HSBC Mutual Fund

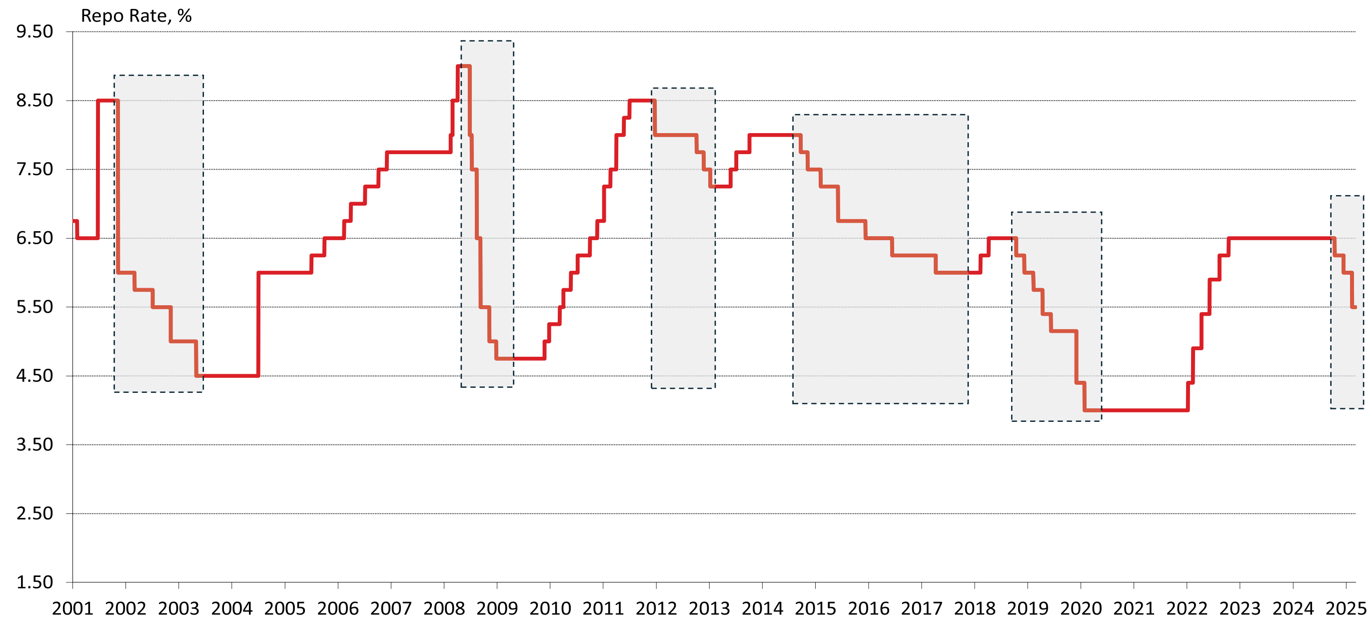
The Macro Sphere

July 2025

Monetary Policy – How far have we come and the way ahead

History might not repeat itself, but it often rhymes. In this note, we attempt to identify if the current policy easing phase rhymes with any of the past rate easing cycles.

Repo Rate trend: The past easing cycles, boxed



Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income.

In this note we look at the rate cycles which were undertaken in the post-FIT regime – Flexible Inflation Targeting (FIT) framework and the year when the Monetary Policy Committee was instituted. Thus, in the backdrop of the structural changes as well as for the purposes of relevance to the current easing cycle period, we will focus on the rate easing cycles for the period 2016-2025 so far.

Prior to the current rate easing cycle, there are two easing cycles over this period viz. the 2015-17 cycle and the 2019 cycle (not considering the covid induced easing from Mar'20 given its exceptional backdrop).

