Event update

RBI's 1st Monetary Policy - 2022-23

8 April 2022

Calibrated policy sequencing inflation over growth

Although RBI has kept rates unchanged, the introduction of SDF rates and re-wording of the policy stance indicate a move towards withdrawing the accommodation provided during the pandemic in a calibrated manner. The focus has now moved towards inflation.

Key Highlights

Repo rate unchanged; Introduction of Standing Deposit Facility rate at 3.75% and calibration in policy stance

- Repo rate unchanged at 4.0%; Reverse Repo at 3.35% and Marginal Standing Facility at 4.25%.
- Stance remains "accommodative" while at same time focusing on "withdrawal of accommodation" to ensure that inflation remains within the target going forward, while supporting growth.
- The standing deposit facility (SDF) rate, which has now been introduced, will now be the floor of the LAF corridor and at 3.75 per cent. The marginal standing facility (MSF) rate and Bank Rate remain unchanged at 4.25 per cent Thus, the width of the LAF corridor is restored to the pre-pandemic configuration of 50 bps
- Inflation is now projected at 5.7 per cent in 2022-23; real GDP growth for 2022-23 is now projected at 7.2 per cent
- All members of the MPC voted unanimously to keep rates on hold and also voted unanimously for the policy stance
- Enhance the present limit under Held to Maturity (HTM) category from 22 percent to 23 per cent of NDTL till March 31, 2023.

Summary of the policy measures

The RBI monetary policy committee unanimously decided to keep repo rate unchanged while calibrating the policy stance to "remaining accommodative while at the same time focusing on withdrawal of accommodation". Further the stance of the monetary policy mentioned that the objective of the RBI policy would be to ensure "inflation remains within the target going forward while supporting growth" unlike in earlier RBI policy where it was mentioned that the "accommodative stance will continue as long as it is required to sustain growth" while maintaining inflation within the targeted band. This sequencing of inflation over growth was reiterated by the governor in the press conference.

RBI also decided to introduce the SDF as the floor of the LAF corridor, The SDF rate will be 25 bps below the policy rate, and it will be applicable to overnight deposits at this stage. The MSF rate will continue to be 25 bps above the policy repo rate. Thus, the width of the LAF corridor is restored to the pre-pandemic configuration of 50 bps, symmetrically around the policy repo rate, which will be at the center of the corridor. The governor also mentioned that it will engage in gradual and calibrated withdrawal of liquidity over a multiyear timeframe in a non-disruptive manner and will ensure that liquidity remains adequate to meet productive needs of the economy. RBI also mentioned that it will remain focused on completion of borrowing programme of the government and will deploy various instruments as warranted.

HSBC Asset Management

RBI also decided to enhance the present limit under Held to Maturity (HTM) category from 22 percent to 23 per cent of NDTL till March 31, 2023. The HTM limits would be restored from 23% to 19.5% in a faced manner from quarter ended June 30, 2023.

Growth outlook – Geopolitical tensions, supply side situation and weak demand pose risks

RBI noted that the global economic and financial environment has worsened with the escalation of geopolitical conflict and accompanying sanctions. Commodity prices have shot up substantially across the board amidst heightened volatility, with adverse fallouts on net commodity importers. Supply chain pressures are rising again. Several global central banks, especially systemic ones, continue to be on the path of normalization and tightening of monetary policy stance. Thus overall, the global; economy faces major headwinds on several fronts. Domestically, high frequency indicators exhibit signs of recovery with the fast ebbing of the third wave. However, the picture remains mixed with urban demand rebounding while indicators of rural demand remaining muted. Going forward, good prospects of rabi output augur well for rural demand. With the ebbing of the third wave and expanding vaccination coverage, the pick-up in contact-intensive services and urban demand is expected to be sustained. The government's thrust on capital expenditure coupled with initiatives such as the production linked incentive (PLI) scheme should bolster private investment activity, amidst improving capacity utilization. Surge in international crude oil and other commodity prices, tightening of global financial conditions, persistence of supply-side disruptions and significantly weaker external demand pose downside risks to the outlook. Overall, real GDP growth for 2022-23 is now projected at 7.2 per cent (as compared to projection of 7.8% in the previous policy)

