From a Dovish Policy tone to Hawkish MPC Minutes: What a Difference Two Weeks make

The August MPC minutes strike a distinctly more hawkish note than the policy statement and post-policy press conference. While the unanimous pause at **5.25%** remains consistent with the need to look through supply-side inflation shocks, the minutes suggest that the debate is gradually shifting from the possibility of prolonged pause towards **the risks of macro conditions that could warrant policy tightening later this year**.

1. *RBI members clearly flag rate-hike risks; Government nominees cautious as well*

- The clearest hawkish signal comes from RBI's internal members. Governor **Sanjay Malhotra**, despite sounding relatively comfortable with the macro backdrop at the post-policy press conference, cautioned in the minutes that **"any evidence of these risks materialising may need policy tightening"**, referring to the risk of inflation pressures becoming generalised.

- Deputy Governor **Poonam Gupta** was even more explicit. Importantly, she indicated that the RBI's projections assume crude oil at around **US$90/bbl** and noted that, at these levels, inflation could peak at **5.9% in Q3 FY27**, such that **"a case for a hike may emerge during the course of the year."** Executive Director **Indranil Bhattacharyya**, however, appeared relatively more circumspect on the need for tightening, as he intends to wait for more evidence **"for the extent of generalisation and risk of inflation expectations getting unanchored before contemplating any rate hike."**

- The **Government-appointed members also strike a cautious tone**. Saugata Bhattacharya has subsequently observed that with inflation averaging around 5%, a 5.25% repo rate could appear relatively accommodative, even while emphasising the need to assess incoming inflation risks. Professor **Ram Singh** highlighted that the pass-through from higher global energy prices is already visible across commercial LPG, industrial raw materials, chemicals, rubber and plastics, with the full impact likely to become apparent only over the coming months.

- The common thread is therefore clear: **the pause is increasingly about retaining flexibility amid uncertainty, rather than signalling comfort with the current policy rate for an extended period.**

2. *What has changed in two weeks? Inflation risks have gained momentum, while global yields have surged*

- In one sense, the macro forecasts have not changed since policy day. What has changed is the **risk environment surrounding those forecasts**.

- Two inflation risks warrant particular attention. First, **crude oil has remained close to US$90/bbl over the past fortnight**, bringing it close to the assumption highlighted by the Deputy Governor. Second, **El Niño-related risks to food inflation** warrant close monitoring, particularly if adverse weather conditions begin affecting domestic food prices.

- The global rates environment has also become more challenging. Long-end U.S. Treasury yields have risen sharply, with the **30-year yield touching its highest level since 2007**. The U.S. Treasury has responded by doubling the size of certain long-duration bond-buyback operations, underscoring strains at the longer end of the yield curve. That said, Fed rate hike pricing probability stays low at least for calender year 2026.

- Thus, compared with policy day, **the tail risks around the RBI's inflation trajectory have become more visible**, even though it remains too early to conclude that they will persist.

- *Generalisation of price pressure was talked about, however, now second round impact of the supply shock is most considered ending-up in rate hike calls going forward.*

3. *Hawkish MPC minutes pose risks to our extended-pause policy call*

- Ahead of the minutes, the market was broadly divided between an **extended-pause camp** and those expecting rate hikes later in FY27. **We were in the former camp; the hawkish tone of the minutes clearly poses an upside risk to our policy-rate view.**

- That said, we would not yet interpret the minutes as signalling an imminent hiking cycle. We have consistently maintained that **a case for rate hikes could emerge if crude oil sustains around US$90/bbl.** While oil has traded around these levels recently, our analysis suggests that the sustainability of such elevated prices remains uncertain.

- The threshold for beginning a tightening cycle should also remain reasonably high. With global financial conditions uncertain and market expectations of Fed tightening relatively contained, the MPC may need greater conviction on both **the persistence and generalisation of inflation pressures and the sustainability of domestic growth resilience** before raising rates.

- For now, therefore, **we retain our extended-pause call, albeit with materially higher risks of a rate hike later in FY27**. The trajectory of crude oil, El Niño-related food-price pressures, second-round pass-through into core inflation and continued growth resilience will be critical in determining whether these risks eventually crystallise.

