

RBI Monetary Policy Meeting

9th October 2026

Executive Summary:

- The MPC raised the repo rate by 25 bps to 5.50% (unanimous) on 7th October, 2026 – the first hike since February 2023
- The MPC changed the stance from “neutral” to “calibrated tightening” by a 4-2 vote.
- Calibrated tightening means no rate cuts – ‘the next move is a hike or a pause’ – RBI Governor.
- The Governor described it as a ‘mild hiking cycle.’ *We feel this clarification was given to reassure the market that this is not the beginning of an aggressive rate-hiking cycle.*
- RBI raised its FY27 GDP forecast to 7.1% **while signaling hikes** leading us to believe that **RBI is confident on India’s growth despite rising interest rates.**
- **We are in a globally high-interest rate scenario.** The pressures are external – crude near US\$100/bbl on the US-Iran conflict, El Niño, and DM bond yields.

Policy Decision:

Particulars	Repo Rate	Standing Deposit Facility (SDF)	Marginal Standing Facility (MSF)	Stance
Previous (Aug-26)	5.25%	5.00%	5.50%	Neutral
Current (Oct-26)	5.50%	5.25%	5.75%	Calibrated tightening

Source: RBI Monetary Policy Statement, October 7, 2026. CRR unchanged at 3.0%. Next MPC meeting: December 2-4, 2026.

RBI projections – June vs August vs October

Metric	Policy	Q2 FY27	Q3 FY27	Q4 FY27	FY27	Q1 FY28
Real GDP (%)	Jun-26	6.3	6.5	6.8	6.6	–
	Aug-26	6.4	6.5	6.8	6.7	–
	Oct-26	7.2	6.9	6.8	7.1	7.1
CPI (%)	Jun-26	5.0	5.9	5.4	5.1	–
	Aug-26	4.7	5.9	5.5	5.0	5.3
	Oct-26	4.9	6.0	5.7	5.2	5.6

Source: RBI Monetary Policy Statements (June 5, August 5 and October 7, 2026). Q1 FY27 actuals: GDP 7.8%, CPI 3.9%. Core CPI projected at 4.4% for FY27 (4.3% in August).

Detailed Note

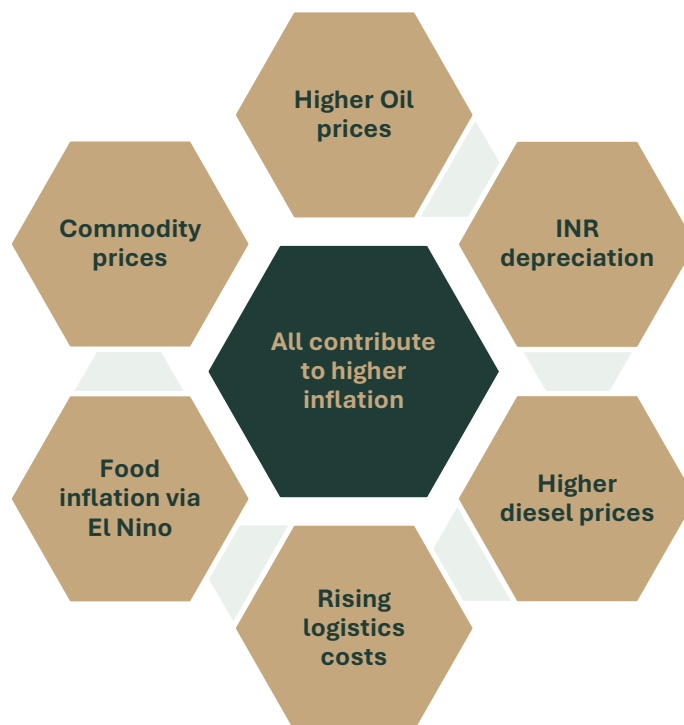
Backdrop to the meeting:

Inflationary pressures are supply-side

When the Iran crisis began, the initial assessment was that the situation could be prolonged. The Prime Minister alerted the country to prepare for an extended crisis – which has since been the case.

Macro in control – Despite the extraordinary global macro environment and geopolitical uncertainty, the Indian government and RBI have managed the domestic macro environment relatively well, which was contrary to market expectations. However, sustained oil prices above **\$95/bbl** is beginning to create pressures. India is an import-dependent economy, particularly for crude oil.

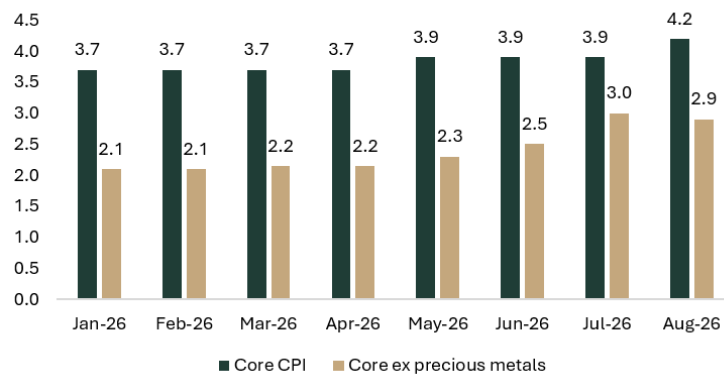
But inflation is rising – Therefore, higher global commodity prices combined with rupee depreciation can materially increase domestic input costs. There are already signs of stress across: container traffic, logistics costs, diesel spreads, import costs and currency. Additional pressure in the way of food and water could come from **El Niño**, which the External Affairs Minister has highlighted as a potential risk.



