'If rupee continues to be under pressure, RBI may look at alternate measures'

By Manish M. Suvarna

Mumbai, Aug 2 (IANS): Rahul Singh, Senior Fund Manager – Fixed Income, LIC Mutual Fund Asset Management Ltd, said that if the rupee continues to be under pressure, the RBI may look at alternate measures. The recent fall in 10-year US yield and dollar index may also have provided some respite for the time being.

Excerpts from the interview:

Q. How much repo rate hike do you expect in the upcoming monetary policy and what will be the stance?

A: We expect 35-50 bps repo rate hike in the upcoming policy. The MPC stance however may not be changed from the last policy.

Q. What will be the inflation and growth outlook by the RBI?

A: The RBI may continue to maintain that they see inflation around 6 per cent mark by Q4 FY23. Inflation has softened considerably from the levels we have seen in the 1st quarter. Further global commodity prices have corrected to a great extent which is good news considering India is a big importer, Plus, monsoon till now has been good. All this may give comfort to the RBI maintaining its Inflation level of 6 per cent by end of this fiscal year. The RBI may also be positive on their growth numbers and would at least maintain (if not revise upwards) the numbers projected in the last policy. GST numbers, credit growth and PMI numbers have been encouraging.

Q. Will the RBI continue to support rupee on the near term?

A: The RBI has always maintained that they would not want too much volatility in INR and may continue to maintain the same stance, though there might be direct intervention, our reading says they may not be too comfortable in letting reserves slip. It has come down from 650 billion to 572 billion as per latest data. If Rupee continues to be under pressure, the RBI may look at alternate measures. The recent fall in 10-year US yield and dollar index may also have provided some respite for the time being.

Q. Where you see bond yields if the RBI hikes rate in the August policy?

A: Rate hike is a certainty which the market may have factored in. The movement will play on what RBI says on their inflation forecast and how much of the impact they see on rupee movement. If the statement is like last policy with no major deviations in the projected numbers from last policy, we may see 10-year G-Sec yield falling further to 7.20 levels.

Q. Now FII's net investment turned positive after nearly 9 months and indices are rising, do you think this trend will sustain?

A: While it is difficult to predict the future FII flows, it is fair to assume that FIIs may not wish to remain away from India for a long time. Rising domestic demand, attractive valuations and favourable macroeconomic factors may catch FIIs interest.

Q. What are your views on US Fed hinting that they are looking to slow the pace of rate hikes in the upcoming meetings?

A: If FED is convinced that Inflation is cooling down going forward, then this statement certainly makes sense. It could have originated looking at certain statistics which shows softness in crude and other commodities prices, weakening Chinese economy, Q2 GDP numbers and the talks regarding recession going ahead. However, the question remains that if PCE price index is 6.8 per cent and core PCE is 4.8 per cent, then is inflation softening going ahead?. The weak GDP numbers majorly owe to lower US government spending and higher inventories rather than indicating falling demand. Similar dovish statements were made earlier as well when there were rumours of 75 bps rate hike, however we saw two back-to-back 75 bps hike. My understanding is that as long as Inflation shows a declining trend, FED needs to be aggressive in controlling that otherwise it may unnecessarily elongate the entire hike cycle impacting the growth cycle going ahead.