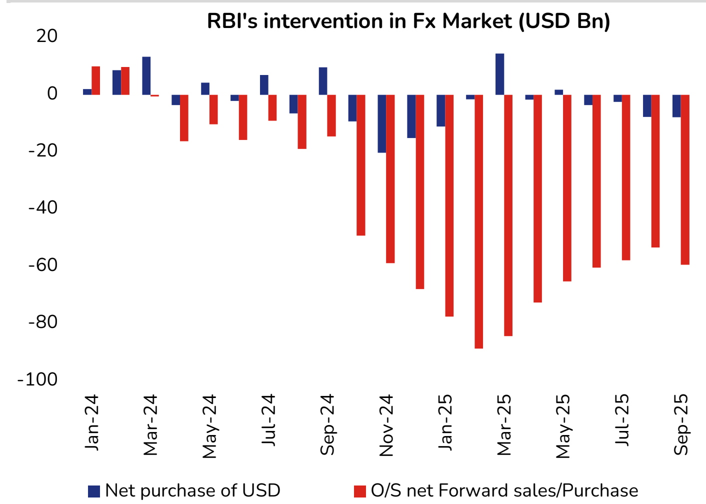
Source: Bloomberg, JM Financial

Exhibit 9. INR continued to depreciate in Nov'25



Source: Bloomberg, JM Financial

Exhibit 10. RBI net short position on USD



Source: CMIE, JM Financial

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Board: +91 22 6630 3030 | Fax: +91 22 6630 3488 | Email: jmfinancial.research@jmfl.com | www.jmfl.com
Compliance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: ashley.johnson@jmfl.com
Grievance Officer: Ms. Ashley Johnson | Tel: +91 22 6224 1862 | Email: instcompliance@jmfl.com

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Rating	**Meaning**
BUY	Expected return >= 15% over the next twelve months.
ADD	Expected return >= 5% and < 15% over the next twelve months.
REDUCE	Expected return >= -10% and < 5% over the next twelve months.
SELL	Expected return < -10% over the next twelve months.

Note: For REITs (Real Estate Investment Trust) and InvIT (Infrastructure Investment Trust) total expected returns include dividends or DPU (distribution per unit)

Previous Rating System: Definition of ratings	
Rating	**Meaning**
BUY	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
HOLD	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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