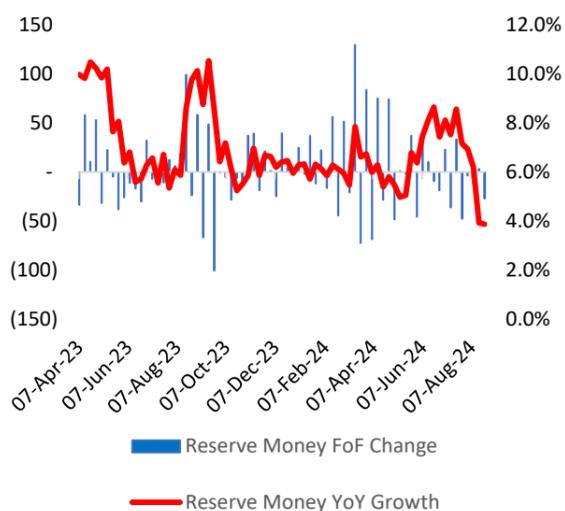


Fig. 1: Reserve Money growth lowest since Nov 2017



Monetary policy meeting minutes release both in US and India and Jackson Hole Symposium were the major events during the week. US Fed monetary policy minutes indicated there was a plausible case for cutting interest rates by 25 bps. The committee was looking for greater confidence that inflation is headed to its 2% target before starting the rate cut cycle. Despite the dovish comments from Powell at Jackson Hole, markets are still pricing only 34.5% probability of 50 bps rate cut according to CME FedWatch. Domestically, bond yields have remained range bound (6.84%-6.87%) with ample liquidity in the system amid persistent OMO sales by the RBI.

Time has come to cut the key policy rates - Powell

- At Jackson Hole, last Friday, Fed Chair J Powell in his much anticipated speech signaled that interest rates are likely to come down. Under his tenure, FED has raised interest rates which are highest in 23 years to bring down inflation.
- As per Powell, Inflation is now much closer to FED’s objective and his confidence is growing that inflation is on a sustainable path back to 2% the comfort level for Central Bank.
- The impact of such positive guidance on US 10 year has not been much. The US 10 year benchmark touched a low of 3.76% on 21st Aug’24 ahead of Jackson Hole Symposium. It edged higher post event and currently trading at 3.82%. A 25 bps rate cut is wholly priced in the market, whereas, the 50 bps cut probability which was 38% (21st Aug) is currently lowered to 34.5%.

Liquidity in surplus zone, RBI OMOs continues amid FPIs inflows:

- India MPC meeting maintained status quo with 4:2 vote where Dr. Varma and Dr. Goyal opined for rate cuts. Similar to the policy statement, the MPC minutes reiterated that a progressive decline in food inflation would be necessary to achieve the 4% headline inflation target on a sustainable basis. Being their last meeting, Dr. Varma and Dr. Goyal, strongly advocated for a more accommodative monetary policy specifically calling for rate reduction. (Read our report: [India Macro Weekly](#))
- In our view, while the US Fed is expected to start cutting rates in September, the RBI can wait with relatively stronger growth providing policy space. (Read our report: [RBI MPC Outcome Aug’24](#))
- As of 28th Aug, the system liquidity was in surplus, to the tune of Rs.0.95 lakh crore, easing from the peak of Rs.2.86 lakh crore earlier this month. The govt. balance with RBI as of 16th Aug’24 is -Rs.2.29 lakh crore, which is main driver drowning the system liquidity along with Dollar sales by PSU Banks on Black Monday (Fig.2).
- It is to be highlighted here that RBI has conducted OMO sales worth Rs.1,185 Crore during 12th Aug to 16th Aug 2024 taking the total to Rs. 15,390 Crore (Fig.3). In alignment to RBI’s stance of continuing “withdrawal of accommodation” the Central Bank has consistently absorbed liquidity surplus via use of fine-tuning liquidity operations like VRRRs apart from OMOs in G-Sec market. The latter has also helped cap the rally in IGBs. The benchmark G-Sec yields have traded within range of 6.84% - 6.87%, amid supported by liquidity, OMOs and FPI flows.
- The FPIs inflow in debt segment have hit a Rs.1 lakh crore (Rs.1.06 Lakh Crore till 27th Aug’24) mark during the calendar year 2024. In Aug-24 alone, FPIs invested Rs.14,930 Crore so far, following an investment of Rs.22,363 Crore in July-24.

Money market developments:

- Overnight rates (Weighted Average Call Rate- WACR) hovers around the repo rate (6.50%) on account of surplus banking system liquidity.
- RBI has been vocal on elevated C-D ratio in FSR, MPC and various media interactions of RBI Governor. As per latest data released by RBI, during the FY 2024-25 and on YoY basis the Credit growth has started to taper down.

	FY 2023-24	FY 2024-25	YoY 2023	YoY 2024
Deposits Growth	6.6	4.2	13.5	10.9
Credit Growth	8.7	2.7	19.6	13.6

- As per WSS report of RBI, Certificate of Deposits issued during FY25 have reaching Rs.3.49 lakh crore (until 09th Aug’24) vs Rs.1.89 lakh crore during the same period last year.
- The Reserve Money YoY growth has been the lowest from past 2 weeks at 3.9% which the lowest since Nov 2017 (Fig.1).

Fig. 2: Drivers of Liquidity during the fortnight ended 16th Aug’24

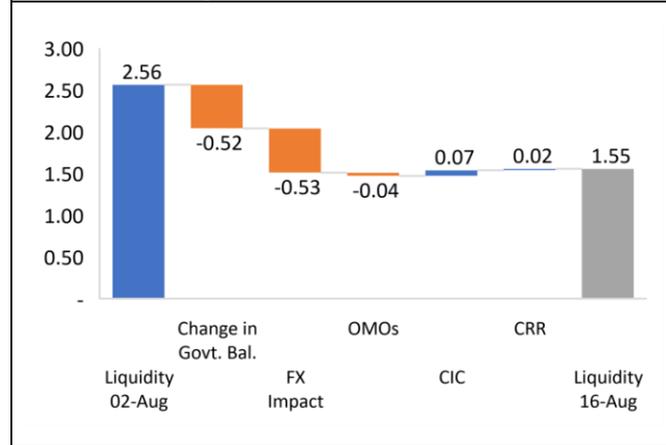
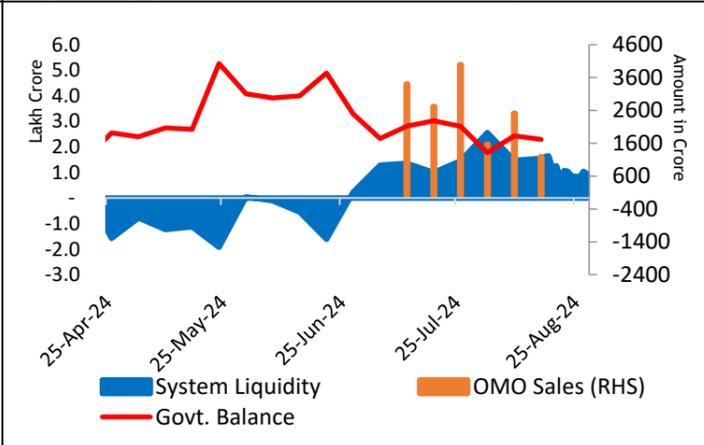


Fig.3: OMO sales have partly offset the liquidity impact of global bond index inclusion flows



Source: RBI, CEIC, UBI Research

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