

RBI Monetary Policy - As clear as it goes

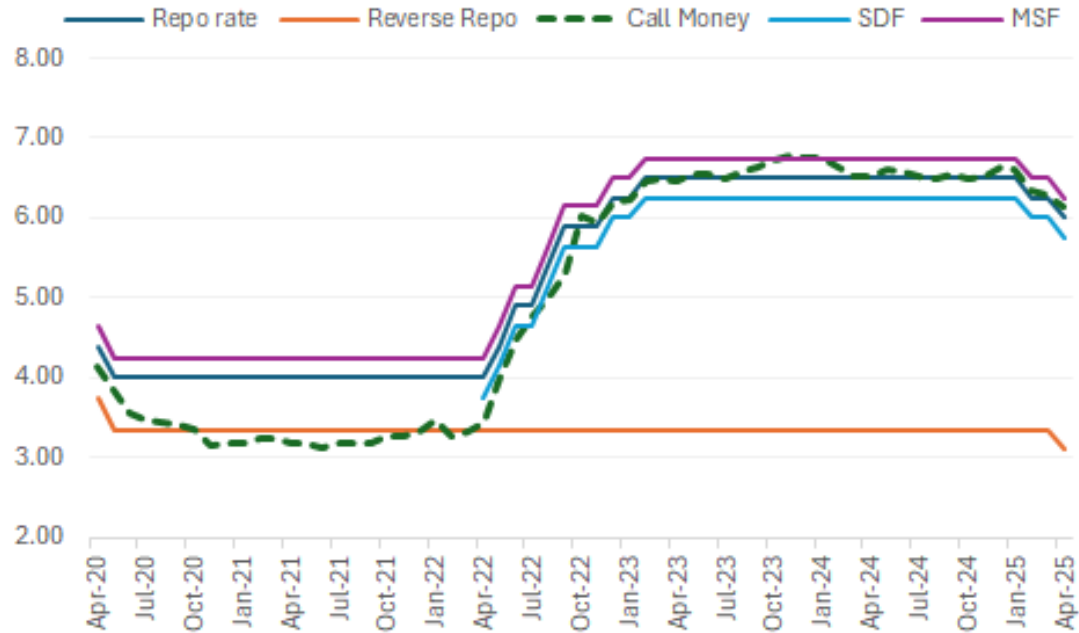
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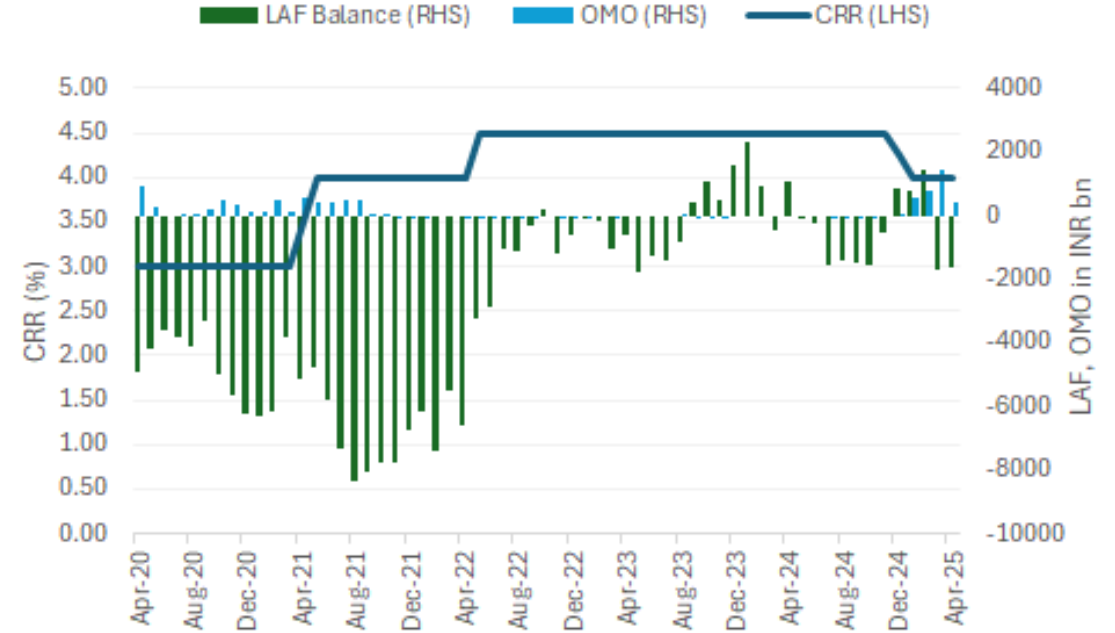
April 9, 2025

