SBI Research

MPC Minutes indicate heightened uncertainty/cautiousness among members…June monsoon may be the driest in 126 years, though positive IOD offers some hope…talks of rate hike are unwarranted

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Executive Summary….What We Ascertain from MPC Minutes

- RBI recently released minutes of MPC meeting held during June 3 to 5, 2026

- *Using NLP we identified sentence-level references in member statements to analyse the language used by members in light of the current environment….*The June 2026 minutes are **very high on uncertainty and caution**. Using the sentence-level uncertainty/caution index we have constructed, **June 2026 ranks highest in the all the MPC minutes since 2016**

- **Inflation risk has risen, but uncertainty is too high for immediate action. Hold now, stay neutral, wait for clarity, and keep optionality open is the underlying message of the MPC minutes**

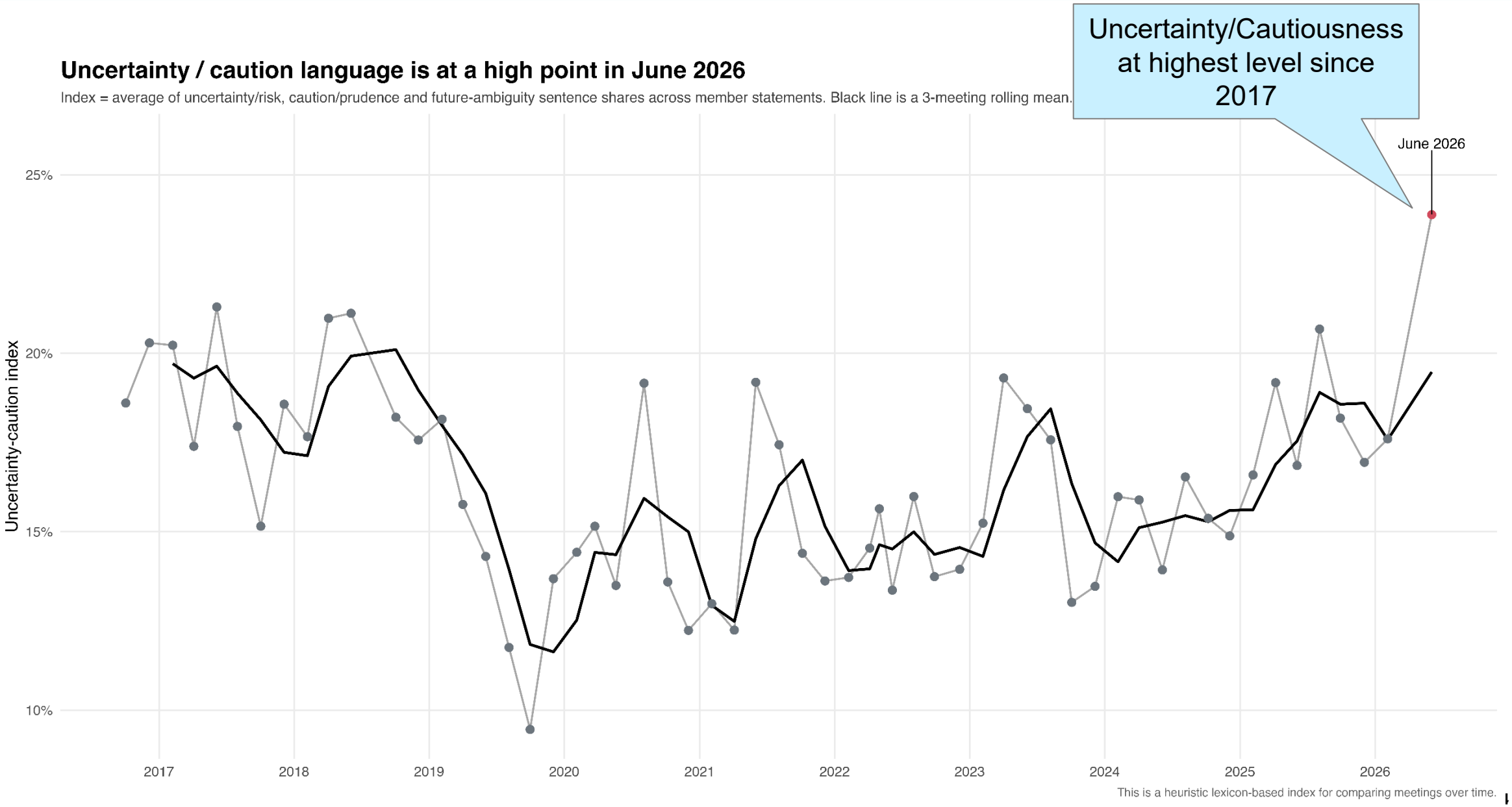
- Monsoon pose most uncertainty…**June'26 at 42% deficit (so far) is fifth driest month in 126 years**…though positive IOD may provide some drizzle of hope