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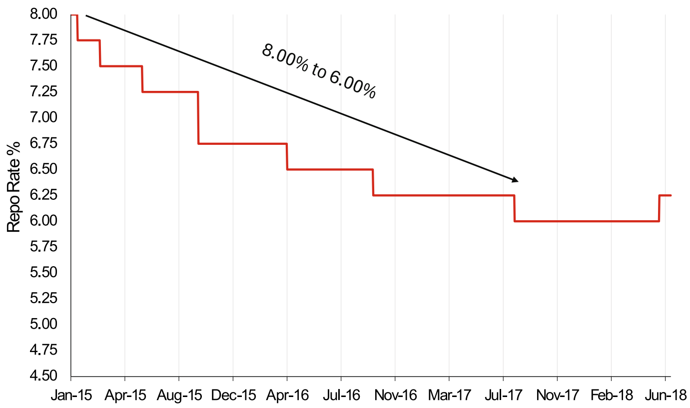
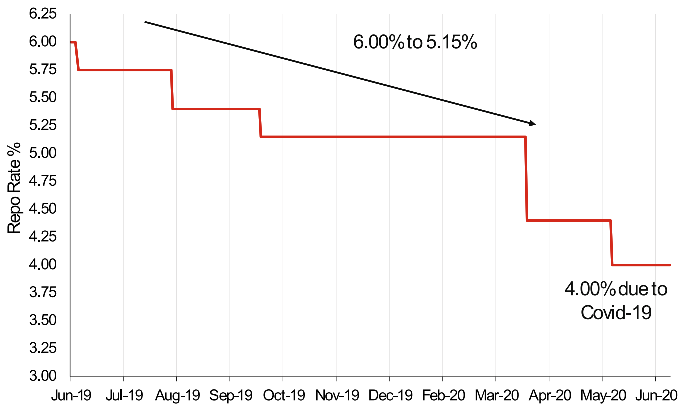
Our key message:

Of the 2015-17 and 2019 easing cycles, the 2019 cycle appears more relatable more so because towards the end of 2017s accommodative cycle, the economy saw demonetization (DeMon), the rollout of GST, global uncertainty, higher crude prices and in totality upside risks to domestic inflation outlook. Consequently, in 9-months of the last cut, the RBI-MPC hiked policy the rates by 25bps with the stance being 'neutral'.

Repo Rate in the 2015-easing cycle



Repo Rate in the 2019-easing cycle



Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income.

Episodes Of interest	10Y Gsec Yield (%)	Repo Rate	Repo Rate (DoD Change), %	Policy Stance
2015 Easing cycle				
15-Jan-15	7.70	7.75%	-0.25	na
4-Mar-15	7.69	7.50%	-0.25	na
3-Jun-15	7.75	7.25%	-0.25	Accommodative
30-Sep-15	7.54	6.75%	-0.50	Accommodative
6-Apr-16	7.46	6.50%	-0.25	Accommodative
5-Oct-16	6.67	6.25%	-0.25	Accommdoative
3-Aug-17	6.43	6.00%	-0.25	Neutral (changed in Feb'17 policy)
7-Jun-18	7.99	6.25%	0.25	Neutral

Episodes Of interest	10Y Gsec Yield (%)	Repo Rate	Repo Rate (DoD Change), %	Policy Stance
2019 Easing cycle				
7-Jun-19	6.97	5.75%	-0.25	Accommodative from Neutral
7-Aug-19	6.37	5.40%	-0.35	Accommdoative
4-Oct-19	6.69	5.15%	-0.25	Accommdoative
Covid-19 cycle				
27-Mar-20	6.14	4.40%	-0.75	Accommdoative
22-May-20	5.753	4.00%	-0.40	Accommdoative

Note: *DoD = Day-to-Day change; % change in yield if minus implies a fall in yield. 10 Yield levels is Bloomberg Ticker
Colouring: where Red indicates a Hike; Green is 0.25% Cut, Dark green is > 0.25% Cut.

Liquidity management approach is dynamic in each cycle, but largely tracking the policy rate.

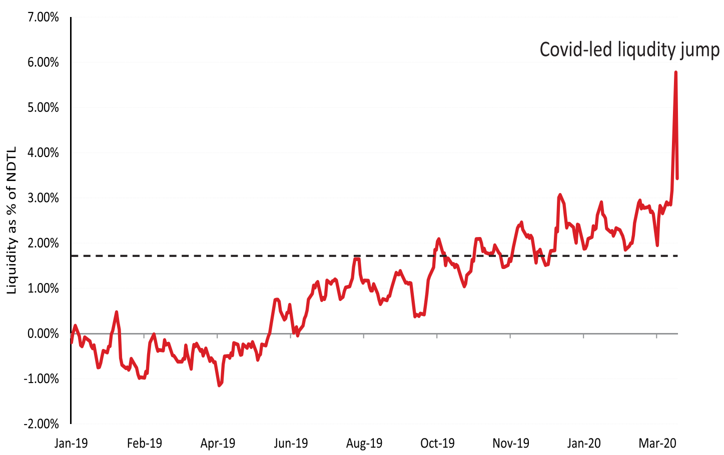
In 2019, the RBI took steps to infuse liquidity and kept system liquidity in the surplus ranging 1.0-2.0% of NDTL (Liquidity charts below compare the 2025 and 2019 cycles). The RBI conducted OMO Purchases to the tune of INR 3 lakh crore in 2019.

