

Terminal rate, policy tone may be in focus

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With the Reserve Bank of India (RBI) set to announce on Friday the review of the June meeting of its monetary policy committee (MPC), what will be watched are the tone of the policy and if there is any indication how much the central bank will reduce interest rates further, given the current growth-inflation dynamics.

The six-member panel reduced the policy repo rate by 25 basis points each in the two previous policy review meetings, in February and April.

It is expected that the panel will cut the rate by another 25 basis points.

"The terminal rate is expected to settle at 5.5 per cent. Despite the

T-bill yields fall below overnight rate amid rate cut expectation

Short-term yields on treasury bills have dipped below overnight borrowing rates for banks, an inversion driven amid surplus liquidity in the banking system.

Cut-off yields on 91-day, 184-day, and 364-day treasury bills were set at 5.58 per cent, 5.60 per cent, and 5.60 per cent, respectively,

at the weekly auction on Wednesday. Weighted average call rate was trading at 5.75 per cent.

"This is because the system liquidity surplus is almost at ₹3 trillion and there are expectations of deeper rate cut," said Anshul Chandak, head of treasury at RBL Bank.

Net liquidity in the banking system was more than ₹2.86 trillion on Wednesday, according to data from the Reserve Bank of India.

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recent GDP (gross domestic product) numbers, the RBI is likely to retain its growth projection at the existing level," said Madan Sabnavis, chief economist, Bank of Baroda.

India's economic growth for

January-March period was 7.4 per cent, higher than the consensus estimate. The central bank has projected GDP growth of 6.5 per cent this financial year.

"The terminal rate is expected to settle at 5.25 per cent. While the

RBI is not likely to turn dovish even after the Q4 GDP numbers, it has consistently maintained a positive outlook on growth. A 25 basis point rate cut with an 'accommodative' stance will likely be driven by easing inflation rather than growth concerns," said Gaura Sen Gupta, chief economist, IDFC First Bank.

The tone of the April policy review was overly dovish with the RBI changing the stance of the policy to "accommodative", indicating that it would either cut the interest rate or hold it. RBI Governor Sanjay Malhotra also assured the markets that adequate liquidity in banking would be maintained to aid the transmission of policy rate cuts to lenders' rates.

"We expect the MPC to cut rates by another 25 basis points, taking the policy repo rate to 5.75 per cent. While we see less merit in the MPC staying on hold in June, we do not see a reason for the com-

mittee to be overly dovish," economists at Barclays said in a note.

"The committee will likely want to retain the optionality to decide on the timing on the next move, and we believe will avoid providing a signal for future meetings beyond the status quo or rate cut option that it had already flagged in April, with a change in stance to 'accommodative'," the note said. With a large RBI surplus transfer to the government, economists said the central bank might not announce additional open market operations (OMOs) to infuse liquidity in the first half of the financial year, when loan demand is muted.

"On transmission, additional measures aren't expected in the near term because the RBI's large dividend payout has left the government with a significant cash surplus, reducing immediate liquidity needs. We expect OMOs only in the second half," Sen Gupta said.

