Repo Rate unchanged at 6.5%; RBI cuts FY24 inflation projection to 5.1%

RBI's Stance → **Withdrawal of Accommodation**

Key Highlights:

- **RBI keeps repo rate unchanged at 6.50%**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%**
- The MPC voted on **"withdrawal of accommodation"** signalling the central bank's commitment to maintain price stability
- **For FY24, retail inflation lowered to 5.1%** from earlier 5.2%
- **FY24 Real GDP growth projected at 6.5%**
- **Both the bond and the equity markets closed the day in green**

Policy Rates / Reserve Ratio	07 Apr '23	08 Jun '23	Status
CRR	4.50%	4.50%	⟷
SLR	18.00%	18.00%	⟷
SDF	6.25%	6.25%	⟷
Repo Rate	6.50%	6.50%	⟷
MSF	6.75%	6.75%	⟷
Bank rate	6.50%	6.50%	⟷
Fixed Reverse Repo Rate	3.35%	3.35%	⟷

In a scheduled policy meeting held from **June 06 to 08, 2023** amid inflation easing out, the MPC decided by a majority of 5 members out of 6 to **keep the policy repo rate unchanged to 6.5%**, with immediate effect. **The MPC voted on "withdrawal of accommodation"** to ensure that inflation remains within the target going forward, while maintaining price stability. On the liquidity side, the average system liquidity, however, is still in surplus mode and could increase as ₹2,000 bank notes get deposited in the banks.

Experts Speak on RBI Policy Outcome:

Mr. Suyash Choudhary
Head - Fixed Income, Bandhan AMC Limited

Given that liquidity conditions are likely to remain healthy over the next few months (FX seems benign and currency in circulation is in reverse, mostly from INR 2000 denomination notes coming back but also owing to seasonality), inflation will likely be above the 4% target during this period, and risks flagged are for second half of the year, this does suggest that the bar for a stance change is somewhat high for the next policy. And if that is true then it is hard to expect a rate cut in the very next policy after that. However, this doesn't necessarily mean negative things for bonds. **Volatility is likely to be contained as India's macros have improved substantially. Also, we would expect some modest rate cuts to happen over 2024. This argues for overweight quality bonds, especially in 3 - 6 years maturities in our view.**

Mr. Manish Banthia
Deputy CIO Fixed Income, ICICI Prudential Asset Management Company Limited

The MPC's decision to pause its rate hike campaign amid softer inflation print suggests that we may be in a phase of continuous pause and sideways interest rate movement. However, the MPC appears quick and ready to calibrate its stance in case of an unexpected shift in macros and/or global cues. The progress of the south west monsoon and effects of monetary tightening on the economy would also impact MPC's future policy actions. On inflation, we expect headline inflation to remain above the target owing to fluctuating food & vegetable and fuel prices due to the effects of supply cuts and progress of monsoon.

We remain watchful of cues like global central banks actions, commodity prices, energy prices and geo-political developments that may impact the overall macro environment.

Source: RBI Monetary Policy dated 8th June 2023

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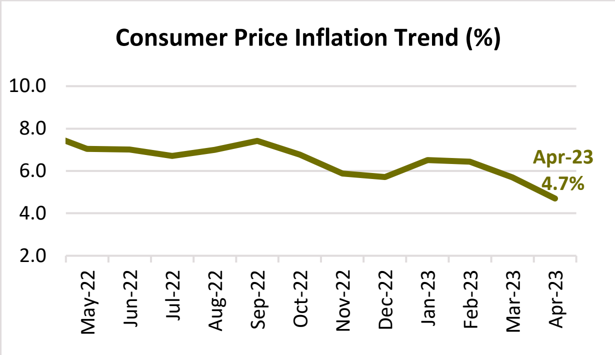
Growth Outlook:

- **Economic growth is picking up pace, with the March quarter GDP reading of 6.1%** beating economist consensus by a wide margin and signalling that the recovery is on track.
- **Current account deficit** is expected to have moderated and remain eminently manageable in FY24.
- On the **supply side**, high Rabi crop production and softening inflation should support household consumption. The manufacturing and services PMIs for India in May are among the highest in the world at 58.7 & 61.2 respectively.
- The **biggest risks** to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, weak external demand, citing delay in monsoon, El Nino impact and the trend in commodity prices going ahead.
- Considering all these factors, **real GDP growth for FY24 is projected at 6.5%.**

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Growth Projections	08-Jun-23	**6.5%**	8.0%	6.5%	6.0%	5.7%
	06-Apr-23	**6.5%**	7.8%	6.2%	6.1%	5.9%

Inflation Outlook:

- **High inflation, which has remained a key concern for policymakers, has begun cooling off in recent months**. The retail inflation rate dropped sharply for the second straight month, hitting an 18-month low of 4.7% in April, but still stays above the RBI's target of 4%.
- **There was a clear emphasis on the 4% inflation target this time, unlike the previous policies** where deliberations were focused on bringing down the target to below 6% upper band.



- The below data assumes an average **crude oil price (Indian basket) of US$ 76 per barrel.**

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24
CPI Inflation Projections	08-Jun-23	**5.1%**	4.6%	5.2%	5.4%	5.2%
	06-Apr-23	**5.2%**	5.1%	5.4%	5.4%	5.2%

Investment Approach:

Various fixed income instruments are now offering yields between 7-9% for medium to long-term tenure which is quite attractive at this juncture. Investors looking to allocate money in their fixed income allocation can consider locking higher yields at these levels.

For Core portfolio (60-70% of the entire debt portfolio), investors can consider short duration funds, Banking & PSU, Corporate Bond and Target maturity funds (matching with the average maturity of the funds and investment horizon). Along with mutual funds, good quality Corporate Fixed Deposits and Bonds can be looked at allocation in the debt portfolio for diversification and enhancing overall return. **For satellite portfolio (30-40% of the entire debt portfolio), investors can consider mutual fund categories such Medium to Long duration, Gilt & Dynamic Bond Funds as they can generate capital gains when interest rates cuts by central banks happen in future.**

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