

RBI Monetary Policy

February 8, 2024



Announcement

The Monetary Policy Committee (MPC) came out with their bi-monthly policy statement on February 08, 2024. Some of the key announcements are as follows:

- ♦ The MPC decided by a majority of 5 out of 6 members to keep the policy Repo Rate unchanged at 6.50%.
- ♦ 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 5 out of 6 members to remain focused on withdrawal of accommodation to ensure that inflation progressively aligns with the target, while supporting growth.

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

Period	Growth		Inflation	
	Dec 2023 forecast	Feb 2024 forecast	Dec 2023 forecast	Feb 2024 forecast
Q4 FY2024	6.00%	Not mentioned	5.20%	5.00%
FY2024	7.00%	7.30%	5.40%	5.40%
Q1 FY2025	6.70%	7.20%	5.20%	5.00%
Q2 FY2025	6.50%	6.80%	4.00%	4.00%
Q3 FY2025	6.40%	7.00%	4.70%	4.60%
Q4 FY2025	Not mentioned	6.90%	Not mentioned	4.70%
FY2025	Not mentioned	7.00%	Not mentioned	4.50%

Source - RBI

The growth forecast for FY2024 has been revised upwards to 7.30%, and **growth for FY2025 has been projected at 7.00%**, with quarterly estimates also revised higher than previous forecasts. On the other hand, the **inflation forecast for FY2024 has been retained at 5.4%, while the estimate for FY2025 has been mentioned at 4.50%.**

On liquidity, the Governor mentioned that RBI has remained 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 (as and when required) to manage both frictional and durable liquidity to ensure financial stability.**

On the external front, the Governor noted that relatively low volatility of the Rupee, buoyant service exports, remittances and increase in foreign portfolio flows have ensured resilience of the external sector and RBI remains confident of comfortably meeting the external financing requirements.

The RBI also provided some clarity on the policy stance. The Governor reiterated that the stance is in terms of interest rates, which is the principal tool of monetary policy. **The stance should be looked at in the context of incomplete transmission and inflation staying above the target of 4%.** The stance should not be understood as system liquidity remaining in surplus or deficit.

The RBI noted the progress in bringing down inflation and mentioned that the continued drop in core inflation was reflective of the impact of past monetary policy actions. However, it noted that uncertainties in food inflation could add to generalized price pressures and interrupt the ongoing disinflationary process. Hence it mentioned that **monetary policy must continue to be actively disinflationary to ensure anchoring of inflation expectations and ensure fuller transmission.**

The unchanged policy rate and stance were broadly in line with consensus. Given the growth momentum, the revision in GDP growth forecast was also anticipated. **The overall tone of the policy was on expected lines with the RBI striking a balanced note.** However, it was interesting to note that one of the MPC members voted for a rate cut. This could be a pre-cursor for further dissents among other members going forward and the minutes of the MPC meeting would provide some colour on the thought process of individual members.

Market Movement and Outlook

Given this backdrop of a balanced RBI policy, government bond yields and corporate bonds levels moved marginally higher by 1-2 bps, possibly because few market participants were expecting a stance change or some announcements pertaining to liquidity easing.

Indian bond markets have so far been less volatile relative to global bond markets. While we do expect an easing cycle in India as well, the rate cutting cycle will probably be a shallow one. Given that growth is holding up much better and with Government's continued focus on capital spending, the need for RBI to support the economy through any dramatic monetary easing measures is much less. Prior to the first rate cut however, RBI is likely to gradually shift the liquidity deficit into a surplus, consistent with an easing cycle. Hence, despite potential rate cut of only 50 bps, the overnight rates are likely to move down by 75-100 bps on account of the reversal of liquidity conditions, and overnight rates flipping from the top to the bottom of the rate corridor. Additionally, lower gross borrowing announced in the Budget as well as FPI buying on the back of index inclusion as well as strategic allocations will keep demand for IGBs buoyant.

Hence, 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 in the 7.65%-7.85% band, investors can look at bond funds in the 2-5 year maturity segment. **HSBC Corporate Bond Fund** and **HSBC Banking and PSU Debt Fund** are positioned in these segments
- With markets now expecting multiple rate cuts in the US as well as in India through 2024 and 2025, 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 movements
- And for the next level of alpha seeking investors, adding an element of measured credit risk to these strategies (through products such as HSBC Medium Duration Fund), can become a rewarding proposition



Source – RBI, Bloomberg, HSBC Mutual Fund, Data as on 8 Feb 2024

Scheme name	Potential Risk Class			
HSBC Corporate Bond Fund	Potential Risk Class			
HSBC Banking and PSU Debt Fund	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
	Interest Rate Risk ↓			
HSBC Dynamic Bond Fund	Relatively Low (Class I)			
HSBC Gilt Fund	Moderate (Class II)			
	Relatively High (Class III)	A-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 Banking and PSU Debt Fund (Banking and PSU Debt Fund) - An open ended debt scheme predominantly investing in debt instruments of banks, public sector undertakings, public financial institutions and municipal bonds. A relatively high interest rate risk and relatively low credit risk.

- Generation of reasonable returns and liquidity over short term
- Investment predominantly in securities issued by Banks, Public Sector Undertakings and Public Financial Institutions and municipal corporations in India.

(Benchmark: Nifty Banking & PSU Debt Index)

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 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.

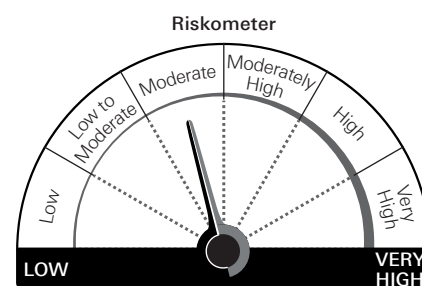
- Generation of income over medium term
- Investment primarily in debt and money market securities.

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

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)



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 31 January 2024.

Note: Views provided above based on information available in public domain at this moment and subject to change. Please consult your financial advisor for any investment decisions. **Past performance may or may not be sustained in future and is not a guarantee of any future returns.**

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