



RBI MONETARY POLICY - FEBRUARY 2021

Announcement

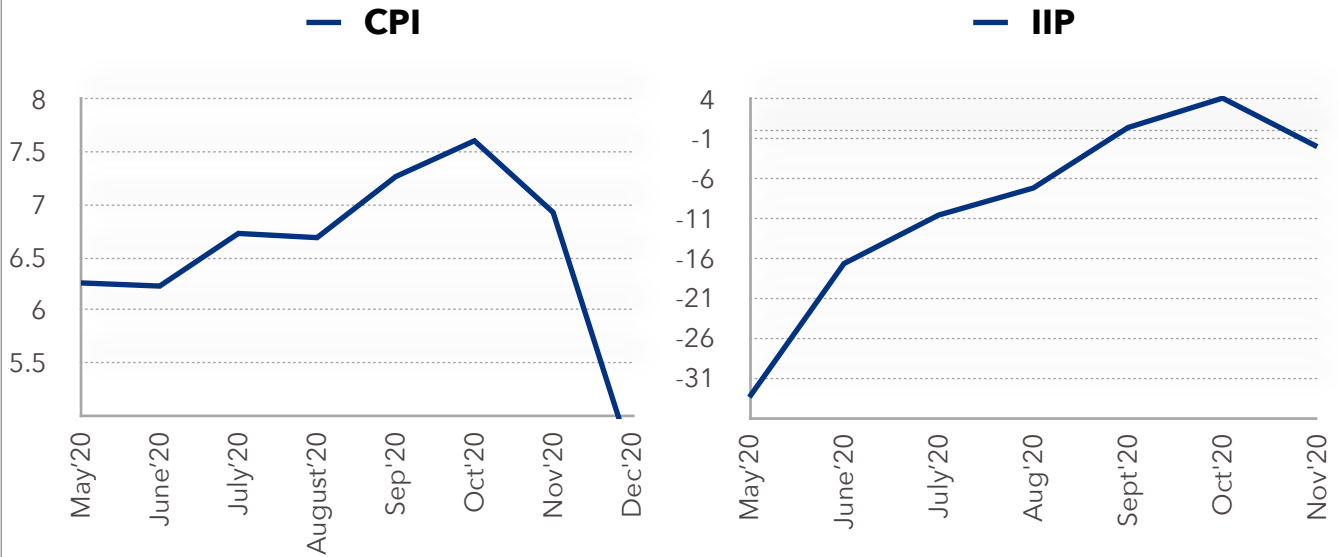
- Repo Rate: Unchanged at 4.00%
- Reverse Repo Rate: 3.35%
- Marginal Standing Facility: 4.25%
- The MPC also decided to continue with the accommodative stance as long as it is necessary to revive growth and mitigate the impact of Covid-19 on the economy.

RBI's Assessment

- The global economic recovery slackened in Q4 (October-December) of 2020 relative to Q3 (July-September) as several countries battle second waves of COVID-19 infections, including more virulent strains. With massive vaccination drives underway, risks to the recovery may abate and economic activity is expected to gain momentum in the second half of 2021.
- High frequency indicators – railway freight traffic; toll collection; e-way bills; and steel consumption – suggest that revival of some constituents of the services sector gained traction in Q3 (October-December). The agriculture sector remains resilient - rabi sowing was higher by 2.9 per cent year-on-year (y-o-y) as on January 29, 2021.
- CPI inflation fell to 4.6 per cent in December on the back of easing food prices and favourable base effects. Food inflation collapsed to 3.9 per cent in December after averaging 9.6 per cent during the previous three months (September-November) due to a sharp correction in vegetable prices and softening of cereal prices with kharif harvest arrivals, alongside supply side interventions. On the other hand, core inflation, i.e. CPI inflation excluding food and fuel remained elevated at 5.5 per cent in December
- Systemic liquidity remained in large surplus in December 2020 and January 2021, engendering easy financial conditions.

Other Announcements

- Restoration of CRR in 2 phases from March onwards (27th March and 22nd May)
- On-tap TLTRO extension to NBFCs.
- SLR holdings in HTM category extended by one more year
- Incentivising Banks to extend credit to MSMEs.
- Direct online access to the retail investors into the Government securities market .



Outlook: In-House Assessment

As per our in-house expectations, RBI MPC left the repo rate unchanged with an accommodative stance. Inflation is expected to moderate on account of a good bumper harvest, better prospects of Rabi crop and softer demand for poultry due to the ongoing flu. Our outlook for core inflation depends on supply chain management and prices of raw materials going ahead. Inflation is projected to ease further in FY22.

We do not expect rate cuts in the next policy. RBI will take cues from growth recovery prospects (GDP data) which is due in the end of February 2021 and will gauge supply side pressures to inflation in the coming months.

Bond Markets have reacted negatively as RBI has announced CRR Normalisation and as there was no clarity on OMOs going forward.



Sources: Reserve Bank of India, Reuters.

LKP SECURITIES LTD., 203, Embassy Centre, Nariman Point, Mumbai- 400021

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and is for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company makes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action. Nothing contained in this publication shall constitute an offer to sell/purchase or an invitation/ solicitation to do so for any Government Security, Currency, Security, and Equity. LKP Securities Ltd. accepts no liability whatsoever for any loss, howsoever arising, from any use of this document, its contents or otherwise arising in connection therewith.

For any queries contact – LKP Securities Ltd. Ph: (91-22) 66306555 Fax: (91-22) 2284 2415

E Mail: FixedIncomeResearch@lkpsec.com

Visit our website – <http://www.lkpsec.com/>