Bottom line: *The August policy communicated comfort with a pause. The minutes communicate something subtly different — **a pause with a distinctly hawkish optionality**.*

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Analysis of MPC: change in tone and macro factors:

Fig: 1 Members voted for status quo, but minutes explain the underlying risks flagging hawkish and watchful tones:

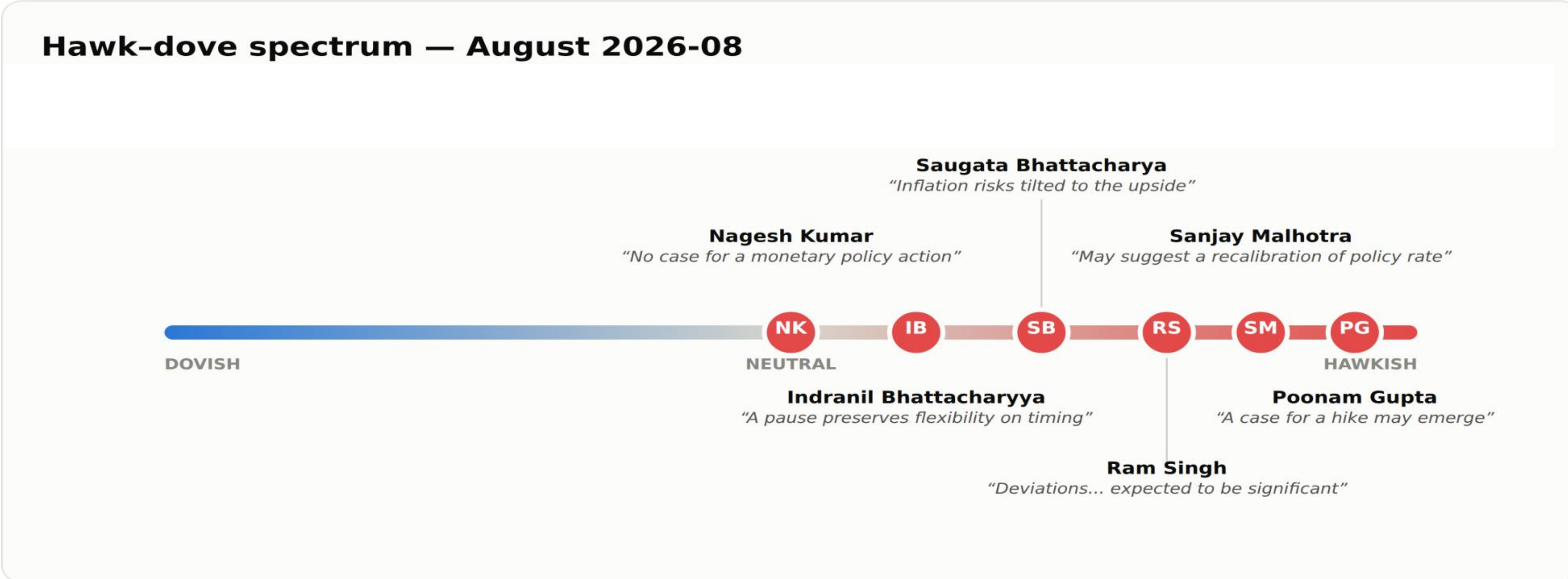


Fig:2 Members tone changed from June to August

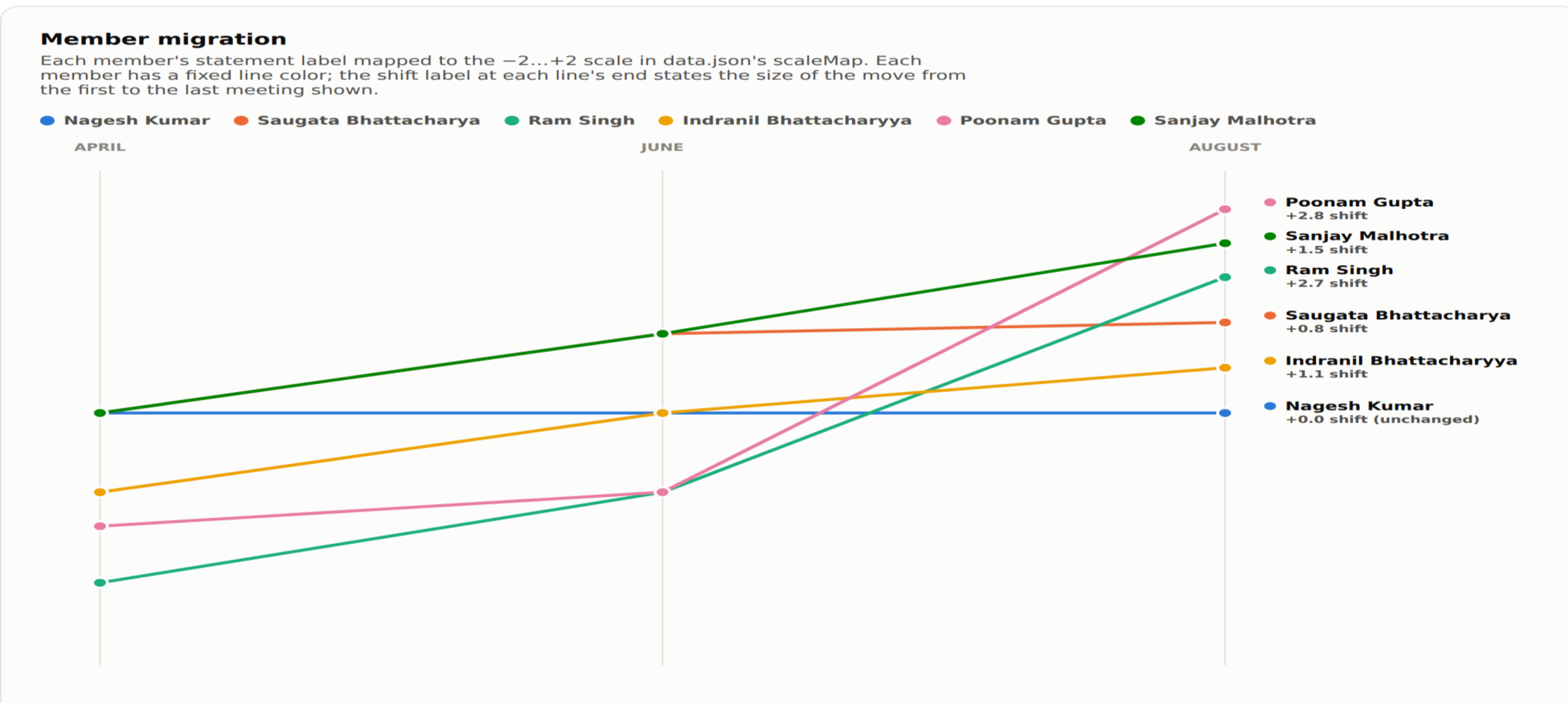
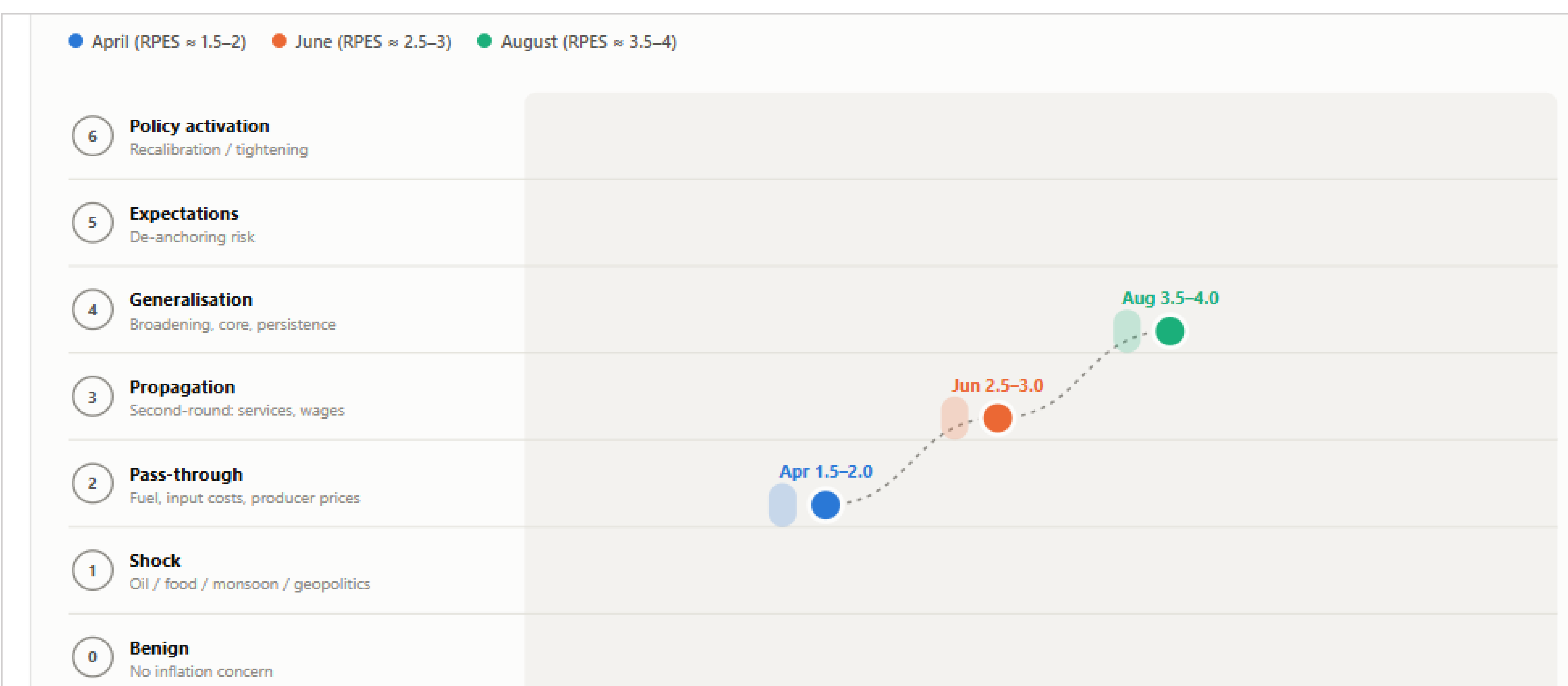