The 2025 easing cycle rhymes with 2019 cycle in terms of surprise rate actions, liquidity measures and 10Y yield ebbing in anticipation of limited space for further policy action, incrementally.

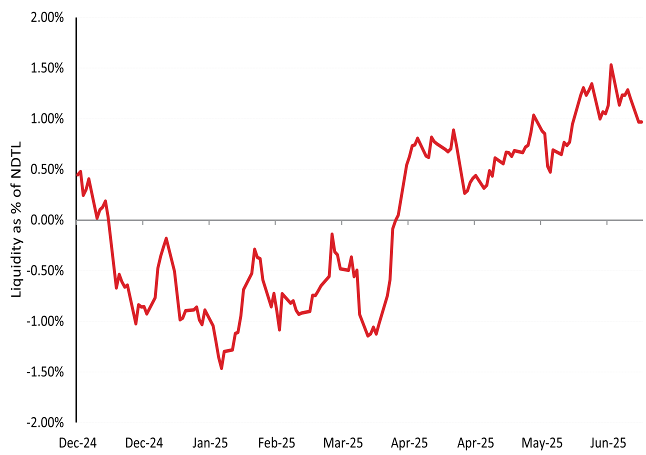
Since, December 2024, the RBI has acted to infuse liquidity and also indicated that it would keep system surplus around ~1.0-1.5% of NDTL; the aggressive steps as well as the June announcement of the 100bps CRR cut starting from Sept-Dec 2025 suggests that the liquidity surplus is here to stay. Thus, it increases the conviction of focusing on liquidity driven influence for rates market vs incremental rate cuts. The shift to 'neutral' stance at the June policy as well as the MPC minutes do indicate that the focus is on liquidity-led transmission after having front-loaded the rate cuts.

Liquidity Conditions mirroring the 2019 phase

Liquidity during 2019 to March 2020



Liquidity steps from Dec-2024 to Jun 2025



Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income.

*Data as of 24-Jun-25

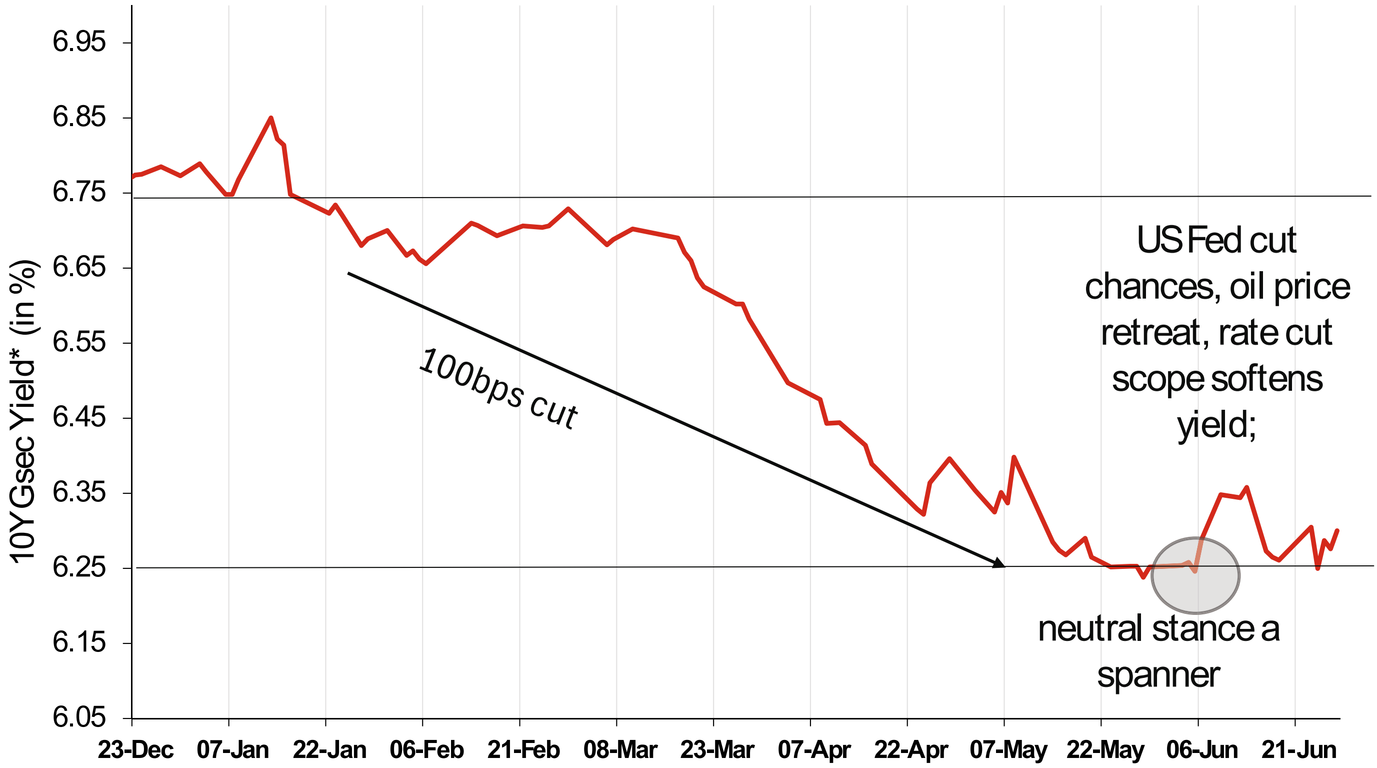
A notable observation is that in Aug'19, the Governor announced an odd cut of 35bps and despite accommodative stance as markets remained surprised and anticipation of whether next cut would come through or it's a pause or whether it would be 15bps cut or a 40bps did distort rate cut expectations.