RBI cuts rates, alters stance and provides liquidity

RBI cuts rates second time in succession



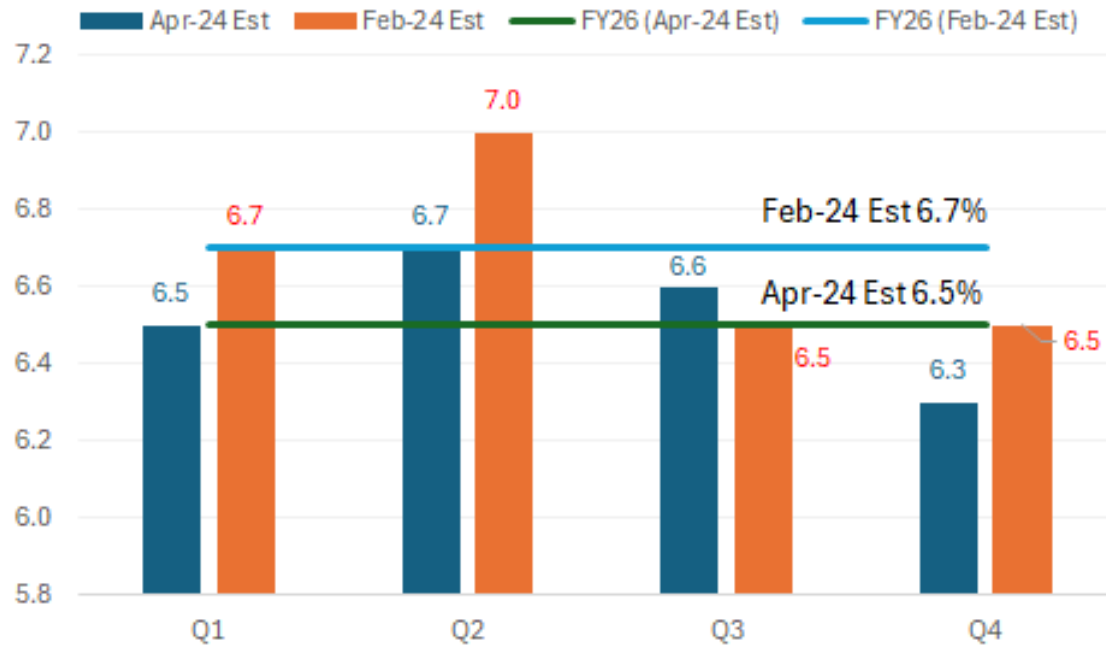
This was preceded by INR7tn liquidity injection



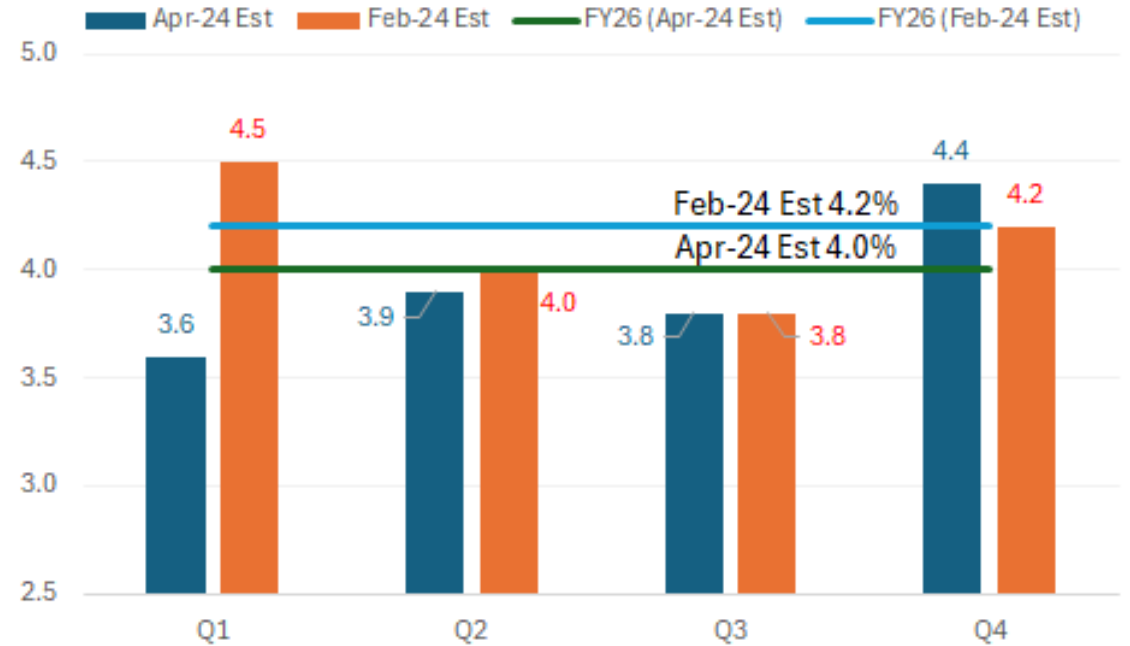
Moreover, it (MPC) also decided to change the stance from neutral to **accommodative**.

