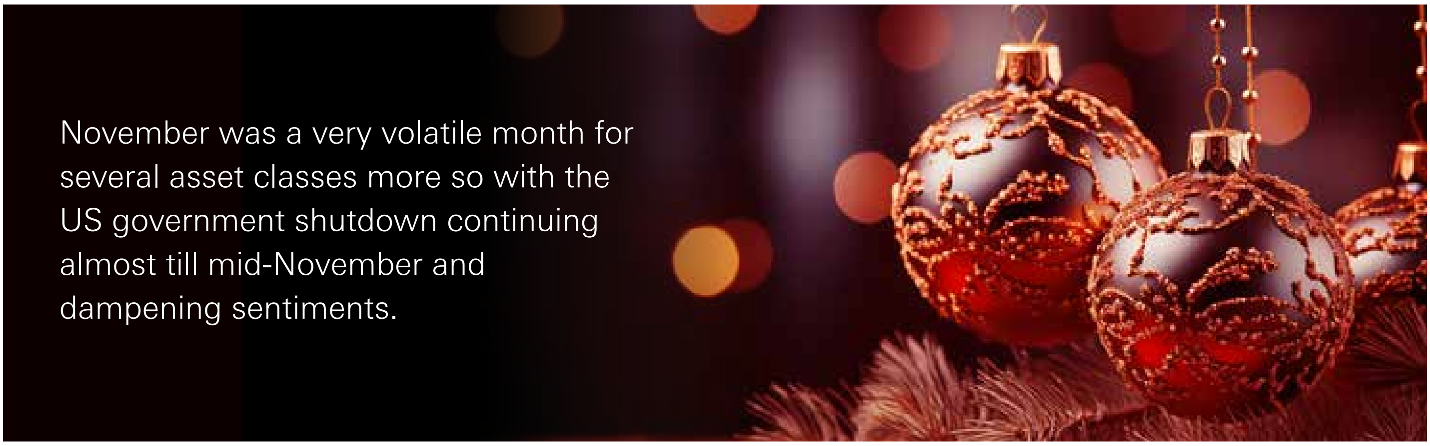
HSBC Mutual Fund

Amidst uncertainty, RBI acts decisively

November, 2025



The US private data and the US Fed Beige book indicated that the economic and jobs outlook was dimmer than envisaged in a time period where government data release was impacted due to the shutdown. In the run up to the Thanksgiving Day - US markets saw swift change in sentiment with traders re-pricing rate cut expectations by the US Fed at the December policy. This in turn softened the dollar index, US yields eased, and equity markets ended better on last trading day of November. While the US was bracing to celebrate a successful harvest (the Thanksgiving festivities), back home, India is entering a season of winter crop sowing.

While the real economy is chugging along, following end of the festivities, market participants had to steer through a volatile November, especially on the currency front. While equity and debt markets oscillated in a range in anticipation of some positive news on the US-India trade deal, currency markets struggled to hold steady despite RBI's active FX intervention. Although the lagged data for Oct'25 shows that dollar demand did spike – owing to an all-time high trade deficit and negligible capital inflows – RBI's support was evident in its increased short forward book and possible intervention in the spot market. However, by the end of Nov'25, it appears that the RBI eventually let the currency break key levels. Data would provide more insights around the currency pressures. The ripple effects of this active intervention were reflected in the shrinking surplus of system liquidity. So much that, the positive effects of the last two pending tranches of CRR cuts of 0.25% each on 1st and 29th Nov were largely offset by increased demand for cash and RBI's likely FX intervention.

In terms of debt market, the sentiments swung swiftly each week of November in response to either domestic news and data releases. An all-time low on inflation print of 0.25% YoY in Nov'25 pushed yields lower mid-Nov which further eased following RBI Governors' interview which cited scope for policy easing at the Dec'25 meet. However, the trajectory for G-Secs soon reversed. Following the GDP print of 8.2% YoY, the markets flipped and scaled back their expectations of a rate-cut. While the retailers in India were capitalizing via Black Friday discounts, the GDP data that was released on Friday, the 28th of November, in some way soured the market sentiments, putting massive discount on the G-Secs!

However, despite the skepticism, we held on to our view of the possibility of RBI MPC delivering a rate cut at the Dec'25 policy instead of waiting it out further. The 5th Dec, policy outcome is in-line with our expectations, with a couple of positive surprises like the liquidity measures which will come through by mid-Dec'25 itself.

Our Take:

Amidst all the uncertainty, RBI acted decisively on monetary policy. While the policy outcome is broadly in-line with our expectations, including our assessment on its growth-inflation outlook. Even as it remains data-driven, the policy undertone remains dovish. While the Governor stated that the MPC will take a 'policy-by-policy' approach, the two-quarter ahead growth-inflation outlook, and the current ongoing uncertainty around US-India trade deal, leaves a little more wiggle room for monetary policy to remain growth-supportive. We continue to believe that the scope for another rate cut remains alive in 1H CY26, the risk to this view emanates from the base change of key economic indicators especially CPI which will release its first print under a new base from Feb'26 and that for GDP is scheduled to be released from May'26. In the meantime, the rationalization of GST rates, benign food price levels, good monsoon are likely to keep inflation aligned to the medium-term target with near term inflation projected to settle at ~2% near the lower band of the inflation targeting framework. The growth side story too appears a bit somber especially following the obstacles to a favourable trade deal, persisting tariffs and overall, a softer Nominal GDP growth trajectory this year for FY26. On liquidity, while the last two tranches of CRR cuts did ease banking system liquidity conditions, the base money creation has been weak. The FX intervention exacerbated the drain on system liquidity. While the RBI Governor has announced the OMO Purchases to the tune of INR 1 lakh crore, we expect another INR 1.5 lakh cr of OMOs to come through in the Jan-Mar quarter. This in turn should provide a favorable technical backdrop for softer bond yields.

Fund positioning

All-in-all, today's RBI MPC outcome has come in line with our expectations of RBI easing rates, pushing the paddles on bringing in OMOs to ensure sufficient durable liquidity. Despite the various uncertainties in the lead-up to the policy, we have continued to remain constructive on duration and today's policy further reiterates our conviction. We remain positive on 8-15 year segment in IGBs which should benefit from OMO purchases, while looking at 30-40 yr segment more as a tactical call. We continue to remain underweight on SDLs in duration products given likely higher supply in Q4. We also like the 2-4 year corporate bond space which may offer attractive spreads and sufficient liquidity is likely to provide an opportunity here for capturing spread compression. This we believe is a compelling investment opportunity in the current market backdrop.

Abbreviations:
RBI: Reserve Bank of India
MPC: Monetary Policy Committee
SDF: Standing Deposit Facility
MSF: Marginal Standing Facility
CRR: Cash Reserve Ratio
OMO: Open Market Operations
GDP: Gross Domestic Product
CPI: Consumer Price Index
SDL: State Development Loans
G-Sec/IGBs: Government Securities
EMs: Emerging Markets
FX: Foreign Exchange
AEs: Advanced Economies
EM: Emerging Markets

Source: Bloomberg & HSBC MF Research estimates as on November 28, 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.

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