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RBI concerned about the recent uptick in CPI inflation



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As expected, the Reserve Bank of India (RBI) kept the key rates unchanged. The central bank has expressed concern over the recent uptick in CPI inflation, saying that this leads to some uncertainty on future trajectory of inflation.

The cautious note on inflation led to fall in gilt prices post the policy. RBI also expressed concern on ability of counterparties to deliver dollars at the opportune time of maturity of FX forwards to RBI and has asked them to prepare suitably. Around the September to November period due to dollar outflows rupee liquidity is expected to tighten. RBI reiterated its stance to provide rupee liquidity as required.

In the near term worries on inflation can keep gilt prices under pressure with upward bias on yields. However from September onwards we could again see pick up in OMO purchases of gilts and this could give support to gilt prices. Money market rates have already fallen due to improvement in banking system liquidity and we expect rates to remain benign.