MARKETS: Rate cut may not trigger any upside

23th Mar, 2016

RBI is likely to go for a 50 basis points (bps) rate cut next fiscal year and out of this 25 bps cut may be affected in the policy review meet next month as the economy struggles to recover.

Industrial production has contracted for three consecutive months through January and along with declining inflation, the case has strengthened for a RBI interest rate cut in its first bi-monthly monetary policy for 2016-17 on April 5.

As the government has stuck to its fiscal roadmap, now the onus of recovery is on the central bank. Finance Minister Jaitley had cut his FY17 fiscal deficit target to 3.5% of GDP, in line with the pre-committed fiscal path.

However, the scope for further RBI rate cuts is limited, as the repo rate, at 6.25%, would be well below medium-term average 7% CPI inflation and hence not feasible.

The markets have already discounted a rate cut of 25 basis points and an actual rate cut of this amount may not trigger any more upside. The markets may now move based on corporate earnings next month and the global developments.