- Decline in Oil prices and rupee appreciation may provide some respite to imported inflation… this may keep CPI inflation under RBI's target range….RBI inflation expectation survey indicate cautiousness among Indian households regarding discretionary spending

- **Taking all these factors under account…We believe that to talk about rate hike is unwarranted at this juncture…In uncertain times, a good central bank should be cautious about false precision, forceful against high-cost tail risks, systematic enough to preserve credibility, flexible enough to adapt, and transparent enough that uncertainty about the economy does not become uncertainty about the central bank itself…**

What Does the MPC minutes reveal regarding future rate action?

MPC members' language indicate heightened uncertainty

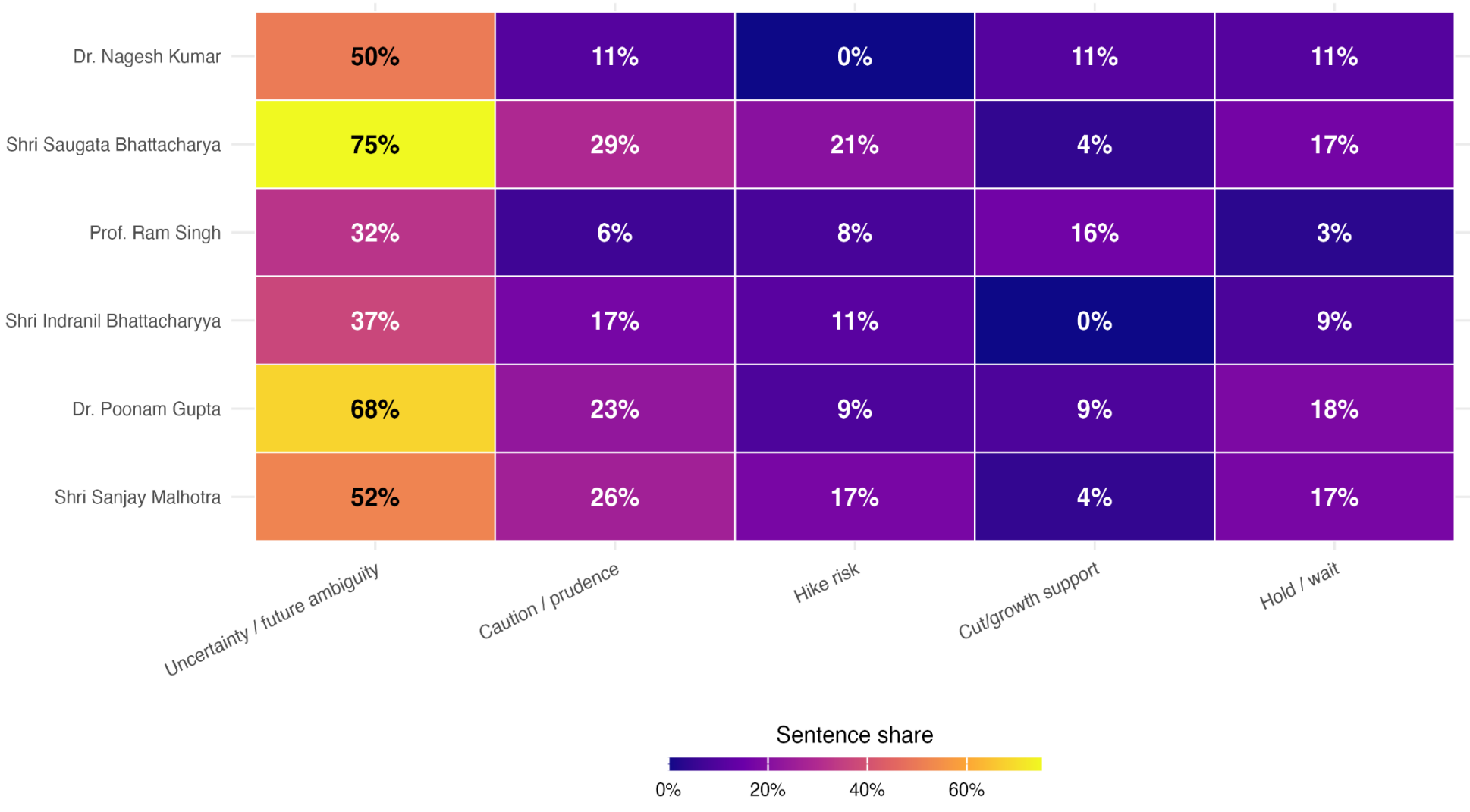


All members are ambiguous/uncertain about future

June 2026 MPC: tone intensity by speaker

Each cell shows the share of that speaker's sentences flagged for a given tone category.

Sentences can be overlapping across themes, so it is not a percentage share chart.



Higher values mean a larger portion of the member's statement is using that type of language.

Uncertainty and ambiguity is the dominant theme across all the member statements with Saugata Bhattacharya, DG, RBI and Governor, RBI being the most vocal in that order….

So how Monetary Policy behave in such an uncertain/ambiguous environment?

We come back to Mr. Brainard again…

- William C. Brainard's seminal 1967 paper, ***"Uncertainty and the Effectiveness of Policy,"*** established that when policymakers are uncertain about the precise impact of their policy instruments (multiplicative uncertainty), they should act more **cautiously or conservatively (attenuation principle)**

- This principle suggests smaller, more gradual policy adjustments to avoid unintended, destabilizing economic consequences. Because of this uncertainty, the optimal policy response to shocks is weaker than it would be if the effects were known with certainty

