MARKETS: How much will be the rate cut?

25th Nov, 2016

Ever since the announcement of demonetization on 9th Nov, the bank deposits have been surging and have increased by Rs 6 lakh crores (Mumbai Mirror, Nov 25th).

This huge inflow of liquidity into the system has already translated into a cut in bank deposit rates and money market rates. Demonetization is expected to reduce inflation and coupled with its near-term disruption to economic growth, pressure is rising on RBI to cut rates.

The recent sharp fall in yields of government securities indicate that market has already factored in a rate cut of 50 basis points by the RBI on 7th Dec.

Any rate cut lower than half percent would be negative for the markets.

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