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THE RBI OCTOBER 2024 MONETARY POLICY EXPECTATIONS

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The Oct’24 RBI Monetary policy is a few days’ awaiting. While the recent Fed rate cuts of 50 basis points have cheered the market, the Central Bank of India is likely to keep its policy rate unchanged, for a couple of reasons. The ongoing Middle East conflict between Israel and Iran, has made the equity markets highly volatile. This conflict posed a humongous uncertainty for the rest of the World which could evolve into a focused war, like the Russia-Ukraine war.

The Indian stock market witnessed a plunge on 30 Sept’24, when the BSE Sensex dive down below 85,300, and Nifty50 declined below 25,850. The BSE Sensex ended the day at 84,299.78, down 1,272 points, whereas Nifty50 closed at 25810.85 down 368 points. The Nifty 50 fell nearly five per cent in the last one week of trading, which is the sharpest weekly decline since June 2022. Real estate also felt the heat with the sell-off with Nifty Realty index falling 8.7 per cent last week.

More concerning factor is that the Nifty Auto index dropped 5.7 per cent amid rising concerns over inflationary pressures and higher input costs, especially for sectors/industries dependant on petroleum products and related raw materials.

While oil prices have shown better picture, how this would turn out amid the geopolitical challenges in the West Asia and middle east is yet to be seen. The oil prices have recently skyrocketed nearly five per cent following the Israel-Hezbollah conflict, and related developments. Globally, there are upward trends in WTI crude (increased by 8%), Brent Crude (increased by 7%), Murban crude, natural gas etc.

Nonetheless, the major concerning factor is that a disruption in the Strait of Hormuz, through which much of India's oil passes, could lead to higher oil prices. For every $10 increase in crude oil prices, India's inflation could rise by 0.5 per cent, impacting overall economic growth.

One of the major worrisome factors for the RBI is therefore, that any sudden substantial disruption in crude oil prices could destabilise the inflation trajectory, which would imply that RBI would be doubly cautious on considering decision about softening rate.

In India, there is already certain downward impact on tyre and paint companies, as such industries depend on heavily on petroleum-based raw materials. Oil-dependent industries might face possible squeeze in their margins, which may push supply-side inflationary bottlenecks.

Furthermore, the risk of fuel prices passing through the consumption basket can be a major headache. Though fuel has a 6.84% (almost 7%) weight in the CPI basket, and on average, roughly $10/per barrel increase in crude oil prices might escalate the CAD by 30-40 basis points (bps). However, the actual impact would be depending upon the trajectory of the ongoing geopolitical tension.

In the previous Aug’2024 policy, the RBI Governor highlighted that though the Inflation is gradually softening, but the pace is slow and uneven. Durable alignment of inflation to the target of 4.0 per cent is still some distance away. Persistent food inflation is exposing stickiness to headline inflation.

Inflation expectations need to be kept anchored, whereas the spill overs of food inflation to core inflation must be avoided. The Governor further emphasised that steady growth impulses are allowing monetary policy to unambiguously focus on supporting a sustained descent of inflation to the target.

In the current context, it has been observed that there is no sign of softening of the geopolitical tensions, rather it is getting further escalated, posing larger challenges for supply-side driven inflationary fear including possible escalation in the crude oil prices. Therefore, the RBI is likely to hold the policy repo rate unchanged amid such uncertainty.