- Thus, the main thrust of Brainard's argument is that in an uncertain world, multiple instruments can target a single objective. The argument is similar to the spirit of Samuelson's correspondence principle

- Using a quadratic utility function, Brainard first shows that the response coefficient of the policy instrument is significantly influenced even by "moderate uncertainty" and that the optimal value of policy instrument depends crucially on use of more information than what the policy makers may conceive

- **Interestingly, as Brainard argues, at times, it may actually pay for the policy maker to go the "wrong" way!**

Cautiousness could de-anchor inflationary expectations

- *However, a 2023 Banque De France paper titled "A Pitfall of Cautiousness in Monetary Policy"* argues that, for central banks too much caution can backfire because if people expect the central bank to respond weakly, inflation expectations can move further away from target, forcing the central bank to act later anyway, but from a far worse position. Thus, Brainard's (1967) principle - creates a "cautiousness bias" that de-anchors inflation expectations

- In principle, while caution works for temporary, small shocks, it fails for persistent shocks. A gradual, cautious response as underlined in Brainard could create long-term damage, whereas aggressive action keeps expectations better anchored.. *The paper further argues that society would be better off appointing a central banker who discounts concerns over uncertainty relative to society, even if this means responding to unforeseen shocks too aggressively*

- **In uncertain times, a good central bank should be cautious about false precision, forceful against high-cost tail risks, systematic enough to preserve credibility, flexible enough to adapt, and transparent enough that uncertainty about the economy does not become uncertainty about the central bank itself..**

Future Rate Action will be clearly data dependent

Monsoon poses the MOST Uncertainty….El Nino indicate fifth driest June….