Why was this interest rate hike necessary?

Traditionally, inflation is classified as either **demand-pull** or **cost/supply-push** inflation. In a conventional demand-driven inflationary environment, higher interest rates can reduce credit growth, consumption and investment, thereby moderating demand and eventually bringing inflation down.

Core inflation (%) momentum increasing

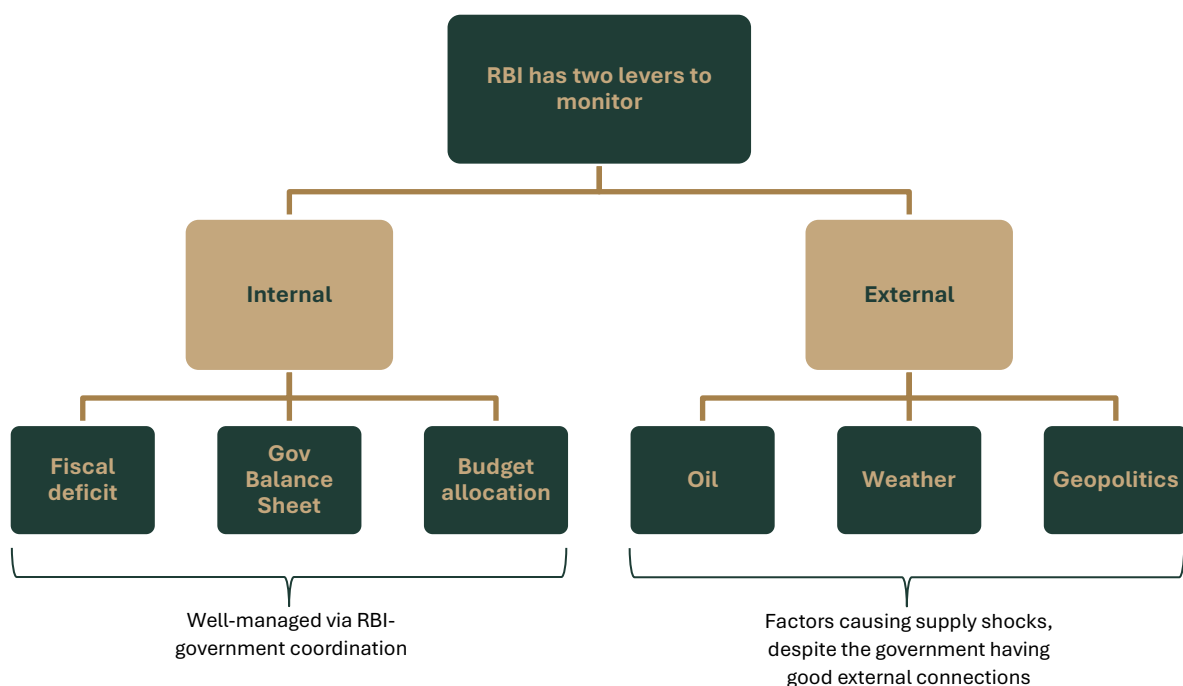


Source: MOSPI

However, if inflation is primarily being caused by external supply shocks, the effectiveness of rate hikes ***in directly reducing inflation*** is limited. But interest rate hikes can help through other channels:

- Managing money supply and liquidity
- Supporting the currency
- Maintaining macroeconomic stability
- Preventing second-round demand-side inflation

The market is currently interpreting RBI communication around terms such as “**calibrated tightening**” and the absence of an explicit indication of rate cuts as a signal that this can be a prolonged hiking cycle. This has made the market nervous. The RBI has had to increase its Oil prices assumption from \$85 to \$95 per barrel for oil prices. If Oil prices were to sustain above \$100, this can be a prolonged hiking cycle.



Why the Current Rate-Hike Cycle Is Different

Normally, higher interest rates lead to:



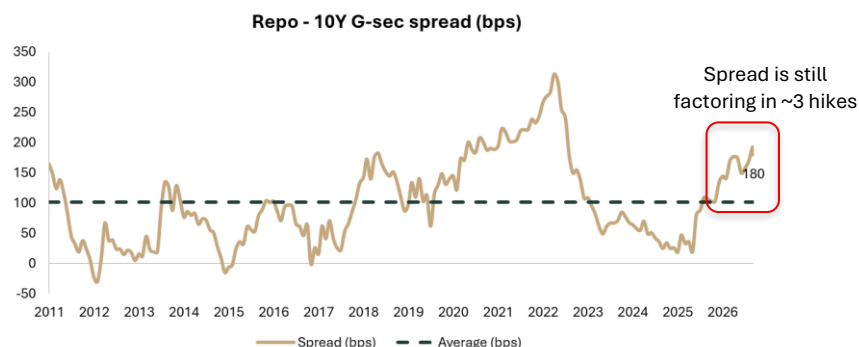
However, the current economic construct is different. Despite the geopolitical tensions, Indian macroeconomic indicators remain resilient. The current trend of macro data doesn't show signs of demand slowdown. To observe the translation of hikes into the economy, we will monitor high-frequency variables over the next 6 months:

