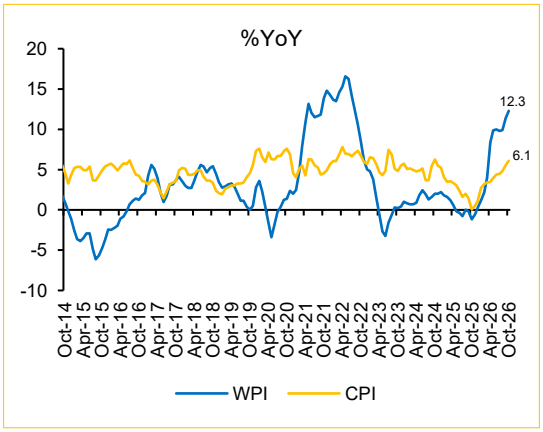
RBI MPC Preview: Behind Its Own Band - Why December Won't Be Enough

November 25, 2026

CPI inflation surges beyond RBI's upper tolerance level to 6.1% while WPI swelled to 12.3% in Oct'26



Source: CMIE, Choice Institutional Equities

Our View -

We expect a second consecutive 25 bps hike to 5.75% in the December MPC meeting, with the calibrated tightening stance held, a follow-up in February, and the repo rate heading toward a terminal rate of 6.25% as the cycle extends. Our central message is that even this leaves the RBI behind the curve. October CPI breached the 6% upper tolerance band, food inflation ran close to 9%, and core continued to firm with signs of generalisation, yet the RBI's own FY27 projection still sits at 5.2%. That gap is no longer a forecasting quibble; it is a credibility problem for an inflation-targeting central bank that has let realised inflation overshoot the top of its own band, with cost pass-through still incomplete and poised to keep core firm.

Compounding our concern is where the RBI has spent its attention. Through the 1H, it leaned heavily into currency stability, running down reserves and steering liquidity to defend the rupee, and November's crude-led relief has handed it a convenient reason to feel vindicated. We see FY27 inflation at 5.5-5.6% against the RBI's 5.2% and expect the eventual quantum of tightening to exceed what the current one-sided reaction function will admit.

RBI FY27 CPI inflation forecast revisions across 2026 MPC meetings

MPC meeting	FY27	1Q FY27	2Q FY27	3Q FY27	4Q FY27
Apr-26	4.6%	4.0%	4.4%	5.2%	4.7%
Jun-26	5.1%	4.2%	5.1%	5.9%	5.4%
Aug-26	5.0%	5.3%*	4.7%	5.9%	5.5%
Oct-26	5.2%	-	4.9%	6.0%	5.7%

Source: CMIE, Choice Institutional Equities
*Note – * indicates the actual 1Q figures*

Behind the curve, by the RBI's own band

Headline CPI rose to 6.09% in October from 5.54% in September, crossing the 6% threshold for the first time under the new 2024=100 series. An inflation-targeting framework is judged on whether realised inflation stays within the band; this one did not. The RBI hiked only in October, its first move in nearly three years, having held at 5.25% across the April, June and August reviews even as pressures built. Hence, the breach arrives against a policy rate still low relative to where inflation has travelled.

The RBI's own forecast trail is more damning. At the start of FY27 it read the war-driven price shock as largely transitory and not broad-based, projecting FY27 CPI at just 4.6% and core at 4.4% in April, judging underlying pressures would stay contained, and maintaining through June that the supply shock would wane from Q4. The projection was then lifted to 5.1% in June and 5.2% in October, while realised inflation breached 6% with food near 9% and core generalising, precisely the broadening the RBI insisted would not take hold. Revised in one direction at successive meetings and still almost a full percentage point below where we see the year landing, it is not a forecast the market can anchor to.

Currency defence has crowded out the mandate

The scale of the currency effort is the clearest evidence of misplaced priorities. Over 2026 the RBI has thrown an unusually wide toolkit at rupee depreciation: a USD 100 Mn cap on banks' net open positions in March to force the unwinding of speculative shorts; an FCNR(B) deposit scheme in June, with the hedging cost subsidised, which drew in well over USD 130 Bn and lifted reserves to a record USD 785.7 Bn by early September; and an October weekend package that tightened hedging rules, banned the rebooking of cancelled forwards, imposed a 20% foreign-exchange risk reserve on derivatives, and opened a special window to supply oil marketing companies with dollars from reserves. It then drew those reserves down to defend the rupee. Taken together, these describe a central bank more anxious about the currency than about an inflation rate above its own ceiling, and the effort is partly self-defeating, since every dollar sold drains rupee liquidity and the sterilisation that follows softens the very rate differential supporting the rupee.