Year	June (% Deviation from Normal)
1926	-48.3%
2009	-47.2%
1905	-43.6%
1923	-42.7%
2026	-42.0%

Source: IMD

This year's June may be the Fifth driest June (so far) in the history of 126 years

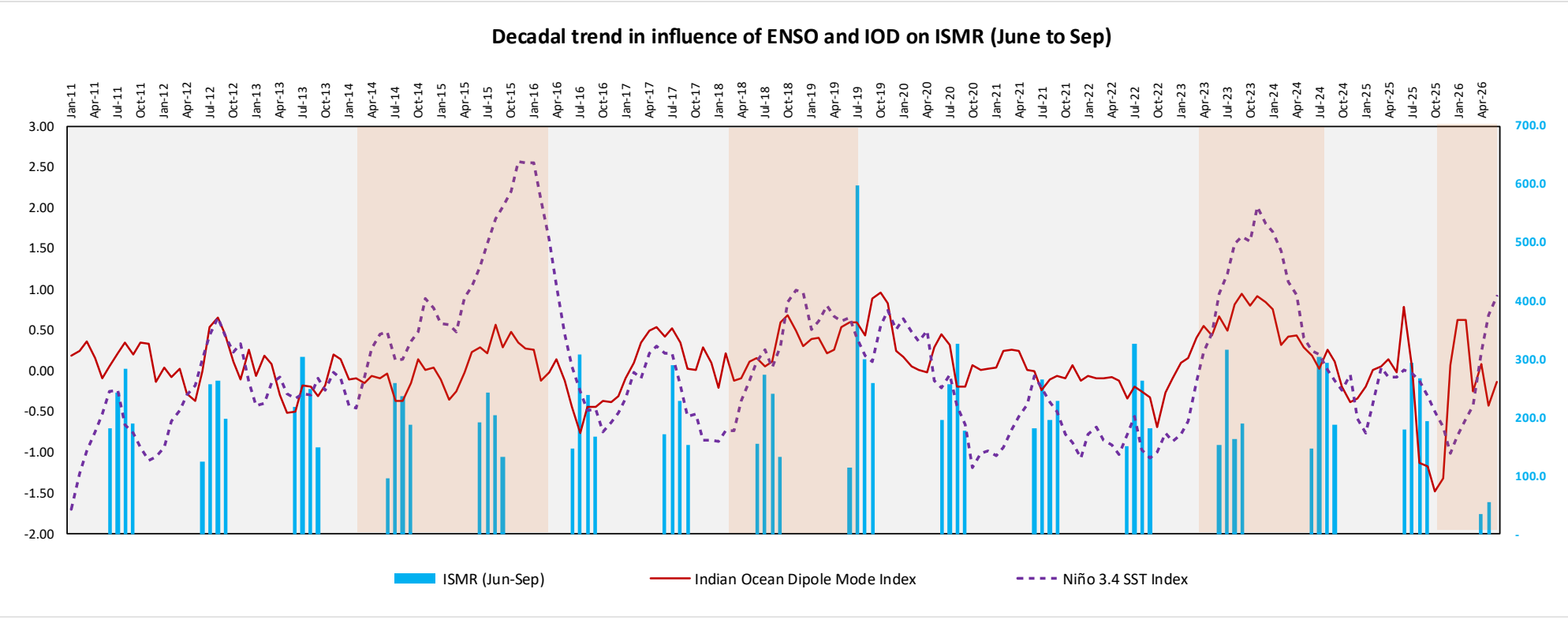
Top driest states (June 2026 so far)

Maharashtra (-82%)
Gujarat (-73%)
Madhya Pradesh (-48%)
Bihar & Telangana (-42%)

