

RBI MPC Preview

Policy tone will be key monitorable

The MPC will be deliberating on how to complement the fiscal measures with its policy decision to boost consumption in the economy through effective transmission. RBI's tone will be key monitorable in this meeting, as a dovish tone will ensure effective transmission through the bond channel. Rationalisation in GST will aid headline inflation however the trajectory will continue to be upward sloping. We expect RBI to lower its inflation expectation below the 3% mark for FY26, while a dovish tone will call for an unchanged growth projection. Yields hardened (6bps) despite lower allocation in the longer end in the government's 2HFY26 borrowing calendar; a hawkish tone at this stage will harden yields further. Although we believe that a rate cut will be appropriate at this stage, communication will be a key monitorable irrespective of whether RBI goes in for a rate cut or maintains status quo.

- **Markets expect a dovish tone:** The Reserve Bank of India's monetary policy committee (MPC) will be meeting against the backdrop of the elevated tariffs (50%) imposed by the US even as there is lingering uncertainty over the finalisation of a bilateral trade deal. The impact of the fiscal measures (Tax exemption + GST rationalisation) and front-loaded policy easing in the domestic economy is working its way through the economy; a carefully planned policy move by the RBI will aid consumption if the transmission is effective. Whether the RBI delivers a rate cut or maintains status quo, it should be accompanied with a dovish tone.
- **Lower inflation; growth unchanged:** We expect the RBI to lower its inflation projections for 4QFY26 to 4% while the annual projection is expected to fall below 3% mark in FY26. Our assessment of the impact of GST rationalisation reveals that the GST liability on the CPI basket will ease to ~7% vs. 11.9% earlier, lowering cost by ~5% (Ex 13). We believe that although GST rationalisation will aid headline inflation, depending on the timing and the extent of pass-through, the trajectory will continue to be upward sloping. We think that the RBI will have to maintain a dovish tone to keep yields in check, hence growth projections are likely to be unchanged at 6.5% for FY26. RBI's commentary and its tone will be a key monitorable in this meeting; a dovish tone will deliver the desired outcome of transmission through the bond channel.
- **Call rates in check; yields elevated:** System liquidity reverted to surplus territory (INR 470bn) after briefly turning deficit (INR 870bn) last week. Call rates (5.4%) have been trading within the policy corridor, reflecting the effectiveness of the RBI's liquidity management through VRRRs till now. Even as the money market rates behaved well, elevated G-sec yields did disrupt the borrowing plans of states and NBFCs recently. Taking note of the demand and supply dynamics, the Centre reduced its share of borrowing at the longer end (30-50 yr) from 35% in 1HFY26 to 29.5% in 2HFY26 (Ex 12). Despite this change, benchmark (10yr) yields hardened by ~ 6bps to 6.55%. It was observed that despite the front-loading of rate cuts in June, the transmission through the bond channel was not effective – as yields hardened ~40bps but later softened ~10bps. The yield curve shifted upwards at the longer end after the policy meeting in Aug'25.
- **Dovish tone for effective transmission:** The call that the MPC needs to take in the upcoming meeting is how to complement fiscal policy measures to boost consumption in the economy through effective transmission. RBI's policy tone will be monitored closely by the bond markets, irrespective of whether it delivers a rate cut or maintains status quo. We believe that a rate cut at this stage will be more appropriate considering that monetary policy works with a lag. Our earlier assessment of a limited window for policy easing due to the upward sloping inflation trajectory holds true; however, that limited window gets extended due to the positive impact of GST. Hence a status quo in October can be followed by a rate cut in Dec'25. But a hawkish tone at this stage will be detrimental and will reflect in further hardening of yields.



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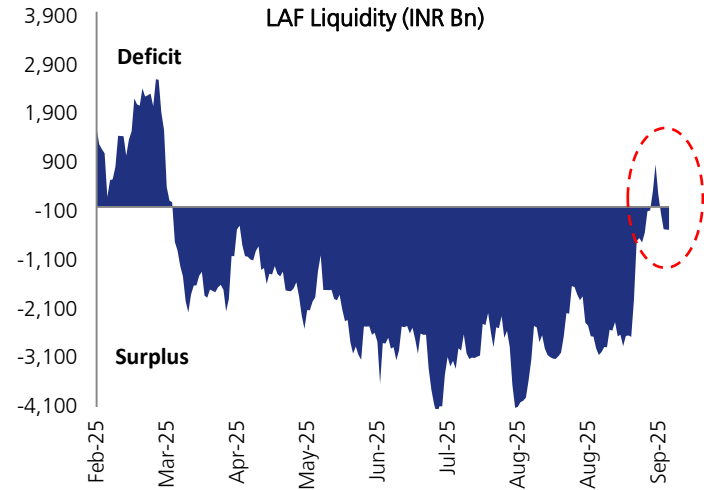
Key Highlights