RBI's GDP estimates		
Period	**Current estimates**	**Previous estimates**
Q1 FY23	16.2%	17.2%
Q2 FY23	6.3%	7.0%
Q3 FY 23	4.1%	4.3%
Q4 FY 23	4.0%	4.5%
FY 23 (full year)	7.2%	7.8%

Outlook on inflation – Revised upwards sharply by 120 bps for FY 23

International crude oil prices remain volatile and elevated, with considerable uncertainties surrounding global supplies. With the broad-based surge in prices of key industrial inputs and global supply chain disruptions, input cost push pressures appear likely to persist for longer than expected earlier. While RBI notes that their pass-through to retail prices is limited given the slack in the economy, this would need to be carefully monitored in RBI's opinion. Overall RBI raised inflation projection to 5.7 per cent in 2022-23 v/s 4.5% estimated in the previous policy with an increase of ~80-140 bps across various quarters. Inflation in Q1 is projected at 6.3 per cent; Q2 at 5.8 per cent; Q3 at 5.4 per cent; and Q4 at 5.1 per cent

FY22 CPI estimate at 5.7%		
Period	**Current estimates**	**Previous estimates**
Q1 FY23	6.3%	4.9%
Q2 FY23	5.8%	5.0%
Q3 FY 23	5.4%	4.0%
Q4 FY 23	5.1%	4.2%
FY 23 (full year)	5.7%	4.5%

Growth versus inflation: The sequencing moves in favor of prioritizing controlling inflation

The governor mentioned in his remarks that the Indian economy with all instruments at its command and that goals of price stability, sustained growth and financial stability are mutually reinforcing. The governor noted the sequencing of these objectives, indicating that the priority has moved now towards controlling inflation. The calibration of stance by RBI and introduction of SDF at a rate of 3.75% indicate that the RBI is moving in a gradual manner from the accommodative stance with the focus now moving in favor of controlling inflation.

Liquidity measures:

- RBI intends to continue with its approach of using variable rate reverse repo (VRRR) auctions of varying maturities to absorb liquidity, and variable rate repo (VRR) auctions to meet transient liquidity shortages and offset mismatches, whenever required.
- The standing deposit facility (SDF) rate, which has now been introduced, will now be the floor of the LAF corridor and at 3.75 per cent.
- The SDF rate will be 25 bps below the policy rate, and it will be applicable to overnight deposits at this stage. It would, however, retain the flexibility to absorb liquidity of longer tenors as and when the need arises, with appropriate pricing.
- The fixed rate reverse repo (FRRR) rate is retained at 3.35 per cent. It will remain as part of RBI's toolkit and its operation will be at the discretion of the RBI for purposes specified from time to time. The FRRR along with the SDF will impart flexibility to the RBI's liquidity management framework.

Other measures

Increase in HTM limits for FY 23: With a view to enable banks to better manage their investment portfolio during 2022-23, RBI decided to enhance the present limit under Held to Maturity (HTM) category from 22 percent to 23 per cent of NDTL till March 31, 2023. It has also been decided to allow banks to include eligible SLR securities acquired between April 1, 2022 and March 31, 2023 under this enhanced limit. The HTM limits would be restored from 23 per cent to 19.5 per cent in a phased manner starting from the quarter ending June 30, 2023.

Continuation of housing loan risk weights dispensation: The risk weights for individual housing loans were rationalized by RBI in October 2020 by linking them only with loan to value (LTV) ratios for all new housing loans sanctioned up to March 31, 2022. Recognizing the importance of the housing sector, RBI has extended these guidelines till March 31, 2023 to facilitate higher credit flow for individual housing loans.

Outlook: Calibration of the policy stance given upside risks to inflation

The MPC is of the view that since the February meeting, the ratcheting up of geopolitical tensions, generalized hardening of global commodity prices, the likelihood of prolonged supply chain disruptions, dislocations in trade and capital flows, divergent monetary policy responses and volatility in global financial markets are imparting sizeable upside risks to the inflation trajectory and downside risks to domestic growth. While RBI continues to focus on sustaining growth and ensuring financial stability, the priority is now towards ensuring inflation remains within the target. Hence while RBI has retained the repo and reverse repo rates at current levels, it has calibrated its policy stance and the introduction of SDF at a rate of 3.75% will lead to a de-facto increase in market linked rates at the shorter end of the curve.

