

RBI Policy- February 2023

In its first meeting of CY23, the MPC voted 4-2 to raise the Repo rate by 25 basis points to 6.5% with immediate effect. This was widely expected. However, two external members voting against the rate hike this time as against one last time. This possibly suggests growing resistance to more hikes.

The MPC also voted 4-2 to maintain the policy stance as focussed on calibrated withdrawal of accommodation. A section of market participants expected the MPC to shift to neutral stance.

The RBI governor highlighted global economic situation remaining fluid and uncertain while global inflation trending lower. He reiterated the need to remain vigilant on crude oil and key industrial commodity prices going forward for their impact on India's growth-inflation dynamic.

On growth, the RBI forecasted FY24 real GDP to grow at 6.4%. This is in line with the forecast in the latest Economic Survey but higher than market consensus. It appears that RBI is probably taking cues from the Union Budget for FY24 wherein the nominal GDP is expected to grow at 10.5%. This makes it imperative to ensure pro-growth market conditions going forward.

On inflation, the governor noted the recent decline of headline inflation by 105 bp to 5.7% and Q4FY23 average inflation being lower than RBI's previous forecast. This is good news. Building on that, RBI expects average CPI to be 5.3% in FY24. This is higher than market consensus of 5% in FY24.

Putting these two things together, we get a picture of a monetary policy aiming to support economic growth while tolerating inflation around 5.2% in H1FY24 and 5.5% in H2FY24. This probably means that the bar for the next hike, if at all, is going to be higher and will probably depend on some unanticipated material event or market development.

RBI governor also made several references to the core CPI and its sticky nature. RBI expects core CPI to remain elevated for some more time in FY24 but expects to trend lower gradually.

What does this mean for the bond market?

Benchmark 10-year government bond yield hardened a bit as the RBI governor refrained from signalling the end of the rate-hiking cycle or changing the policy stance to neutral. That apart, we believe that with today's hike RBI is close to its terminal policy rate. We expect RBI to pause here for some time before easing in CY24.

With Repo Rate anchored at 6.5%, benchmark 10-year IGB yield is expected to trade in a range of 7.25 to 7.5% in the medium-term in our view.

We expect sovereign yield curve to steepen in FY24 amid demand-supply dynamic on the long-end. Credit spreads are also expected to widen gradually in FY24 amid continued growth in credit off-take and adverse liquidity conditions in global markets for fund raising.

What should investors do?

We continue to recommend investors to focus on Target Maturity bond funds with residual maturity up to five years for attractive tax-adjusted returns. Investors with investment horizon of at least six months could also consider investing in **Edelweiss CRISIL IBX 50:50 Gilt plus SDL Short Duration Index Fund** for decent carry and high quality fixed income exposure in their portfolio.



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Riskometer & PRC Matrix:

Edelweiss CRISIL IBX 50:50 Gilt Plus SDL Short Duration Index Fund

(An open-ended debt Index Fund investing in the constituents of CRISIL IBX 50:50 Gilt Plus SDL Short Duration Index. A relatively high interest rate risk and relatively low credit risk.)

The product is suitable for investors who are seeking	Risk-o-meter of the Scheme	Risk-o-meter of the Benchmark
<ul style="list-style-type: none"> Income over long term An open-ended debt Index Fund that seeks to track the returns provided by CRISIL IBX 50:50 Gilt Plus SDL Short Duration Index, subject to tracking errors. 		
*Investors should consult their financial advisers if in doubt about whether the product is suitable for them	Investors understand that their principal will be at Moderate risk	CRISIL IBX 50:50 Gilt Plus SDL Short Duration Index

Potential Risk Class Matrix			
Credit Risk	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)
Interest Rate Risk			
Relatively Low (Class I)			
Moderate (Class II)			
Relatively High (Class III)	A III		

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY