

RBI Monetary Policy

June 7, 2024



The Monetary Policy Committee (MPC) came out with their bi-monthly policy statement on June 07, 2024. Some of the key announcements are as follows:

- ◆ The MPC decided by a majority of 4 out of 6 members to keep the policy Repo Rate unchanged at 6.50%. Two members voted to reduce the policy Repo Rate by 25 bps
- ◆ Consequently, the standing deposit facility (SDF) rate remains unchanged at 6.25% and the marginal standing facility (MSF) rate and Bank Rate at 6.75%
- ◆ The MPC also decided by a majority of 4 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns to the target, while supporting growth. Two members voted to change the stance to neutral

The growth and inflation inflations have been revised as per the below mentioned table:

Period	Growth		Inflation	
	Apr 2024 forecast	Jun 2024 forecast	Apr 2024 forecast	Jun 2024 forecast
Q1 FY2025	7.10%	7.30%	4.90%	4.90%
Q2 FY2025	6.90%	7.20%	3.80%	3.80%
Q3 FY2025	7.00%	7.30%	4.60%	4.60%
Q4 FY2025	7.00%	7.20%	4.50%	4.50%
FY2025	7.00%	7.20%	4.50%	4.50%

Source: Bloomberg, RBI

The growth forecast for FY2025 has been increased by 20 bps to 7.20%, with quarterly estimates higher than previous projections by 20-30 bps. Inflation forecast for FY2025 has been retained at 4.50% with quarterly estimates remaining unchanged.

RBI noted that inflation has come down significantly, however, repeated price shocks have slowed down the disinflation process. Headline inflation is expected to see some correction in Q2 FY2025 due to favorable base effect but will possibly reverse in the subsequent quarter. RBI will continue to monitor the inflation trajectory till it achieves the 4.0% target on durable basis.

On liquidity, the Governor mentioned that RBI will remain nimble and flexible in its liquidity management through two-way main and fine-tuning operations, in both Repo and Reverse Repo. The RBI will look to deploy a mix of instruments at their disposal to modulate frictional and durable liquidity to ensure that money market interest rates evolve in an orderly manner that preserves financial stability.

Indian Rupee has remained stable despite FPI outflows, underlying the strong macro-economic and financial stability. On the external front, the Governor mentioned that trade deficit has lowered and along with robust services export growth and strong remittances, the Current Account Deficit (CAD) is likely to have moderated in Q4 FY2024. CAD for FY2025 is expected to remain within sustainable levels. FX reserves reached an all-time high of USD 651.5 bn as on May 31, 2024. The RBI remains confident of meeting external financing requirements comfortably.

The Governor mentioned that markets have a notion that RBI is guided by the Fed, he categorically stated while RBI does consider the impact of monetary policy in advanced economies on Indian markets, the actions are primary determined by domestic growth-inflation dynamics.

The unchanged policy rate and stance were broadly in line with consensus. The only major difference was one member voting for a rate cut and for a change of stance to neutral. This might be considered marginally positive. Overall, the tone of the policy was on expected lines with RBI striking a balanced note and a data-driven approach.

Present Outlook

While US markets have braced for “higher for longer” rates, we have seen in the past, that reactions to favorable data in such an environment can be sharp. Any softness in growth, employment or inflation data over the next few months will allow the markets to quickly start pricing in aggressive future policy easing. In our view, the RBI is also likely to gradually shift the liquidity deficit into surplus over the course of the next 3-6 months, flipping overnight rates from the top to the bottom of the rate corridor. The yield curve is likely to steepen as liquidity eases. This along with a potential 50 bps of policy easing in first half of CY2025 may push overnight rates lower by 75-100 bps.

While any form of additional spending by the new Government to address concerns of rural sections of the country and the possibility of additional spending to fund such policies will remain a key monitorable, we believe the Government is likely to remain cognizant of the possible impact of such policies and take measured steps. With the dust settling down on the election outcome, we believe that the broad macroeconomic factors should continue to remain stable and could support softening in domestic yields going forward.

We continue to have a positive outlook for interest rates, based on various favorable factors: (a) Record RBI dividend to the Government, (b) reduced Fiscal deficit number of 5.6%, (c) favorable G-Sec supply demand dynamics, (d) FPI index related inflows, (e) revised outlook in India by S&P, (f) soft core inflation along with expectations of a better than normal monsoon, and finally (g) soft signals by Government and RBI on liquidity.

Accordingly, we believe there is a favourable case to add duration to investor portfolios with a 1.5-2 year investment horizon.

We believe the below mentioned strategies make investment sense:

- ◆ With AAA PSU corporate bond yields trading at favourable levels, investors can look at bond funds in the 2-5 year maturity segment. **HSBC Short Duration Fund** and **HSBC Corporate Bond Fund** are positioned in these segments
- ◆ To play the duration theme going forward, investors may consider allocation to longer duration products such as **HSBC Dynamic Bond Fund** and **HSBC Gilt Fund** to take advantage of such a market movement

And for the next level of alpha seeking investors, adding an element of measured credit risk to active duration strategy (through products such as **HSBC Medium Duration Fund**), can become a rewarding proposition



Scheme name
Potential Risk Class
HSBC Dynamic Bond Fund
HSBC Corporate Bond Fund
HSBC Gilt Fund

Potential Risk Class			
Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Risk ↓			
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A-III		

Scheme name
Potential Risk Class
HSBC Short Duration Fund

Potential Risk Class			
Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Risk ↓			
Relatively Low (Class I)			
Moderate (Class II)	A-II		
Relatively High (Class III)			

Scheme name
Potential Risk Class
HSBC Medium Duration Fund

Potential Risk Class			
Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Risk ↓			
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)		B-III	

Product Labels

Scheme name and Type of scheme
***Riskometer of the Scheme**
This product is suitable for investors who are seeking*

HSBC Dynamic Bond Fund (Dynamic Bond Fund) - An open ended dynamic debt scheme investing across duration. Please refer to the SID for explanation on Macaulay duration. Relatively high interest rate risk and relatively low credit risk.

- Generation of reasonable returns over medium to long term
- Investment in fixed income securities.

(Benchmark: NIFTY Composite Debt Index A-III)

HSBC Short Duration Fund (Short Duration Fund) - An open-ended short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 1 year to 3 years. A moderate interest rate risk and moderate credit risk.

- Generation of regular returns over short term.
- Investment in fixed income securities of shorter term maturity.

HSBC Corporate Bond Fund (Corporate Bond Fund) - An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and relatively low credit risk.

- Generation of regular and stable income over medium to long term
- Investment predominantly in AA+ and above rated corporate bonds and money market instruments.

(Benchmark: Nifty Corporate Bond Index)

HSBC Gilt Fund (Medium to Long Duration Fund) - An open ended debt scheme investing in government securities across maturity. A relatively high interest rate risk and relatively low credit risk.

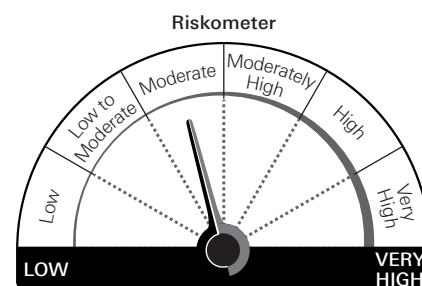
- Generation of returns over medium to long term
- Investment in Government Securities.

(Benchmark: Nifty All Duration G-Sec Index)

HSBC Medium Duration Fund (Medium Duration Fund) - An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years. Please refer Page no. 9 of the SID for explanation on Macaulay duration. A relatively high interest rate risk and moderate credit risk.

- Generation of income over medium term
- Investment primarily in debt and money market securities.

(Benchmark: NIFTY Medium Duration Debt Index Fund B-III)



Investors understand that their principal will be at Moderate risk

***Investors should consult their financial advisers if in doubt about whether the product is suitable for them.**

Please refer notice cum addendum available on website of HSBC Mutual Fund for updates on riskometer/product labeling of the scheme. Riskometer is as on 29 February 2024.

Source: Bloomberg, MOSL & HSBC MF estimates as on 7 June 2024 or as latest available

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

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HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.

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