November's crude collapse, the Indian basket falling from around USD 120/bbl in October to near USD 90/bbl and the rupee firming to a six-month high close to 93/USD, has eased this bind, but for the wrong reason. The relief is imported and reversible, not a product of policy, and we worry the RBI treats a lucky break in oil as evidence its calibrated approach is working. A central bank already behind on inflation and preoccupied with the currency is exactly the one most tempted to under-deliver once the external pressure lifts.

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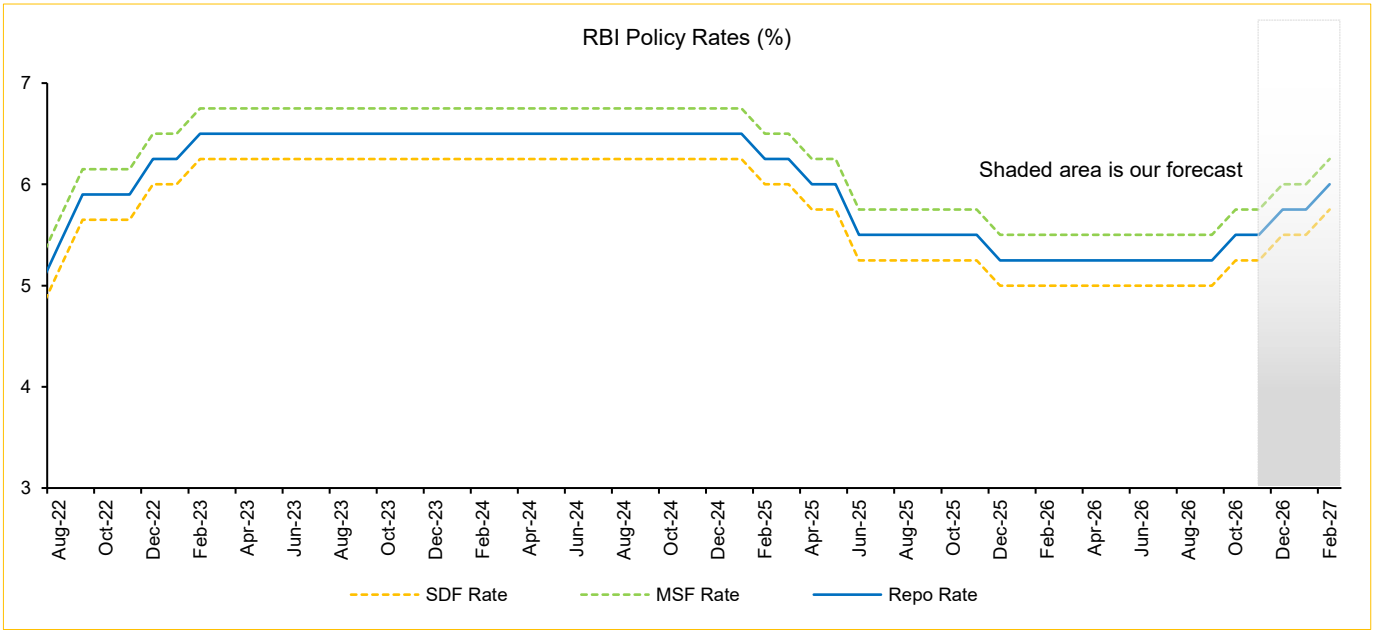
The second-round pressures the headline relief hides

The risk the RBI is most likely to underweight is the pass-through still working through the pipeline. The RBI's own October Monetary Policy Report conceded that the gap between manufacturing input and output price indicators, though narrower than its March peak, remains positive. That gap is unpassed cost: companies are likely to pass a greater share of it to consumers in coming months, eroding the price relief from the GST cut and keeping underlying inflation firm even if fresh input-cost pressures ease. The disinflation the market is pricing thus runs on the fuel and imported components, while the domestic core carries a built-in firming impulse from this delayed pass-through. A softer headline is a window to stay firm, not permission to relax.

Conclusion – Terminal Repo Rate seen at 6.25%

We expect a 25 bps hike to 5.75% in December and a follow-up in February, 25 bps at each meeting as the base case, with the repo rate heading toward a terminal of 6.25% from 5.50% as the cycle extends. We see FY27 inflation at 5.5-5.6% against the RBI's 5.2%. The number matters less than the posture behind it: on current evidence the RBI is still behind the curve, and spending credibility to stay there.

After the first repo rate hike of 25bps to 5.5% in Oct'26, we expect RBI to hike rates by 25bps in both Dec'26 and Feb'27 meetings, with terminal rate expected to be around 6.25% - 6.5%



Source: CMIE, Choice Institutional Equities

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SELL	The security is expected to show downside of 5% or more over the next 12 months
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