Source: IMD, CEIC, SBI Research, Data under consideration:1901 to 2026

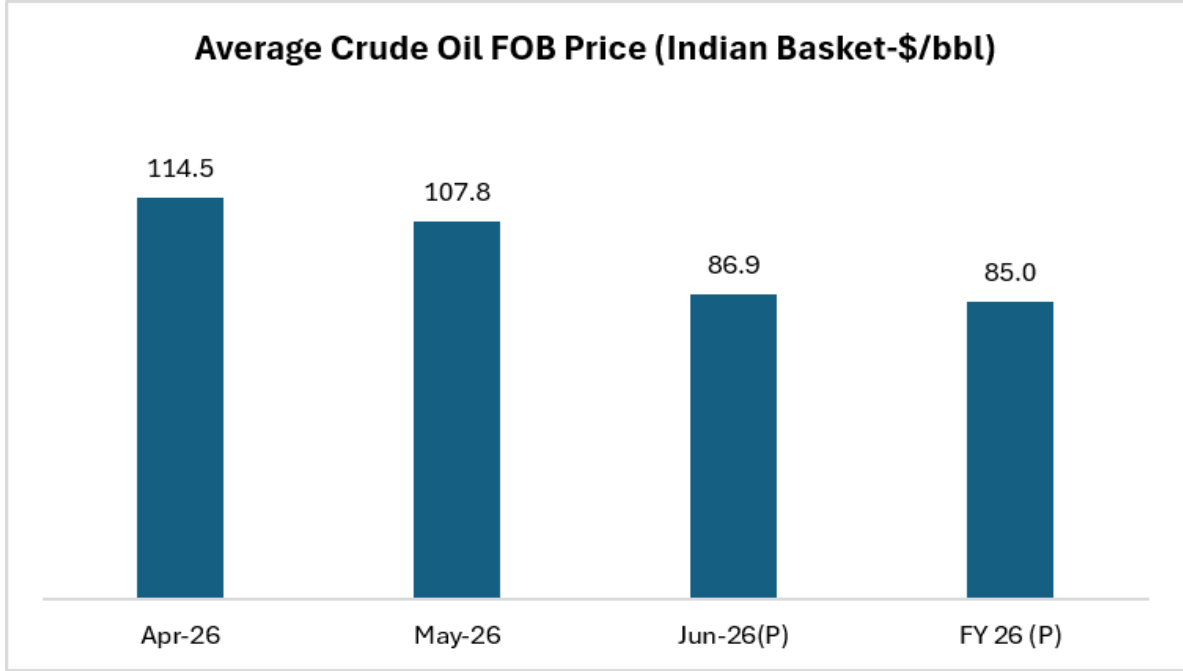
…Though Positive IOD may Drizzle some Hope

- As per the current assessment, **IOD is in negative territory. But Japan Meteorological Agency (JMA) forecasts the emergence of a positive IOD in tandem with the onset of an El Niño event**
- The sluggish monsoon is due to weaker Somali jet, which is a powerful low-level wing current over the Arbian Sea that transports enormous amounts of moisture towards India's west coast. **In the coming weeks, it is expected that the Somali Jet will strengthen, which will increase moisture over India's west coast**



Outlook for Crude Oil turning positive

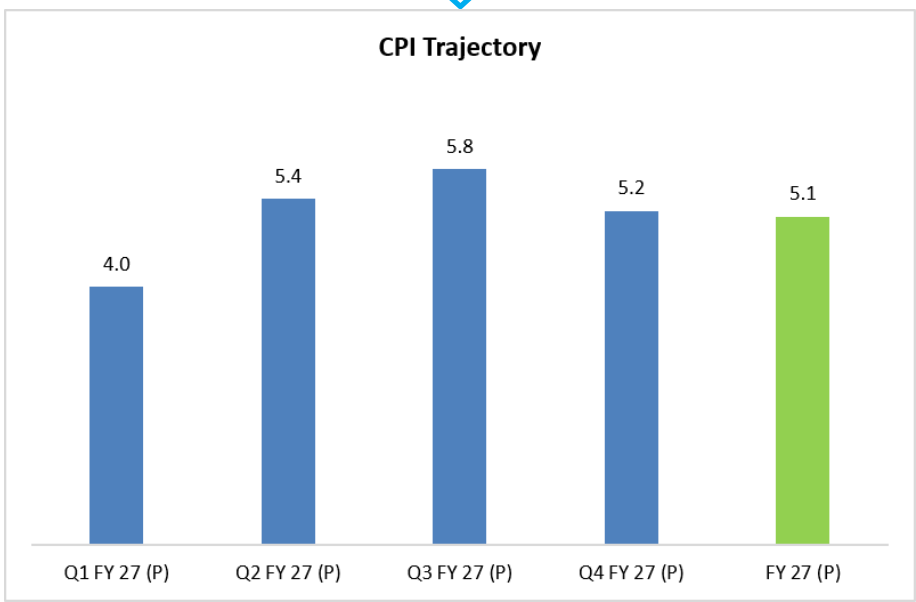
Average crude oil price for Indian basket is now expected at ~$85/bbl which will lead to savings of $25 bn in Oil import bill against our previous estimate when oil price crossed $130/bbl



