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[RBI](#)'s response to rising retail inflation has eased concerns about falling behind the curve and is supportive for the rupee, said a global financial services firm. "We estimate that INR has overshoot on the weaker side (~2.5% on REER terms) and expect the ongoing appreciation to sustain in the near-term (3m forecast: 65), said UBS. Any upside in front end rates is limited from the levels at present, it added. "Markets are already pricing another 3 hikes in next two years, while downside risks to oil prices have risen moderately (OPEC meeting on 22nd June). As such, we recommend taking profits on our pay 2y NDOIS recommendation," it added.

### **RBI monetary policy**

Meanwhile, RBI in its latest bi-monthly policy on June 6 hiked key rates by 0.25 basis points. The central bank cited fear of inflation, partly fueled by recent hike in crude oil prices, reason behind the repo rate hike. The central bank also revised the inflation outlook yet again after its April policy had actually lowered inflation forecasts for the first and second half of the 2018-19.

Changing the inflation outlook once again, RBI revised H1 FY19 retail inflation projections

to 4.8-4.9 percent than the earlier projections of 4.7-5.1 percent with upside risks. For H2 FY19, the expectations for retail inflation have been revised upwards to 4.7 percent from the earlier estimate of 4.4 percent.

## **Crude oil concern**

“Crude oil prices have been volatile recently and this imparts considerable uncertainty to the inflation outlook outlook on the upside and the downside,” the policy statement said. Talking to reporters post policy presentation, RBI Governor Urjit Patel said that the central bank will continue to remain cautious and vigilant in which the balance of risks and both, growth and inflation, play out.

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