Going Forward

Although RBI has kept rates unchanged, the introduction of SDF rates and re-wording of the policy stance indicate a move towards withdrawing the accommodation provided during the pandemic in a calibrated manner. The focus has now moved towards inflation and the increase in inflation projections by RBI for FY 23 indicates that it believes inflation will take time to normalize from current levels. As a result, going forward, RBI policy steps and stance are expected to focus firmly on controlling inflation. The introduction of the SDF at a rate of 3.75% also points to a de-facto tightening of financial conditions, as this will influence the rates at the overnight and shorter end of the curve

While there was no explicit mention of open market operations (OMO) purchases, the governor mentioned that RBI remains focused on completion of borrowing programme of the government and will deploy various instruments as warranted and the increase in HTM limits is also expected to be positive at the margin in correcting the demand-supply mismatch for government securities, given the heavy borrowing programme.

Post the RBI policy, 10 yr yields moved higher by 15 bps and is currently trading at ~7.06 levels. Shorter end of the curve. 3 to 5 yr segment saw a rise in yields by 20-25 bps; thus there has been a mild bear flattening of the curve. Similarly, the 1-2 yr part of the corporate curve has also inched up by 15-20 bps

Despite the bear flattening witnessed immediately post policy, the short to medium tenors still offer the best risk – reward at the juncture. As H1 FY 23 bond supply gets absorbed by the market, the pressure on the longer end of the curve is likely to remain at least in the near term, in the absence of any immediate support from RBI in the form of OMOs etc. The longer tenors may also be subject to higher volatility from global rates and movement in crude oil prices versus the medium tenors. The steepness in the curve offers attractive carry in the short to medium segment which could compensate for some amount of adverse movement on the yield curve.

Fund positioning

Overnight to Money Market rates (up to 1 year) - Neutral positioning on Duration

HSBC Overnight Fund, HSBC Cash Fund, HSBC Ultra Short Duration Fund and HSBC Low Duration Fund are focused on different segments of money market curve. The entire Money-market curve is centric to the overnight funding cost. The overnight funding cost should move above the SDF rate of 3.75% going forward There could be bouts of volatility as RBI continues the process of liquidity normalization; however, the steepness in the curve remains from the overnight rate to the 1-2 yr segment, offering attractive opportunity in terms of carry and roll-down.

The overnight fund predominantly invests in overnight asset. With a focus on accrual we intend to keep a neutral duration in the cash fund. The strategy in the Ultra Short duration is also to maintain neutral duration eying accrual while a similar neutral duration stance is maintained in Low Duration fund, given steepness in the yield curve up to 2 years.

Short duration to medium term duration - Underweight duration

From medium term perspective, HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion) is expected to benefit from attractive carry at short and medium part of the curve. It offers value for investors at current short-term yields over funding cost in terms of spread.

We like the short-medium part of Government securities curve as current three years point over one year and 4-6 yr point over 1-3 year offers attractive risk-return tradeoffs. The extent of supply on account of increased borrowings in FY 23 is likely to be largely towards the duration segment. Absence of OMOs will also impact the longer end of the curve rather than the short to medium part of the curve, which will benefit from attractive carry and roll-down going forward.

On the corporate curve, while the spreads are lower, the steepness remains in the curve from the money market segment to the 2 yr part of the curve and also between the 2 yr to 4 yr part of the curve. Within this, we prefer the 18m to 2 yr part of the curve, which offers attractive risk-return trade-off as the steepness in the curve is attractive and hence compensates to some extent in case of any adverse movement in yields at the ultra-short end of the curve. As such, we continue to be positioned with an underweight in terms of duration in these funds (HSBC Short Duration Fund & HSBC Corporate Bond Fund & HSBC Equity Hybrid Fund (debt portion))

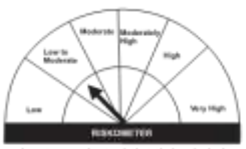
Long bonds (HSBC Flexi Debt Fund, HSBC Debt Fund, HSBC Regular Savings Fund)- Underweight duration)

Yields at the longer end of the curve have inched upwards given the movement in global bond yields and rise in crude and commodity prices over the last 1 to 2 months. Absorption of heavy bond supply in H1 FY 23 will continue to exercise upward pressure on yields, especially in the absence of open market operation (OMO) purchases from RBI. On the whole we expect the longer end to trade with a negative bias given these circumstances. However, at the same time, RBI is likely to prevent a disorderly move upward in yields and could support markets in the event of any stresses.

