

Athveda Fund Management comments on RBI policy

India Infoline News Service | Mumbai | January 16, 2015 15:57 IST

Dr. Vikas Gupta, EVP & Head-Traded Market Reserach, Athveda Fund Management Pvt Ltd, said, Rate cut is a surprise and it was meant to be a surprise. The message being sent is that do not speculate on what the RBI will do and when, do your investing without reference to that, independently, i.e. without anticipation. Otherwise the rate cut could have been done on the next RBI policy announcements.

It is likely that due to the oil price drop India can become a net exporter in the future assuming it is able to control gold imports. So a weakening currency in that scenario is a good thing. This also supports the "Make in India" initiative. The rate cut had to worry about stoking domestic inflation as well as about the currency depreciating due to the lower interest differentials between India and developed markets.

If we are going to be a net exporter then a depreciated currency works better. But with a weak oil import bill the risk of immediate currency depreciation has lowered and that is the reason for the small cut.

Also RBI is probably worried about Indian growth not picking up as much as expected. Hopefully, this small rate cut signals that RBI is not against growth and also that they will take lots of baby steps at their own pace with delicate balancing act between fighting inflation, stoking growth and managing the exchange rate.

Economy remains intact for India, financial companies will also benefit immediately but that is very short term and is likely already discounted now in prices. Overall, in our opinion the real impact is on sentimental signalling that RBI is not standing between India and Growth.

The RBI (Reserve Bank of India) decided to reduce the policy repo rate under the liquidity adjustment facility (LAF) by 25 basis points from 8% to 7.75%.

The central bank has kept the cash reserve ratio (CRR) of scheduled banks unchanged at 4% of net demand and time liabilities (NDTL).