Policy	Our observation and key remarks from the policy statement
Jun'19:	# Growth impulses have weakened; change the stance of monetary policy from neutral to accommodative.
Aug'19:	**# MPC => Inflation is currently projected to remain within the target over a 12-month ahead horizon. Since the last policy, domestic economic activity continues to be weak, with the global slowdown and escalating trade tensions posing downside risks.** **# 35bps surprise cut -surprised; 10Y yld low & bottomed out in Aug even as rate cut was anticipated with 'accommodative' stance**
Oct'19:	# With inflation expected to remain below target in the remaining period of 2019-20 and Q1:2020-21, there is policy space to address these growth concerns by reinvigorating domestic demand within the flexible inflation targeting mandate. # It is in this context that the MPC decided to continue with an accommodative stance as long as it is necessary to revive growth, while ensuring that inflation remains within the target.
Dec'19:	# Introduction of external benchmarks is expected to strengthen monetary transmission. # "...prudent to carefully monitor incoming data to gain clarity on the inflation outlook"
from 3-20 March	=> US Fed slashed FDTR by 150bps!
MPC: 27-Mar	“...necessary to shield the domestic economy from the pandemic"

Source: RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income

The 50bps surprise cut in Jun’25 is similar to the Aug’19 policy of 35bps, when the 10-year G-Sec yield created the cycle low of 6.33% on the back of the unexpectedly outsized 35bps Repo rate cut. Similarly, the 10Y G-Sec yield touched an intra-day low of 6.10% on 6th Jun 25, which probably will turn out to be the cycle low. The 10Y G-Sec yield has gradually moved higher after the front-loaded 50bps Repo Rate cut which on the back of a change to neutral stance took market participants off-guard, raising speculation around the end of policy easing. The remark from the policy statement, “…monetary policy will be left with very limited space to support growth” soured investor sentiments. This coupled with the CRR cut announcement reduced the scope of OMO Purchases further weighed on market sentiments.

