Repo Rate unchanged at 6.5%; RBI raises FY24 inflation projection to 5.4%

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

Key Highlights:

- **MPC unanimously keeps repo rate unchanged at 6.50%**
- Cash reserve ratio **(CRR) kept unchanged at 4.50%**
- The MPC voted by majority on **"withdrawal of accommodation"**
- **For FY24, retail inflation raised to 5.4%** from earlier 5.1%
- **FY24 Real GDP growth projected at 6.5%**
- **While the bond market ended on a flat to positive note; the equity markets ended the day marginally in the red**

Policy Rates / Reserve Ratio	08 Jun '23	10 Aug '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%	↔

Experts Speak on RBI Policy Outcome:

Mr. Rajeev Radhakrishnan
CIO - Fixed Income, SBI Funds Management Ltd.

While the RBI has refrained from taking any policy actions, the **focus has clearly shifted to align liquidity conditions more consistent with the stance.** A robust outlook on FY24 growth, prospects on near term higher CPI and persistence of surplus liquidity have informed RBI's policy choices. Near term higher CPI prints are likely to be looked through on the expectation of seasonal easing later in food prices. This however **does not imply any tolerance for a persistent misalignment of CPI, both realised as well as forward estimates, from the midpoint target of 4%.** The absorption of liquidity through incremental CRR should provide a moderate uptick to short end rates and bring a more durable alignment of the effective overnight rates to the policy repo rate. Overall yields may stay in a range with a probable marginal upside directional bias in the near term.
However, the increase in FY24 CPI estimate by 30 bps is significant and needs to the watched. **Overall, any rate cut expectations need to be pushed back while recognising the outside risk of additional liquidity absorption measures and even policy actions down the line.**

Mr. Rahul Goswami
CIO & MD – India Fixed Income, Franklin Templeton

RBI kept policy rates unchanged at 6.50% and decided to remain focused on withdrawal of accommodation while ensuring inflation progressively aligns with the target while supporting growth. The RBI has reiterated its intent to remain resolute in its commitment to align inflation to the 4.00% target and anchoring inflation expectations while ensuring adequate flow of financial resources to all productive sectors of the economy.
Given the continued resilience of inflation at elevated levels, we expect RBI to continue its stance of "withdrawal of accommodation" for now. **We don't expect any rate cuts in FY24 and expect RBI to continue to be on hold, barring a growth scare, which seems a remote possibility at present. Under the circumstances, funds with a focus on accrual continue to have a good risk-reward balance. Investors with a 1-2 year horizon can continue to look at actively managed short and medium maturity funds.**

The MPC decided unanimously to **keep the policy repo rate unchanged to 6.50%. The MPC voted** by a majority of 5 out of 6 members **on "withdrawal of accommodation"** to ensure that inflation progressively aligns with the target, while supporting growth. While the pace of monetary tightening has been scaled down, **policy rates could stay higher for longer**. On the liquidity side, it has been **temporarily decided that banks will maintain incremental CRR of 10.0%,** to absorb surplus liquidity in the system due to various factors, including the deposit of ₹ 2,000 currency notes.

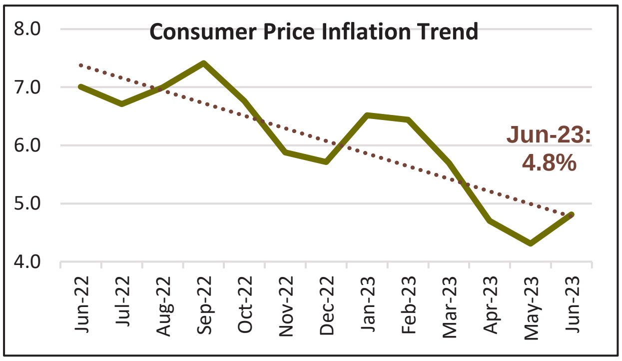
Growth Outlook:

- Indian economy has continued to grow at a reasonable pace, becoming the **fifth largest economy in the world** and **contributing around 15% to global growth.**
- On the **supply side**, crop sowing has picked up with steady progress in the south-west monsoon. Industrial activity is holding ground as reflected in the latest IIP, Core Sector growth and PMI numbers and services activity too remained buoyant.
- **Aggregate demand conditions continue to be buoyant.** Urban indicators such as domestic air passenger traffic, passenger vehicle sales and households' credit are exhibiting sustained growth and rural indicators such as tractor and fertiliser sales, agricultural credit growth and FMCG companies sales volume displayed improved numbers.
- The **biggest risks** to the outlook continue to be the headwinds emanating from protracted geopolitical tensions, weak external demand.
- Considering all these factors, **real GDP growth for FY24 is projection was retained at 6.5%.**

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Growth Projections	10-Aug-23	**6.5%**	8.0%	6.5%	6.0%	5.7%	6.6%
	08-Jun-23	**6.5%**	8.0%	6.5%	6.0%	5.7%	--

Inflation Outlook:

- **High inflation,** which has remained a key concern for policymakers, **has again temporarily been exhibiting signs of concern on the back of vegetable price shock.**
- **There has once again been 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.
- Considering all these factors, **inflation projection for the full year was revised upward to 5.4%.**



Source: RBI DBIE

	Date	FY24	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
CPI Inflation Projections	10-Aug-23	**5.4%**	4.6%*	6.2%	5.7%	5.2%	5.2%
	08-Jun-23	**5.1%**	4.6%	5.2%	5.4%	5.2%	--

* Actuals

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.**

Disclaimer

Tata Capital Financial Services Limited ("TCFSL") is registered with The Association of Mutual Funds in India as a Mutual Fund Distributor bearing ARN No.84894 and Tata Capital Wealth is a service offering by TCFSL.

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. TCFSL is not soliciting any action based upon it. Nothing in this report shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of the reader.

This report has been prepared for the general use of the clients of the TCFSL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient, you must not use or disclose the information in this report in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. TCFSL will not treat recipients as customers by virtue of their receiving this report. Neither this document nor any copy of it may be taken or transmitted into the United States (to US Persons), Canada or Japan or distributed, directly or indirectly, in the United States or Canada or distributed, or redistributed in Japan to any residents thereof. The distribution of this document in other jurisdictions may be restricted by the law applicable in the relevant jurisdictions and persons into whose possession this document comes should inform themselves about, and observe any such restrictions.

It is confirmed that, the author of this report has not received any compensation from the companies mentioned in the report in the preceding 12 months. No part of the compensation of the report creator was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this report The author, principally responsible for the preparation of this report, receives compensation based on overall revenues of TCFSL and TCFSL has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Neither TCFSL nor its directors, employees, agents, representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information contained in this report.

The report is based upon information obtained from sources believed to be reliable, but TCFSL does not make any representation or warranty that it is accurate, complete or up to date and it should not be relied upon as such. It does not have any obligation to correct or update the information or opinions in it. TCFSL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. TCFSL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations. This information is subject to change without any prior notice. TCFSL reserves at its absolute discretion the right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, TCFSL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Certain products -including those involving futures, options and other derivatives as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Before making an investment decision on the basis of this report, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Neither TCFSL nor the director or the employee of TCFSL accepts any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this report and/or further communication in relation to this report.

We and our affiliates, officers, directors, and employees worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions.

Investments in securities are subject to market risk; please read the SEBI prescribed Combined Risk Disclosure Document prior to investing. Derivatives are a sophisticated investment device. The investor is requested to take into consideration all the risk factors before actually trading in derivative contracts. Our report should not be considered as an advertisement or advice, professional or otherwise.

General Disclosure

Tata Capital Financial Services Limited ("TCFSL") is registered with the Reserve Bank of India as a Non Deposit Accepting Systemically Important Non-Banking Finance Company ("NBFC-ND-SI").

Tata Capital Financial Services Limited ("TCFSL") bearing License no. CA0076 valid till 31st Mar 2022, acts as a composite Corporate Agent for TATA AIA Life Insurance Company Limited, HDFC Life Insurance Company Limited, TATA AIG General Insurance Company Limited and New India Assurance Company Limited. Please note that, TCFSL does not underwrite the risk or act as an insurer. For more details on the risk factors, terms & conditions please read sales brochure carefully of the Insurance Company before concluding the sale. Participation to buy insurance is purely voluntary.

TCFSL is also engaged in Mutual Fund Distribution business and is registered with The Association of Mutual Funds in India ("AMFI") bearing ARN No. 84894 and Tata Capital Wealth is a service offering by TCFSL. Please note that all Mutual Fund Investments are subject to market risks, read all scheme related documents carefully before investing for full understanding and details.

TCFSL distributes:

(a) Mutual Fund Schemes of TATA Mutual Fund

(b) Life Insurance Policies of Tata AIA Life Insurance Company Limited

(c) General Insurance Policies of TATA AIG General Insurance Company Limited

TCFSL receives commission ranging from 0.00% to 2.00% p.a. from the Asset Management Companies ("AMC") towards investments in mutual funds made through TCFSL. TCFSL receives commission ranging from 0.00% to 40.00% as First year commission and renewal commission ranging from 0.00% to 5.00% on Life Insurance Policies bought through TCFSL. TCFSL receives commission ranging from 0.00% to 25.00% on General Insurance Policies bought through TCFSL. TCFSL receives commission ranging from 0.00% to 2.00% on Corporate Fixed deposit made through TCFSL.

Please note that the above commission may change from time to time and are exclusive of statutory levies like GST, Security Transaction tax, Stamp Duty, Exchange transaction charges, SEBI turnover fee etc. TCFSL does not recommend any transaction which is required to be dealt with on a Principal to Principal basis.

Registered office: 11th Floor, Tower A, Peninsula Business Park, Ganpatrao Kadam Marg, Lower Parel, Mumbai 400 013, India.