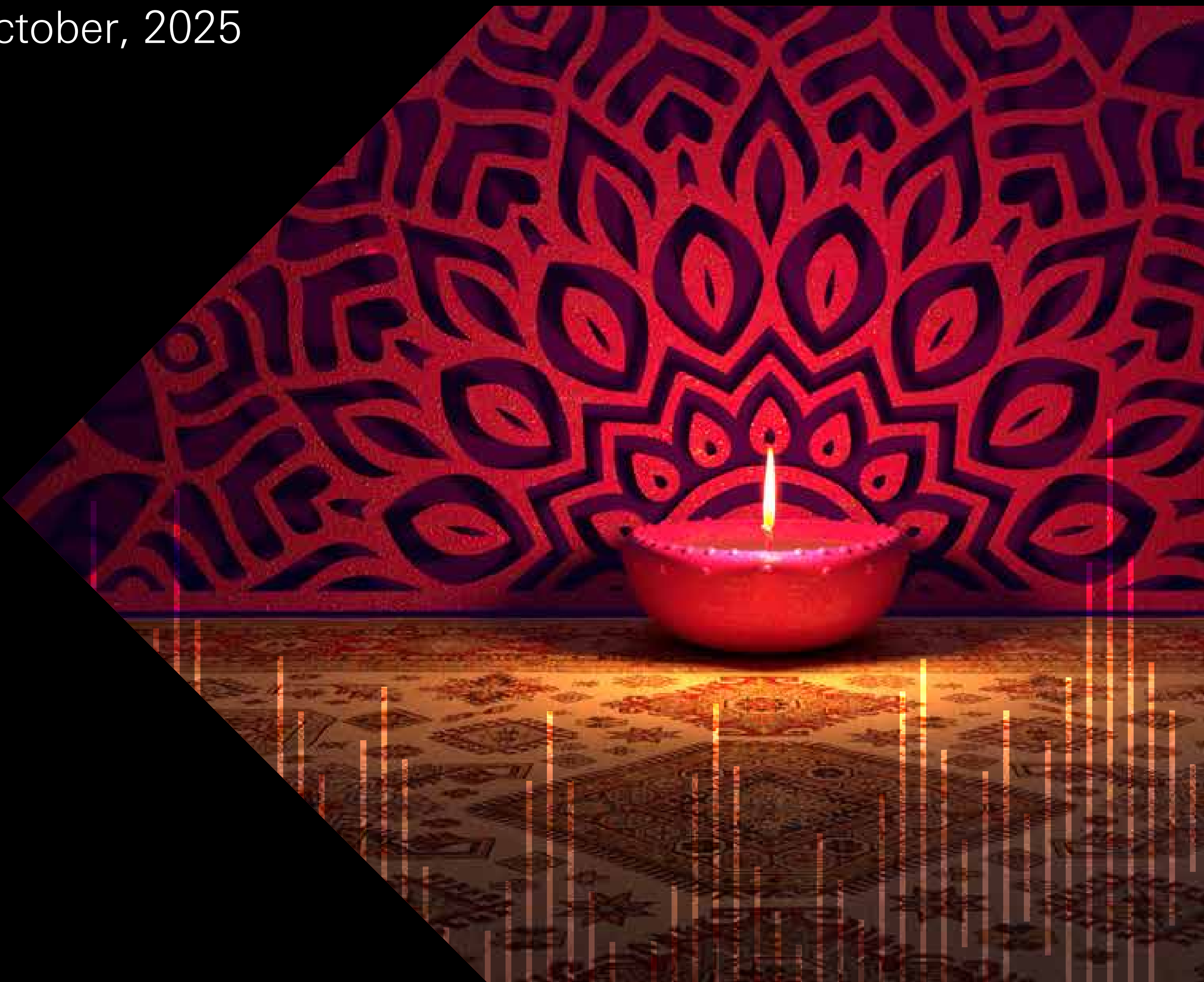
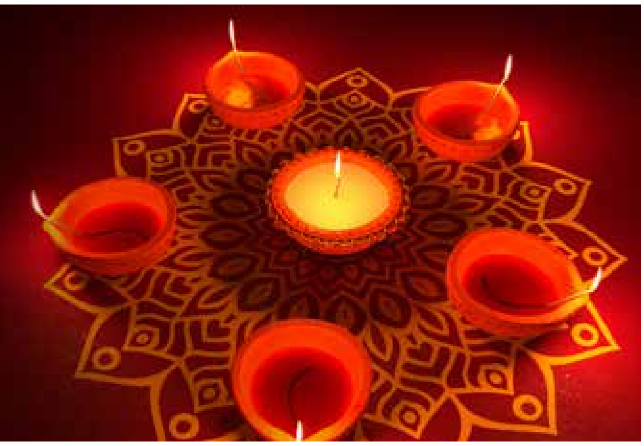
HSBC Mutual Fund