- The MPC would be deliberating on how to complement fiscal measures with its policy decision.
- Inflation expectation to be lowered below 3% for FY26
- A dovish tone would warrant an unchanged growth projection
- Policy tone will be key monitorable whether it is paired with a rate cut or status quo.

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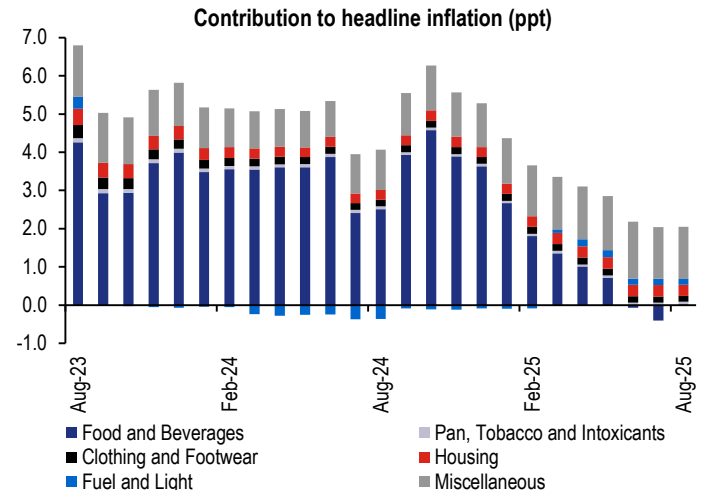
Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. Liquidity turned deficit in Sep'25