India's Crude Oil Import w.r.t Crude oil price($)				
	FY26	FY27 (P)_old	FY27(P)_Revised	Change (Revised -old)
Oil import Qty (MMT)	246	265	265	0
Oil import (USD bn)	123	194	169	-25
Average Oil Price (USD/ bbl)	71	100	85	-15
Source: PPAC, Bloomberg, SBI Research				

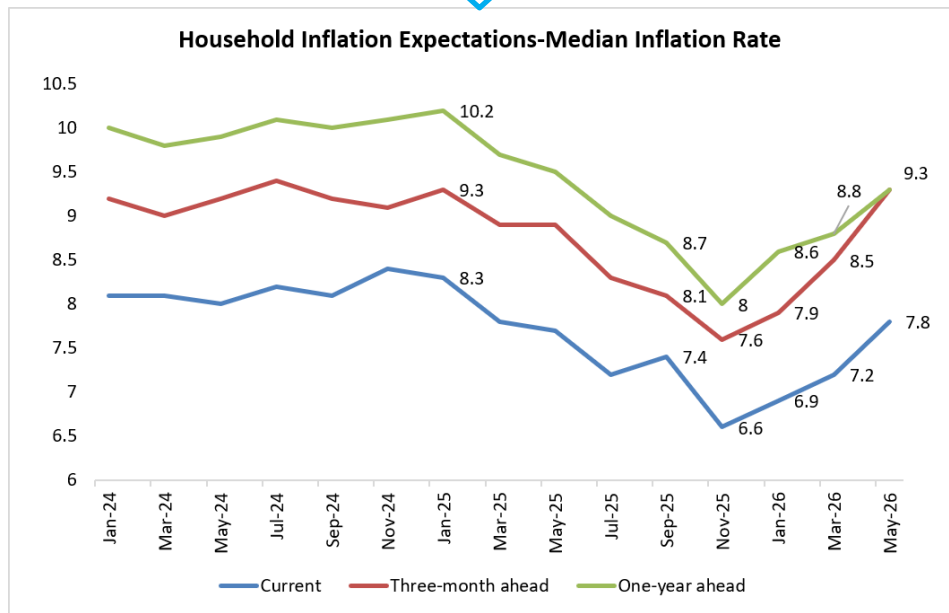
CPI Inflation under RBI's target range…HHs turning cautious on discretionary spending

- Though we expect CPI inflation (as of now) to be more than 5.0% for the next 3 quarters (current quarter at ~4.0 to 4.1%)…. FY27 projections currently at 5.1% with risks now evenly balanced as compared to upside risks that we had anticipated earlier



Source: MOSPI; SBI Research; P: SBI Projection

- The current median inflation perception of households increased sequentially by 60 bps to 7.8% as compared to the previous round. Inflation expectations for the next 3-months and 1-year edged up by 80 bps and 50 bps, respectively, reaching 9.3% for both horizons
- **With expectations significantly outpacing actual inflation, consumer confidence has softened, causing households to turn cautious on discretionary spending**



Is US going for a rate hike?
Uncertain at this point….