Fig: 3 Generalising of price pressure, earlier seen as supply shock, now pass-through is looked at



**Source: RBI Report and UBI Research*

MPC member	Important statement / argument	Key economic concern
Dr. Nagesh Kumar	India remains resilient despite West Asia, crude-price volatility, trade uncertainty and El Niño risks. Growth was revised up to **6.7%**, while inflation was revised down to **5.0%**. However, geopolitical, tariff and monsoon risks remain high. *"At the current juncture, there does not seem to be a case for a monetary policy action".*	Geopolitics, trade tariffs, monsoon, agriculture
Shri Saugata Bhattacharya	Persistent high fuel prices could generate **second-round inflation** through higher input-cost pass-through. Elevated household inflation expectations could further amplify pressures. Early tightening has costs, but allowing inflation to become persistent may ultimately require more aggressive tightening. *"I judge it appropriate to await evidence of a further pickup in aggregate demand and generalisation of price pressures before taking the next policy action"*	Fuel pass-through, second-round effects, inflation expectations, real rates
Prof. Ram Singh	Inflation remains largely supply-driven and core inflation still suggests little overheating. However, input-cost pressures are starting to enter CPI and second-round effects need close monitoring. If external shocks worsen or price effects spread broadly, policy should be adjusted swiftly. The pass-through of higher global energy prices is already visible in several inputs such as commercial LPG, industrial raw materials, chemicals, rubber, and plastic products. The full impact will be visible only in the coming months. *"If external shocks worsen or the second-round price effects spread widely, we should be able to swiftly adjust policy to protect macroeconomic stability."*	Oil, second-round inflation, real rates, inflation expectations
Shri Indranil Bhattacharyya	Inflation is projected to average around **5.6% over Q3 FY27-Q1 FY28**, with food/fuel shocks at risk of becoming entrenched and generalised. Yet **69% of weighted CPI items were still at or below 4% inflation**, indicating limited broadening so far. "*One must look out for the extent of generalisation and risk of inflation expectations getting unanchored before contemplating any rate hike*".	Generalisation, inflation diffusion, persistence, expectations
Dr. Poonam Gupta	Growth prospects improved and inflation projections eased slightly, but with headline CPI projected to peak at **5.9%**, she believes the **scope for further easing has disappeared** and a **case for a hike could emerge during the year**. *"Given that the headline inflation is projected to peak to a level as high as 5.9 per cent in Q3 2026-27, a case for a hike may emerge during the course of the year".*	Inflation peak, entrenchment of supply inflation, global/weather uncertainty
Shri Sanjay Malhotra	A supply shock warrants monetary action only if it produces **persistent/generalised inflation or de-anchors expectations.** Current evidence remains limited, but inflation is normalising from unusually benign levels; if broadening or de-anchoring materialises, **policy tightening may be needed**. *"We also need to be watchful as the risks of higher food, fuel and other input prices translating into a broad-based increase in inflation and de-anchoring of expectations persist. Any evidence of these risks materialising may need policy tightening".*	Persistence, generalisation, core inflation, inflation expectations

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