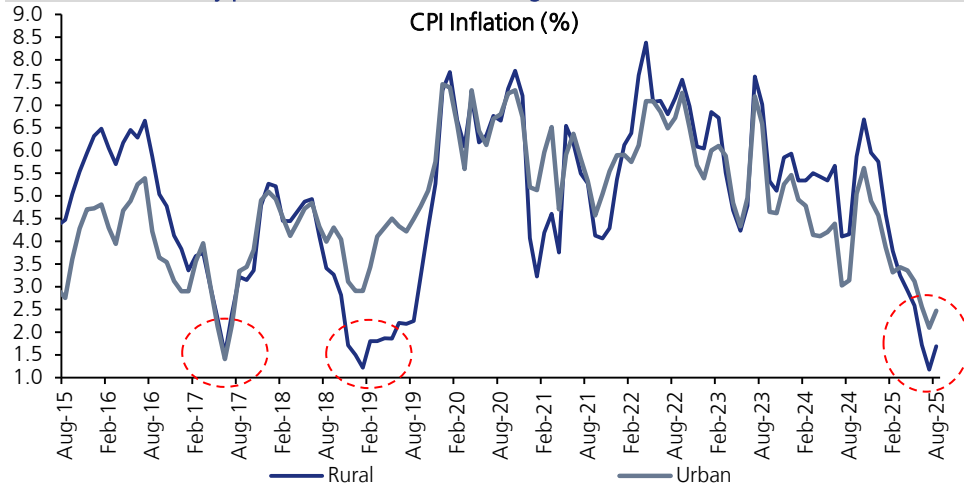
Source: CMIE, JM Financial

Exhibit 2. Contribution of food in CPI inflation expected to rise



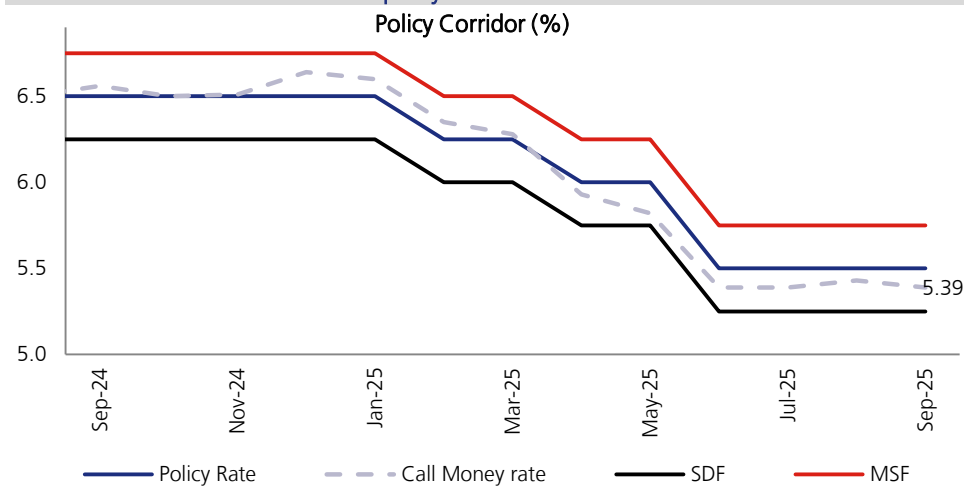
Source: MOSPI, JM Financial

Exhibit 3. Inflationary pressure bottomed out in Aug'25



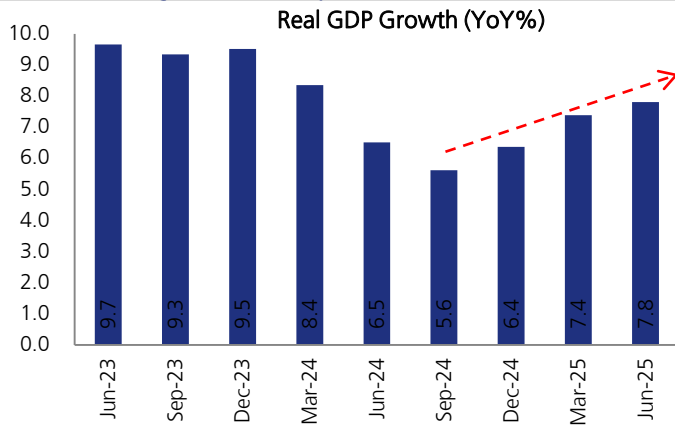
Source: MOSPI, JM Financial

Exhibit 4. Call rates trade within the policy corridor



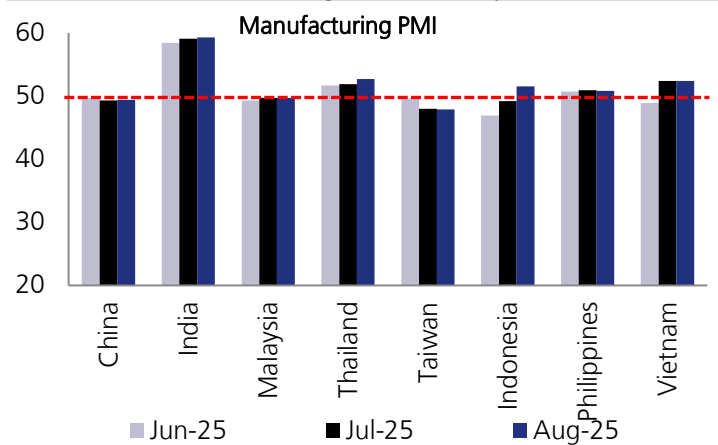
Source: CMIE, JM Financial

Exhibit 5. GDP growth on an uptrend



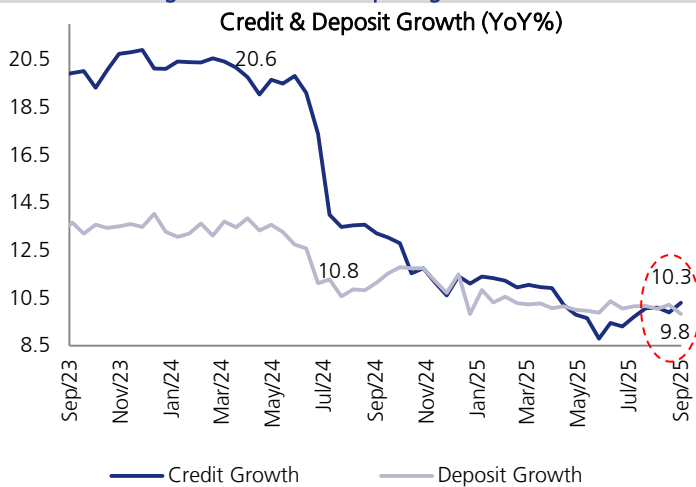
Source: MOSPI, JM Financial

Exhibit 6. India's manufacturing PMI robust vs. peers



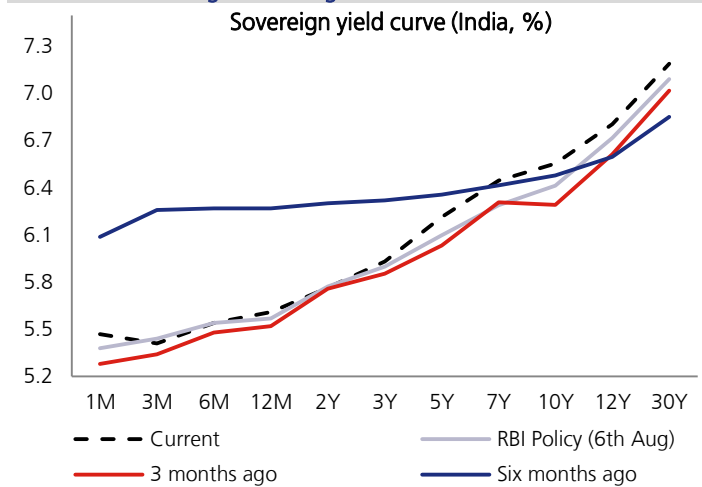
Source: SPGlobal, JM Financial

Exhibit 7. Credit growth breached deposit growth



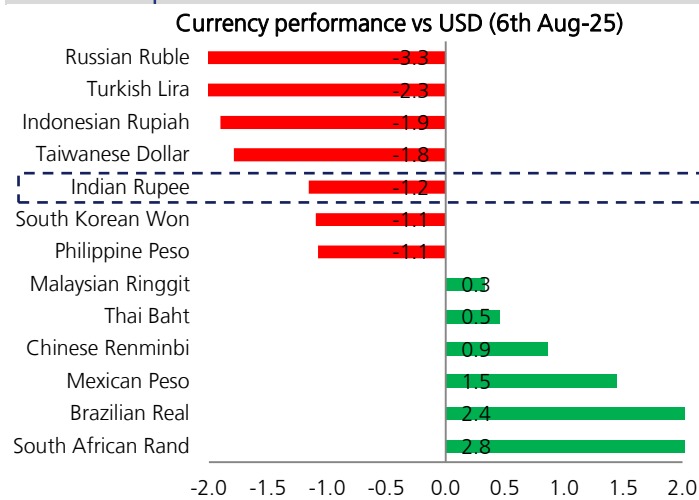
Source: CMIE, JM Financial

Exhibit 8. Hardening in the longer end in last 1 month



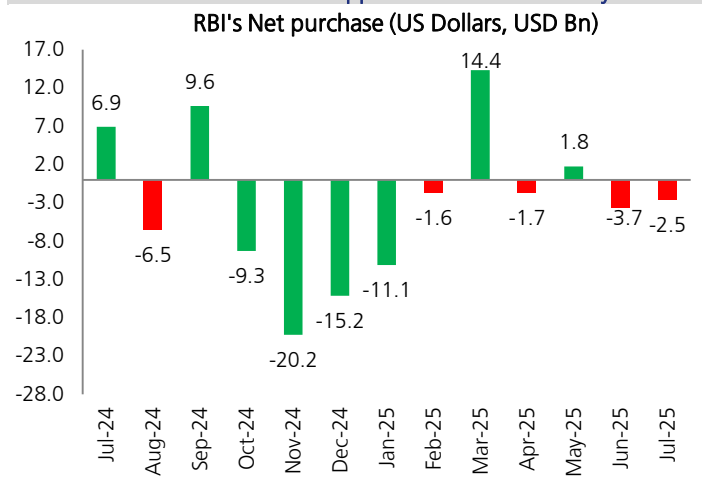
Source: Bloomberg, JM Financial

Exhibit 9. INR performance vs. USD since last MPC meet