US Fed: Action = *Status Quo*, Commentary = Hawkish BUT uncertain about Rate Hike

- The Federal Reserve held interest rates steady, with a new policy statement and economic projections reflecting growing concern about the inflation stoked by the Iran war even as oil prices slide on peace deal hopes
- The rate decision was unanimous for the first time in a year, with policymakers removing forward guidance on the direction of the interest rate

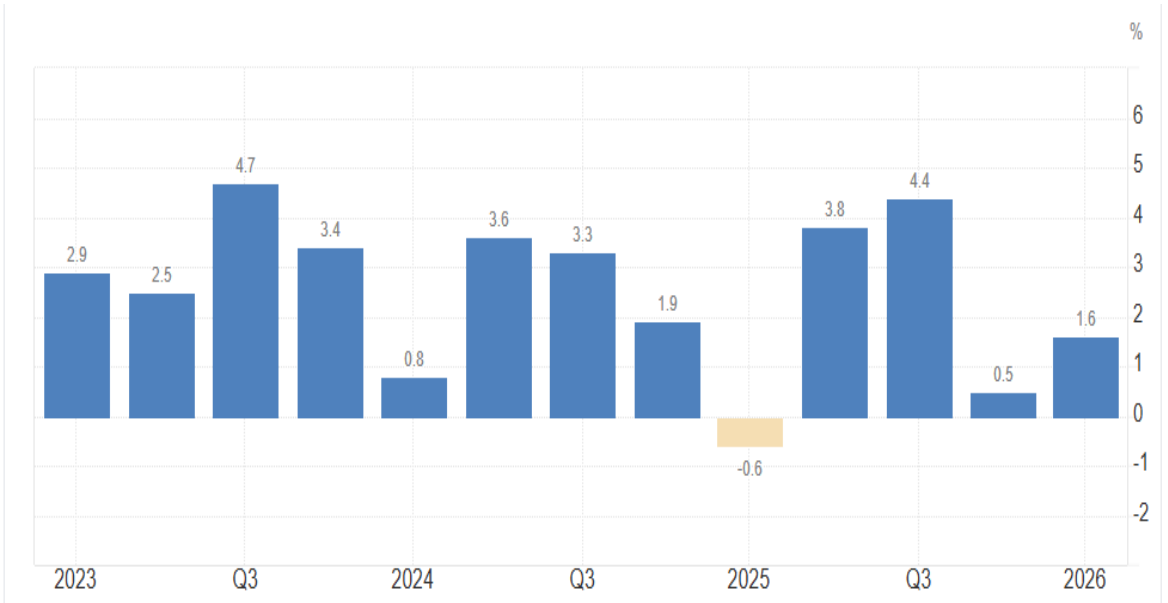
Percent

Variable	Median[1]				Central Tendency[2]				Range[3]			
	2026	2027	2028	Longer run	2026	2027	2028	Longer run	2026	2027	2028	Longer run
Change in real GDP	2.2	2.3	2.2	2.0	2.0–2.3	2.0–2.4	2.0–2.3	1.8–2.0	1.8–2.6	1.9–2.9	1.8–2.6	1.7–2.5
March projection	2.4	2.3	2.1	2.0	2.2–2.5	2.0–2.4	2.0–2.3	1.8–2.0	2.1–2.7	2.0–2.7	1.8–2.7	1.7–2.5
Unemployment rate	4.3	4.3	4.2	4.2	4.3–4.4	4.2–4.5	4.1–4.3	4.0–4.3	4.3–4.6	4.0–4.6	4.0–4.4	3.8–4.5
March projection	4.4	4.3	4.2	4.2	4.3–4.5	4.2–4.4	4.0–4.4	4.0–4.3	4.3–4.6	4.0–4.5	4.0–4.5	3.8–4.5
PCE inflation	3.6	2.3	2.0	2.0	3.5–3.7	2.2–2.5	2.0–2.1	2.0	2.7–4.1	1.9–2.8	2.0–2.3	2.0
March projection	2.7	2.2	2.0	2.0	2.6–3.1	2.0–2.3	2.0	2.0	2.3–3.3	1.8–2.4	1.9–2.2	2.0
Core PCE inflation[4]	3.3	2.5	2.1		3.2–3.5	2.3–2.6	2.0–2.2		2.6–3.5	2.0–3.0	2.0–2.4	
March projection	2.7	2.2	2.0		2.5–2.8	2.0–2.4	2.0		2.2–3.0	2.0–2.5	2.0–2.2	
Memo: Projected appropriate policy path												
Federal funds rate	3.8	3.6	3.4	3.1	3.6–4.1	3.1–3.9	3.1–3.6	3.0–3.5	3.4–4.4	2.9–4.4	2.9–3.9	2.9–3.9
March projection	3.4	3.1	3.1	3.1	3.1–3.6	2.9–3.6	2.9–3.6	2.9–3.5	2.6–3.6	2.4–3.9	2.6–3.9	2.6–3.9