As such, we intend to position with an underweight stance in the long bond portfolios versus the index and intend to take advantage tactically of any opportunities that may arise on the longer end of the curve depending on market conditions.

Riskomotor

HSBC Cash Fund



Investors understand that their principal will be from Low to Moderate risk

Liquid Fund - An Open Ended Liquid Scheme. Relatively low interest rate risk and relatively low credit risk.

This product is suitable for investors who are seeking##:

- Overnight Liquidity over short term.
- Invests in Money Market Instruments.

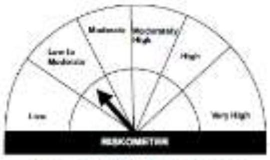
##Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark: CRISIL Liquid Fund Index

Riskometer

HSBC Ultra Short Duration Fund



Investors understand that their principal will be from Low to Moderate risk

Ultra Short Duration Fund – An Open Ended Ultra Short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and relatively low credit risk.

This product is suitable for investors who are seeking#:

- Income over short term with Low volatility.
- Investment in debt & money market instruments such that the Macaulay Duration of the portfolio is between 3 months - 6 months.

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

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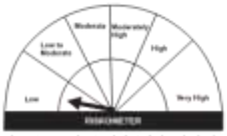
Benchmark:
CRISIL Ultra Short Term Debt Index

Riskomotor

HSBC Overnight Fund



Investors understand that their principal will be at Low risk

Overnight Fund- An open ended debt scheme investing in overnight securities. Relatively low interest rate risk and relatively low credit risk.

This product is suitable for investors who are seeking##:

- Income over short term and high liquidity
- Investment in debt & money market instruments with overnight maturity.

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

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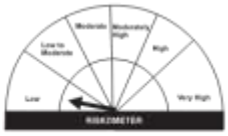
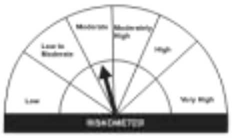
Benchmark: CRISIL Overnight Index



Scheme Name	PRC Matrix			
HSBC Overnight Fund HSBC Cash Fund HSBC Ultra 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)	**AI**		
	Moderate (Class II)			
	Relatively High (Class III)			

Riskomotor

HSBC Debt Fund



Investors understand that their principal will be at Moderate risk

Medium to Long Duration Fund - An open ended Medium to Long Term Debt Scheme investing in instruments such that the Macaulay ^duration of the portfolio is between 4 years to 7 years. Relatively high interest rate risk and moderate credit risk.

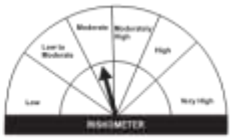
This product is suitable for investors who are seeking##:

- Regular Income over long term
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 4 years to 7 years.

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

Please note that the above risk-o-meter is as per the product labelling of the Scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.

Benchmark:
CRISIL Composite Bond Fund Index

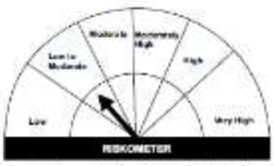


Scheme Name	PRC Matrix
HSBC Debt Fund	**Potential Risk Class**

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

Riskometer

HSBC Low Duration Fund



Investors understand that their principal will be from Low to Moderate risk

Low Duration Fund - An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Relatively low interest rate risk and moderate credit risk.

This product is suitable for investors who are seeking##:

- Liquidity over short term.
- Investment in debt and money market instruments such that the Macaulay^ duration of the portfolio is between 6 months to 12 months.

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

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Benchmark:
CRISIL Low Duration Debt Index

Scheme Name	PRC Matrix
HSBC Low Duration Fund	**Potential Risk Class**

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

Riskometer

HSBC Short Duration Fund

Investors understand that their principal will be from Low to Moderate risk

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. Please refer Page no. 9 of the SID for explanation on Macaulay duration. Moderate interest rate risk and moderate credit risk.