Reaction in markets post the MPC outcome: 10Y yield bottomed

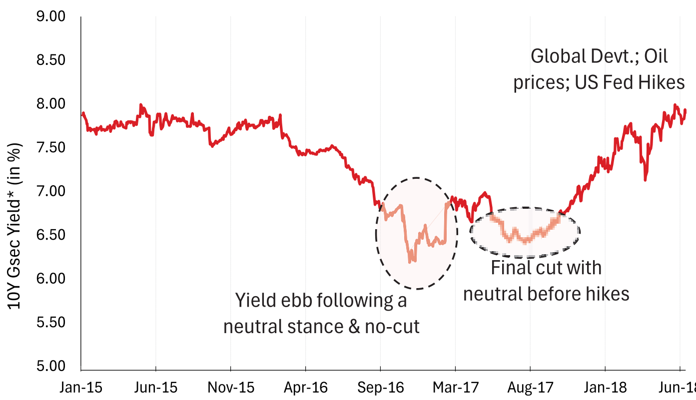


Note: *10Y Yield from Bloomberg, Data from December 2024 to June 2025

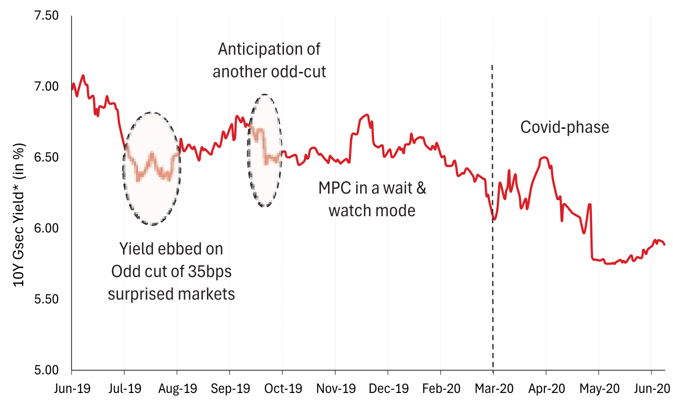
Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income.

Apart from 2019, similarities are also observed in the latter part of the easing cycle of 2015-17; especially for the 10Y sovereign yield which was marred by sudden change in policy easing expectations following the demonetization phase – where 10Y yield ebbed in February 2017 when the policy stance was changed to neutral, and the final cut was delivered in August 2017 owing to growth concerns. The global developments, oil price rise, uptick in domestic inflation resulted in a change in policy course in June 2018 – but even during the easing phase of 2016-to-2017, yields bottomed out with the penultimate rate cut of the cycle, in anticipation of changes in policy posturing.

10Y G-Sec movement during 2015 easing cycle



10Y G-Sec movement during the 2019 easing cycle



Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income.

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The statistical and data analysis as well as drawing inference from the June RBI-MPC Policy and its Minutes, we believe that the scope for deeper incremental rate cuts remains limited, absence of major shocks.

Incrementally, whether we could see 25-50bps rate cuts come through by end-2025 or whether there would be a long pause is likely to hinge on global developments as domestic growth-inflation is seen play out as per MPC's assessment – with slight downward bias to inflation. However, we think a far weaker growth outlook might trigger more action by RBI and the MPC when looking at domestic data. For now, it is more certain that the August policy would be a hold with a data-driven approach.

A material change in global growth outlook, US growth and trade tariff dynamics, the US Fed monetary policy approach would require close monitoring to assess MPC's next policy action.

All-in-all, into this current cycle, the macros and markets have evolved and developed especially with the formalization of the inflation targeting framework and the institutionalization of the monetary policy committee. On the fiscal side, there has been continued progress on fiscal consolidation (post pandemic shock) with improved expenditure mix. On the markets front, we have seen the fixed income markets develop especially with it getting more legs with Bond inclusion in Global Bond Indices in the EM category further show how far we have come. All these factors evince that the frameworks, the policies, the committee have all evolved with the markets far more matured too.

When compared to say the 2015-17 cycle, by the end of this easing cycle, the macro dynamics changed with inflation accelerating, oil prices rising which in turn led to a shift in the MPC policy. Just before the policy turn, the 10Y yield ebbed and started to edge higher.

In entirety, currently, the dynamics are different from the period 2015/2019 easing cycles. With the expectations of CPI inflation hovering around its medium-term target of 4.0% and economic growth likely to settle in the 6.0- 7.0% YoY for next couple of years. In this milieu, coupled with an imports cover of ~13-months, absence of any global setbacks, suggest that we may not see a sudden shift or reversal in the monetary policy approach at least for the next four-five quarters, even with a neutral stance. In this context, we continue to see the 10Y yield remain fairly range-bound and expect system liquidity to be a key influencing factor in the near-term.

Past performance may or may not be sustained in future and is not a guarantee of any future returns.

Source – RBI, RBI Database, CMIE, Bloomberg, HSBC Research AMC, Fixed Income. Data as on end-June 2025 or 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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