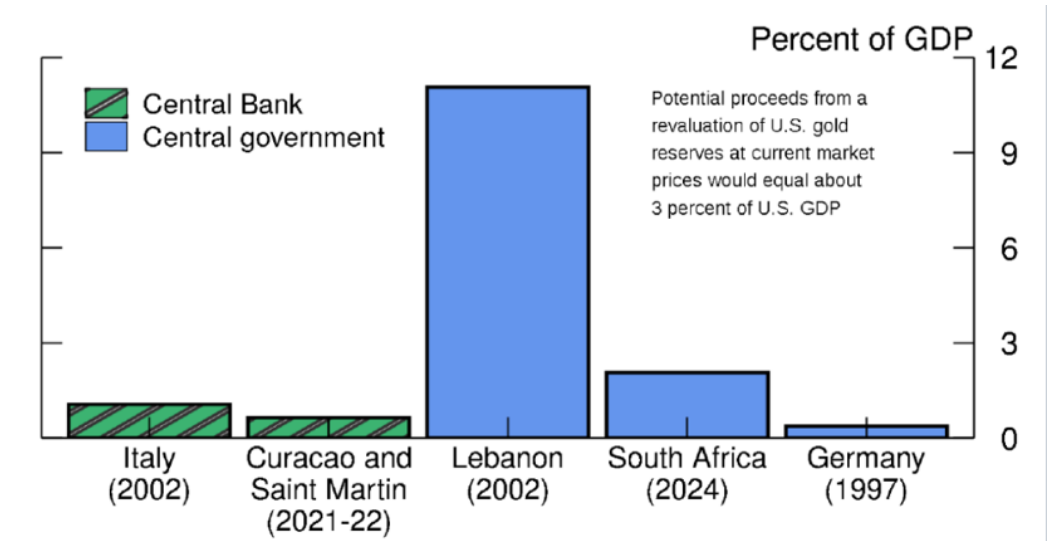
On Faltering Grounds: US GDP looks sluggish beyond the AI-Fed momentum

- On second thoughts, even a hawkish tone of the Fed may lose tempo if the second quarter GDP growth falters as market prices the record capital raising plans across both Public and Private spectrum, augmented by AI-led architecture…. Also, the extremely rich valuations of AI and related sector companies is worrisome should a market meltdown occur going ahead
- **A trade off between rate hike and growth is thus all too evident keeping hedging, arbitrage and commodities prices in doldrum….**
- US is also toying with this idea of revaluing the Federal government's 261.5 million troy ounces in gold reserves—the largest reserves globally— from a statutory price of $42.22 per troy ounce (fixed in 1973 post Nixon shock) to current market prices (~$4200+ per troy ounce). The corresponding revaluation reserves would create a massive jump in assets first, from current ~11 Bn value to ~1.10 Tn mass, almost 3.5%-plus of US GDP, wiping ~60% of US Budget deficit

US GDP Growth (QoQ)



Revaluing Gold Reserves can create fiscal space



Source: SBI Research, Fed Paper, US Bureau of Economic Analysis

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