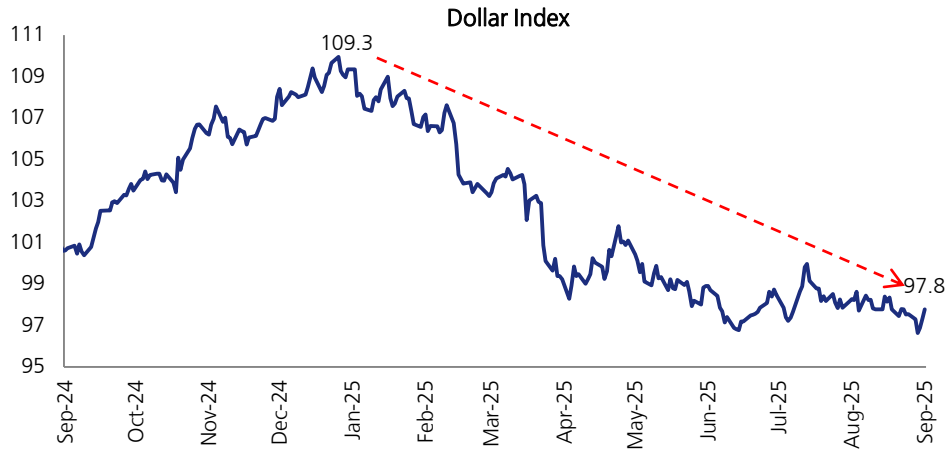
Source: Bloomberg, JM Financial

Exhibit 10. RBI intervention to support INR in June and July



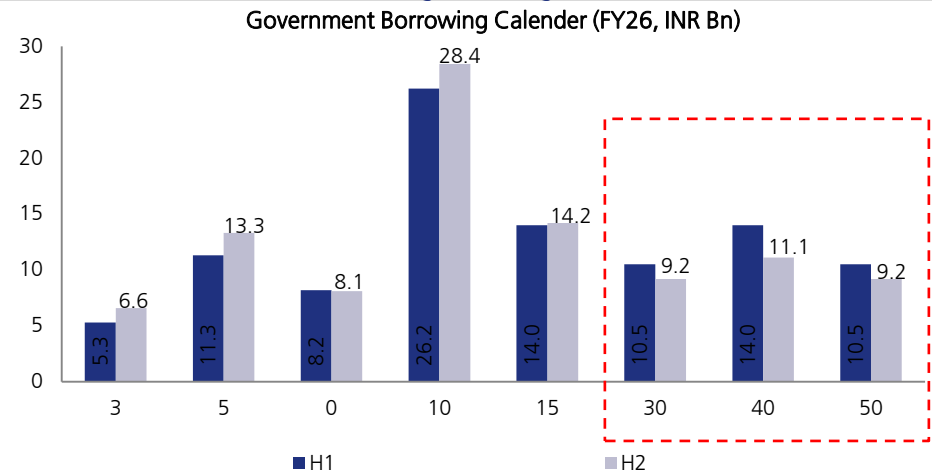
Source: RBI, JM Financial

Exhibit 11. US dollar weakened 10.5% since the start of 2025



Source: Bloomberg, JM Financial

Exhibit 12. Government reduces borrowing at the longer end in 2HFY26



Source: Ministry of Finance, JM Financial

Exhibit 13. Impact of GST rationalisation across the CPI basket

Category	GST liability (%)		GST Benefit/- Loss	
	Old	New	Change (ppt)	INR Bn
Cereals and Products	1.03	0.19	-0.84	338.2
Meat and Fish	0.41	0.18	-0.23	91.2
Milk and Milk Product	0.58	0.20	-0.38	153.6
Oils and Fats	0.40	0.18	-0.22	89.9
Fruits	0.32	0.14	-0.18	73.0
Vegetables	0.73	0.30	-0.42	171.9
Pulses and Products	0.27	0.12	-0.15	60.1
Sugar and Confectionery	0.19	0.07	-0.12	48.9
Non-alcoholic Beverages	0.19	0.14	-0.05	18.8
Prepared Meals, Snacks, Sweets, etc.	0.77	0.28	-0.49	198.5
Pan, Tobacco and Intoxicants	0.53	0.61	0.08	-33.4
Clothing	0.63	0.37	-0.25	102.1
Footwear	0.11	0.05	-0.06	24.0
Housing	1.13	0.50	-0.63	254.3
Fuel and Light	0.51	1.09	0.58	-235.4
Household Goods and Services	0.46	0.22	-0.24	98.6
Health	0.72	0.31	-0.41	165.0
Transport and Communication	1.59	1.01	-0.58	234.0
Education	0.48	0.39	-0.09	37.5
Personal Care and Effects	0.89	0.62	-0.27	109.3
	11.92	6.98	-4.94	2,000.0

Source: MOSPI, JM Financial estimates

APPENDIX I

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Rating	Meaning
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ADD	Expected return \geq 5% and $<$ 15% over the next twelve months.
REDUCE	Expected return \geq -10% and $<$ 5% over the next twelve months.
SELL	Expected return $<$ -10% over the next twelve months.

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Rating	Meaning
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SELL	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

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