

RBI might lower rates by another 50 bps in FY17: Morgan Stanley

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New Delhi, May 29:

The Reserve Bank is expected to keep key rates unchanged at the next policy meeting on June 7, but might lower rates by another 50 bps during the current financial year, says a report by Morgan Stanley.

According to the report, retail inflation is likely to moderate going forward and is expected to decelerate to 4.5 per cent by March 2017.

“Based on our CPI forecast and RBI’s stated real rate target of 1.5-2 per cent, we expect RBI to lower rates by another 50 bps in FY2017,” Morgan Stanley said in a research note.

Retail inflation soared to 5.39 per cent in April on higher food prices, reversing a downward trend seen in recent months.

In terms of pace of rate cuts, the global brokerage firm expects the Reserve Bank to wait for the onset of monsoon to see the trend in actual inflation, and hence expects the RBI to keep rates unchanged in the next policy meeting on June 7.

“We see a higher chance of RBI reducing rates in the October meeting. However, there is a possibility of RBI cutting rates in the August meeting if the rainfall arrives on time and is significantly above normal by end of July,” the report said adding “post that, we expect RBI to move in December or February meeting, with the key event to watch being Fed monetary policy action”.

Earlier in April, RBI had reduced its policy rate by 0.25 per cent to 6.5 per cent. While this was the first rate cut after a gap of six months, RBI has lowered its rate by 1.5 per cent cumulatively since January 2015.

However, the industry still wants further rate cuts from RBI to boost investment.

Regarding the growth outlook, the report said that the macro environment has been on a steady improvement in the past two years; however, the pace of growth recovery has been “slower than anticipated”.

“We believe the recovery in this cycle will be led by domestic demand, i.e. consumption, public capex and foreign investment. We believe this will be a longer duration expansion cycle with GDP growth expected to accelerate and inflation expected to remain at or below 5 per cent over the next two years,” Morgan Stanley said.

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