



A SHIFT TOWARDS CALIBRATED TIGHTENING

MPC hikes rates by 25bps

7th October 2026

EXECUTIVE SUMMARY

- As expected, the MPC raised the repo rate by 25 bps to 5.50%, its first hike since February 2023. - The policy tone was hawkish, with the shift from neutral to calibrated tightening signaling the start of a rate-hiking cycle, while its extent remains dependent on inflation developments. - The hike was driven by broadening inflation pressures, with elevated oil prices and weather-related food risks threatening greater persistence.	POLICY RATES RAISED	
	POLICY REPO RATE	5.50%
	STANDING DEPOSIT FACILITY (SDF)	5.25%
	MARGINAL STANDING FACILITY (MSF)	5.75%

INFLATION-GROWTH DYNAMICS

PERIOD	GDP GROWTH ESTIMATES		CPI INFLATION ESTIMATES		- Growth remains supported by resilient consumption, investment and exports, although activity is moderating from Q1; uneven rainfall, higher energy costs and global uncertainty could weigh on rural demand and the pace of expansion. - Inflation pressures are becoming broader, with weak rainfall posing risks to food supply and higher crude prices and a weaker rupee adding to input costs; rising core inflation suggests that these pressures are spreading beyond food and fuel. - This growth-inflation mix gives the RBI room to prioritize price stability, with the policy response aimed at preventing supply shocks from becoming persistent through wider price increases, while evidence of demand overheating remains limited.
	Aug-26	Oct-26	Aug-26	Oct-26	
2QFY27	6.4%	7.2% ↑	4.7%	4.9% ↑	
3QFY27	6.5%	6.9% ↑	5.9%	6.0% ↑	
4QFY27	6.8%	6.8% →	5.5%	5.7% ↑	
1QFY28	7.3%	7.1% ↓	5.3%	5.6% ↑	

OUR OUTLOOK

- Recent monetary policy developments have reinforced our longstanding preference for carry over aggressive duration positioning. Today’s decision supports our assessment that inflation risks were broadening beyond food, global commodity prices were firming and wholesale price pressures were re-emerging, while growth remained resilient. The RBI remains more concerned about inflation persistence than near-term growth moderation.
- For fixed income investors, the opportunity set is increasingly driven by carry and accrual rather than expectations of large capital gains from falling bond yields. Higher yields improve the prospective return profile of debt assets, but duration risk remains elevated amid rising energy prices, sticky underlying inflation, elevated global rates and currency stability considerations.
- As yields have moved up over the last couple of months, we continue to prefer short- and medium-duration strategies that allow investors to lock in favorable yields while maintaining flexibility. Long-duration exposure should be accumulated selectively and at appropriate higher yield levels. Returns are likely to be driven more by accrual and security selection than a sustained duration rally.
- Maintaining positive real rates and preserving policy credibility take precedence. Our higher-yield thesis remains linked to elevated crude; a meaningful, durable oil correction would ease inflation and could challenge the case for a prolonged restrictive rate environment.