This product is suitable for investors who are seeking##:

- Regular Income over Medium term
- Investment in diversified portfolio of fixed income securities such that the Macaulay^ duration of the portfolio is between 1 year to 3 years.

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

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Benchmark:
CRISIL Short Term Bond Index

Scheme Name	PRC Matrix
HSBC Short Duration Fund	

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

Riskomotor

HSBC Flexi Debt Fund

Investors understand that their principal will be at Moderate risk

Dynamic Bond Fund - An open ended Dynamic Debt Scheme investing across duration. Relatively high interest rate risk and relatively low credit risk.

This product is suitable for investors who are seeking:**

- Regular Income over long term
- Investment in Debt / Money Market Instruments.

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

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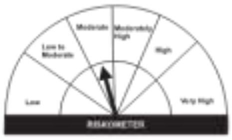
Benchmark: CRISIL Composite Bond Fund Index

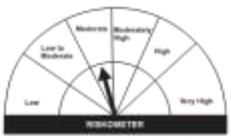


HSBC Flexi Debt Fund

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

Riskomotor

HSBC Corporate Bond Fund



Investors understand that their principal will be at Moderate risk

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

This product is suitable for investors who are seeking:**

- Income over medium term.
- Investment predominantly in corporate bond securities rated AA+ and above.

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

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Benchmark: NIFTY Corporate Bond Index

HSBC Corporate Bond Fund

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

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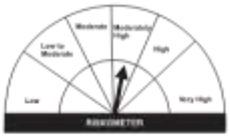
<td>HSBC Regular Savings Fund

Investors understand that their principal will be at Moderately High risk</td>
<td>Conservative Hybrid Fund- An open ended Hybrid Scheme investing predominantly in debt instruments.
This product is suitable for investors who are seeking**:
• Capital appreciation over medium to long term.
• Investment in fixed income (debt and money market instruments) as well as equity and equity related securities.
**Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

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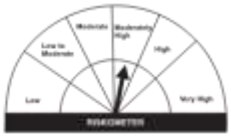
<td>Benchmark:
CRISIL Hybrid 85+15 - Conservative Index)
</td>
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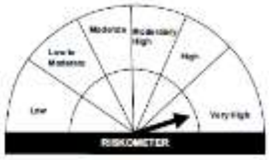
<tr><th colspan="3">Riskometer</th></tr>
<tr>
<td>HSBC Equity Hybrid Fund

Investors understand that their principal will be at Very High risk</td>
<td>Aggressive Hybrid Fund – An open ended hybrid scheme investing predominantly in equity and equity related instruments.
This product is suitable for investors who are seeking#:
• To create wealth over long term
• Investment in predominantly small cap equity and equity related securities
#Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

Please note that the above risk-o-meter is as per the product labelling of the scheme available as on the date of this communication/ disclosure. As per SEBI circular dated October 5, 2020 on product labelling (as amended from time to time), risk-o-meter will be calculated on a monthly basis based on the risk value of the scheme portfolio based on the methodology specified by SEBI in the above stated circular. The AMC shall disclose the risk-o-meter along with portfolio disclosure for all their schemes on their respective website and on AMFI website within 10 days from the close of each month. Any change in risk-o-meter shall be communicated by way of Notice cum Addendum and by way of an e-mail or SMS to unitholders of that particular Scheme.</td>
<td>Benchmark: CRISIL Hybrid 35+65 - Aggressive Fund Index
</td>
</tr>
</table>

Note: Potential Risk Class ('PRC') matrix indicates the maximum interest rate risk (measured by Macaulay Duration of the scheme) and maximum credit risk (measured by Credit Risk Value of the scheme) the fund manager can take in the scheme. PRC matrix classification is done in accordance with and subject to the methodology/guidelines prescribed by SEBI to help investors take informed decision based on the maximum interest rate risk and maximum credit risk the fund manager can take in the scheme, as depicted in the PRC matrix.

Source: RBI policy announcement, HSBC Asset Management, India (HSBC AMC) Data as at 8 April '21 unless otherwise given. ^ Please refer to the page number 9 of the Offer Document on which the concept of Macaulay's Duration has been explained

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