

After Fed, RBI may go for a rate hike: Economists

See central bank hiking repo rate by 35-50 bps next month

KR SRIVATS

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The Reserve Bank of India may increase repo rate by anywhere between 35 and 50 basis points at the upcoming Monetary Policy Committee (MPC) meeting scheduled for August 5, say economists.

While it should not be seen as any synchronised action, the RBI's rate hike will follow the US Federal Reserve's decision on Wednesday to raise its benchmark interest rate by a sizeable three quarters of a point (75 basis point) for the second straight time in its push to tame



the worst inflation outbreak in the US in four decades, they said.

Fed Chair Jerome Powell on Wednesday asserted that the US was not in recession while pointing to a robust labour market. He highlighted that there have been several instances in the past when GDP growth was in the negative territory but it was seen as a transitory thing and the directional strength of economy, as measured by the labour market, was strong.

US economy contracts again in Q2

REUTERS

Washington, July 28

The US economy contracted again in the second quarter amid aggressive monetary policy tightening from the Federal Reserve to combat high inflation. Gross domestic

product fell at a 0.9 per cent annualised rate last quarter, the Commerce Department said in its advance estimate of GDP on Thursday.

The economy contracted at a 1.6 per cent pace in the first quarter.

However, the official US GDP data released on Thursday showed that the US economy indeed shrank in April-June 2022 for a second straight quarter, contracting at 0.9 per cent and raising fears that the nation may be approaching a recession.

What RBI may do

Saugata Bhattacharya, EVP-Business and Economic Research & Chief Economist, Axis Bank, said he expects the RBI to go in for anywhere between 35 and 50 basis points rate hike. "It (what is the likely rate hike) is a million dollar question. Actual rate that the RBI will go in will depend on internal RBI surveys, consumer confidence, capacity utilisation household inflation expectations etc. Our sense is they will try to go past the earlier rate of 5.1 per cent," Bhattacharya said.

Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities, said, "The RBI will remain focused on clamping down domestic inflation in the August policy. With no surprises from the Fed, we expect the RBI to remain on track to hike repo rate by 35 bps while maintaining a hawkish stance."

Ritika Chhabra, Economist and Quant Analyst at Prabhudas Lilladher, said the US Fed's decision is the first back-to-back 75 bps rate hike in the US since 1980s. "However, what cheered the markets were Jerome Powell's comments. Investors were hoping for some dovish comments from the Fed chief after aggressive back to back rate hikes and they sure got what they hoped for. Powell mentioned that with the current rate hike, much of the front loading of the hiking cycle is achieved and the current interest rate levels are in line with 'neutral' interest rate," she added.

Shrikant Chouhan, Head of Equity Research (Retail), Kotak Securities Ltd, said that Indian benchmark indices outperformed their Asian peers on the last day (Thursday) of the current month expiry, as there was no surprise in the rate hike decision by the US Federal Reserve which came on expected lines, fuelling a rally in the US markets.

The upbeat mood also had a rub off effect on the domestic market, leading to buying in banking, IT, metals and realty stocks.