Major Indicators		2026								
Category		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
No. of Vehicle Sold (In lakhs)										
2W		18.53	17.01	19.51	19.16	18.45	18.28	18.18	17.15	17.90
3W		1.27	1.17	1.10	1.07	1.12	1.21	1.34	1.22	1.33
PV		5.13	3.95	4.40	4.07	4.03	4.11	4.17	4.02	4.27
Tractors		1.15	0.89	0.82	0.75	0.83	1.01	1.17	0.88	0.77
CV		1.07	1.01	1.03	0.99	0.84	0.91	1.00	0.91	1.04
Macro Indicators										
IIP		4.8%	5.2%	4.1%	4.9%	5.1%	7.3%	5.1%	6.7%	
Manufacturing PMI		55.4	56.9	53.9	54.7	55.0	54.2	53.5	52.8	55.1
Services PMI		58.5	58.1	57.2	58.8	59.8	57.3	60.5	54.1	55.2
UPI Transactions (INR Lakh Cr)		28.3	26.8	29.5	29.0	29.9	28.9	29.9	29.8	29.4
GST Revenue (INR Lakh Cr)		1.93	1.84	2.00	2.43	1.94	1.95	2.11	2.00	2.04
Air Pax(Lakh)		152.5	140.0	145.4	138.1	154.0	134.6	120.0	121.3	
E-Way Bills(Cr)		13.7	13.3	12.5	13.3	13.6	14.0	13.9	14.2	
Urban Consumer Confidence (Future)		123.4		120.2		118.7		115.3		113.5
Rural Consumer Confidence (Future)		129.3		125.1		119.3		113.6		112.8

Source: Fada, Investing.com, RBI, Various news sources

Despite the possibility of multiple rate hikes, RBI is confident that the Indian economy will continue on its sustained growth path. On the back of this, RBI increased its Real GDP projection by +40 bps to 7.1% for FY27. Hence, we believe the Indian economy will continue to show strong and resilient growth despite the possibility of further rate hikes.

With the repo now at 5.50%, the 10Y-repo spread (10Y G-sec yield – Repo rate) is ~180 bps – still well above its long-run average of ~105 bps, which means the bond market is already pricing in ~3 rate hikes. This spread was ~198 bps before this interest rate hike. The market is pricing in a very pessimistic outcome. We feel the spread will compress as geopolitical issues resolve, and the El Nino passes.



Source: investing.com

Investment Implications: Real Assets

Our investment notes since the start of the year have consistently communicated that we are operating in an **inflationary world**.

The broad investment framework has therefore been to **move towards real assets and yielding assets**. Our REIT note (May'26) and infrastructure discussions (ICM framework) have similarly highlighted the importance of assets that can generate income while providing some degree of inflation protection.

Fixed Income: Tactical Rather Than Strategic

Despite the possibility of higher interest rates, fixed income remains a relatively limited opportunity for us because of the current taxation environment. We therefore view fixed income primarily as a tactical opportunity rather than a structural return-generating allocation.

However, the **10-year G-Sec yield at approximately 7.5%-7.8%** makes duration a desirable allocation. If the geopolitical situation stabilizes and inflation pressures moderate, interest rates could eventually decline over the next **12-18 months**, resulting in Fixed income gains.

However, this strategy is challenging to execute given the current volatility due to geopolitics. Hence, we are not eager to take duration risk despite having successful experiences with duration in the past. Instead, we would prefer to express the real-asset and yield thesis through REITs and InvITs – especially if higher rates allow these companies to come into favorable prices.

Currently, for us, fixed income acts more as a **judgment/barometer call** on the Indian and global economy and part of our safety allocation, rather than as a core investment opportunity.

From an investment perspective, we currently prefer tax-efficient products like Income plus arbitrage FoFs and SIFs – **prioritizing predictability over possibility**.

Hybrid funds: select balanced-advantage and aggressive-hybrid funds remain well placed to capture both equity and fixed income gains

Commodities

Precious metals – We have re-initiated staggered allocation in select portfolios as we believe Silver and Gold are trading in favorable ranges

Industrial metals – We are using Global Copper Miners as an investment vehicle to play the copper theme along with investment into Indian metal ETF. Similarly, we are evaluating investing in countries with higher share of the index construct being real assets (LATAM countries like Brazil and Mexico)

Key Risks:

- A prolonged West Asia conflict and Brent sustainably above US\$100/bbl;
- A disorderly rupee; inflation broadening beyond food and fuel; a CAD above 2% of GDP;
- US 10Y yields rising above ~5.5%

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