Diwali merriment buoyed markets sentiment

October, 2025



Amidst all the murkiness around trade tariffs and geopolitical developments, US-India trade deal optimism, the goods & services tax rate reductions in the run-up to the Diwali season & October month lit-up animal spirits.



Foreign investors returned with total inflows of US$ 4bn in October. Some of the lead indicators too suggest that the economic momentum gained traction around the festival season. While the currency saw sharp volatility forcing aggressive Reserve Bank of India (RBI) FX interventions, the depreciation bias is persisting following the dollar strength and likely increased importer demand. The US-India trade deal is closely watched with the optimism of reaching a deal by end-CY25. RBI's aggressive FX intervention along with increased currency demand & monthly GST collections further tightened domestic system liquidity. Following the tight liquidity conditions, money market rates hardened during Oct, however, overnight rates remained well within the policy corridor. The tight liquidity conditions have increased market expectations of liquidity infusion by way of OMO Purchases as the benefits of CRR cuts have been offset by the recent liquidity leakage.

Globally, the US govt. remained in the shutdown phase and the US Fed delivered a hawkish cut at the October policy; lowering the Federal Funds Rate (FDTR) by 25bps to 3.75-4.00%. The US Fed also ended with its quantitative tightening (QT). While the policy decision was on expected lines, the US Fed Chair at the press conference indicated that the December rate cut is far from a done deal which led to repricing of rate cut expectations – pushing yields and dollar index higher. In other parts of the world, the ECB & BoJ held rates steady and took a data dependent approach to policy action.

Our Take:

The US-India trade deal talks have built up expectations of lower tariff rates which could limit the downside to India's economic growth. The upside to growth has led to a scale back in expectations of a December rate cut by the RBI MPC. However, given the inflation outlook and the uncertainty around growth, we see increased likelihood of a 25bps rate cut on 5th December. Before the MPC meet, we will have some key macro data releases viz. November CPI inflation, trade deficit, GDP growth and GST collections and the likes. These numbers will be closely watched, esp. the GDP figures. Having said that, the markets have been focused on FX intervention and subsequently the liquidity conditions – so far liquidity as per cent of NDTL is just about 0% vs the indicated/expected levels of 1% anticipated to sustain a few months ago. Despite the CRR cuts, the system liquidity is tight and following November's two-remaining tranches of the CRR cuts of 25bps each on 3rd Nov and 29th Nov are expected to ease liquidity tightness. The expectations of OMO Purchases have gone up, however, for the next few weeks monetary data holds key to assess if the RBI would deploy that policy tool.

Fund positioning

While we believe that the easing cycle is not over yet and that the room to cut may open depending on the upcoming macro data, one theme that is key to look out for is the possibility of OMO purchases by RBI, depending on how liquidity pans out over the next couple of months. In case RBI does OMO purchases, the 5-10 year segment of the IGB curve may stand to benefit. Additionally, we continue to remain positive on 2-4 year corporate bonds as this segment may continue to offer favourable spreads. This we believe is the sweet spot on the corporate yield curve and spreads might compress going forward as liquidity eases. Our core positioning across our bond funds is in the 2-4 year corporate bond space along with tactical allocation to 5-10 yr IGBs. This we believe is a compelling investment opportunity in the current market backdrop.

Abbreviations:
GDP: Gross Domestic Product
CPI: Consumer Price Index
MPC: Monetary Policy Committee
RBI: Reserve Bank of India
FII: Foreign Institutional Investors
AEs: Advanced Economies
EM: Emerging Markets
OMO: Open Market Operations

Source: Bloomberg & HSBC MF Research estimates as on October 31, 2025 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.