Growth, Inflation estimate cut by 20 bps

Growth estimates for FY26 cut by 20 bps



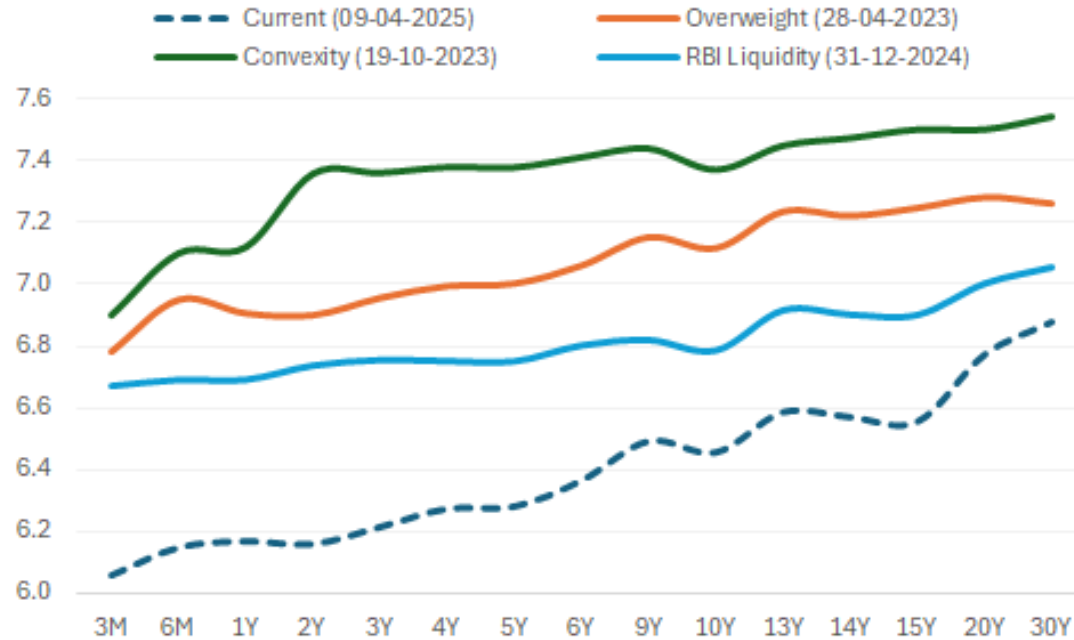
Inflation estimates for FY26 too cut by 20 bps



The risks are **evenly balanced** in case of both.

Yield curve lower and steeper resulting in increased spread

Yield curves since we went long on bond and reiterated the same



As a result of yield curve steepening, spreads increased meaningfully



- Bull steepening of the yield curve clearly visible
- Creates incrementally better value in the longer end of the curve

Future guidance and clarifications from RBI Governor:

- **Stance:** Today's change in stance from 'neutral' to 'accommodative' means that going forward, absent any shocks, the MPC is considering only two options – **status quo or a rate cut.**
- **Liquidity:** The Reserve Bank is committed to provide sufficient system liquidity.
- **Growth inflation risk:** Clear bias towards growth, more sanguine on inflation

Rate, stance, liquidity: As clear as it goes

Assessment:

- RBI has clearly switched gear in favour of an accommodative stance. The second successive rate cut comes after a liquidity injection of INR 7 tn. RBI appears keen to do whatever it takes to take the interest rates down from the current level.
- From various pronouncements made; it is clear that RBI is more worried about domestic and global growth prospects and built comfort on the domestic inflation front and noted the evenly poised inflation outlook in the global context; underplaying the role of ongoing trade and tariff war.

Investment Ideas:

- **Long bond:** Given the view on rates, which can come down further over next 6-12 months, we believe risk reward is favourable investing in 20-30 year which can provide reasonable capital gains on our base case panning out.
- **InvITs:** An alternative mode of playing long duration is through InvITs, which have long term cash flows and can benefit with lower rates.

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