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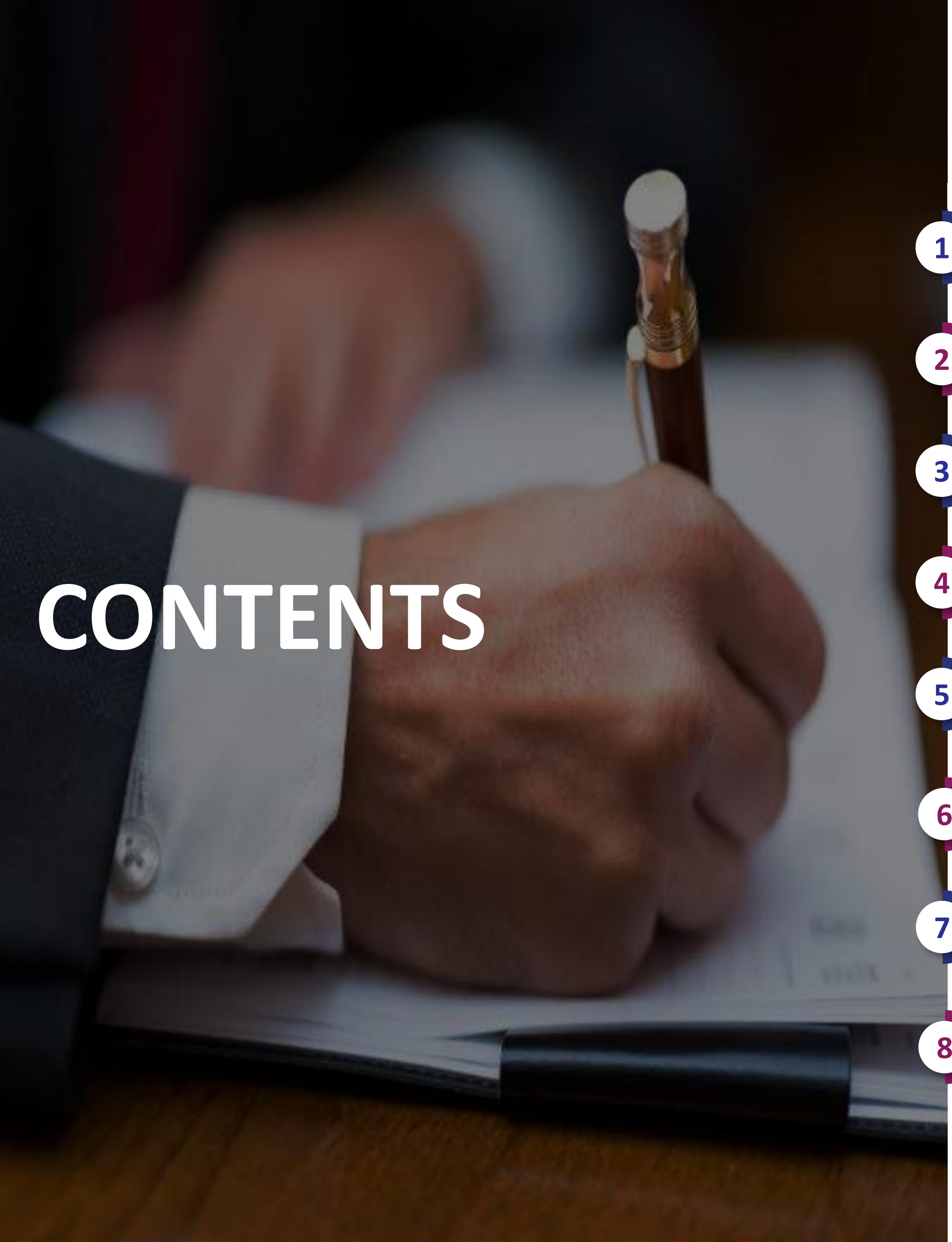
RBI MONETARY POLICY AND YIELD OUTLOOK

Risk, Rates, and the Unknown - A Bond Market Story

09 APRIL 2025



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EXECUTIVE SUMMARY (1/2)

The complexity of the world in which we live exceeds our capacity to fully comprehend it—especially in the financial realm. We often speak of risk with a sense of familiarity, yet seldom do we confront the deeper, more elusive force: uncertainty. In a bold and unconventional move, the RBI is rewriting the playbook—cutting rates even as the INR depreciates, while simultaneously stacking up a massive FX forward sales position amidst low interest rate differentials. This dual-action strategy marks a shift from tradition, signalling not just agility, but a willingness to walk the tightrope between growth support and currency stability. It's a fascinating dance of liquidity and leverage in a market where timing is everything.

RBI cuts repo rate by 25bps to 6.00% in line with market expectations, changes stance to "Accommodative"

The RBI's MPC unanimously resolved to reduce the repo rate. The stance was altered to "Accommodative" with RBI Governor stating that it signals the intended direction of policy rates going forward, i.e., barring any shocks, the MPC is considering only "status quo" or "cut" in future policy meetings. He clarified that the stance is not associated with liquidity conditions. With the RBI offering a clear trajectory for a benign rate path, and real rates high at 2% (repo – FY26 projection CPI), *we expect 50-75 bps of additional rate cuts in CY25*

Inflation concerns recede into the horizon as global commodity crash ensues

Consumer prices seem to be firmly on the path downward, with Feb'25's sub-4% print inspiring confidence. Food inflation is likely to ease on a high base, aided by record grain output. Fuel prices have remained steady through FY25, and the recent dip in Brent adds to the optimism. Core inflation appears to have bottomed out, with soft global commodity prices offering support. However, risks remain: currency depreciation, supply chain disruptions, or a spike in oil or food prices could still throw a wrench in the disinflation narrative

Tariff tantrum likely to hurt global growth, doubling down on domestic levels using comfortable fiscals essential for India

Global trade is set to slow, with the US and Europe likely heading into a downturn by end-CY25. While India's low export dependence offers resilience, global uncertainty may weigh on private capex and dampen momentum in IT services and GCCs. Still, India remains competitively placed—services remain outside tariff walls, and goods like electronics and textiles potentially benefit from a favourable differential in duties. *Domestic demand stays strong, underpinning our FY26 GDP forecast of 6.2% real and 9% nominal growth (below NSO estimates).* With fiscal consolidation on track, the government retains headroom for targeted stimulus, as already demonstrated in FY25.

EXECUTIVE SUMMARY (2/2)

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External position is manageable as multiple factors delink currency movements from yields

INR pulled back its depreciation on the back of DXY weakness, strong domestic fundamentals, and timely RBI support. *Despite this recovery, rising EM risks and volatile capital flows point to a likely trend of gradual depreciation ahead, with FII debt inflows, ECB inflows also expected to moderate from the highs seen in FY25.*

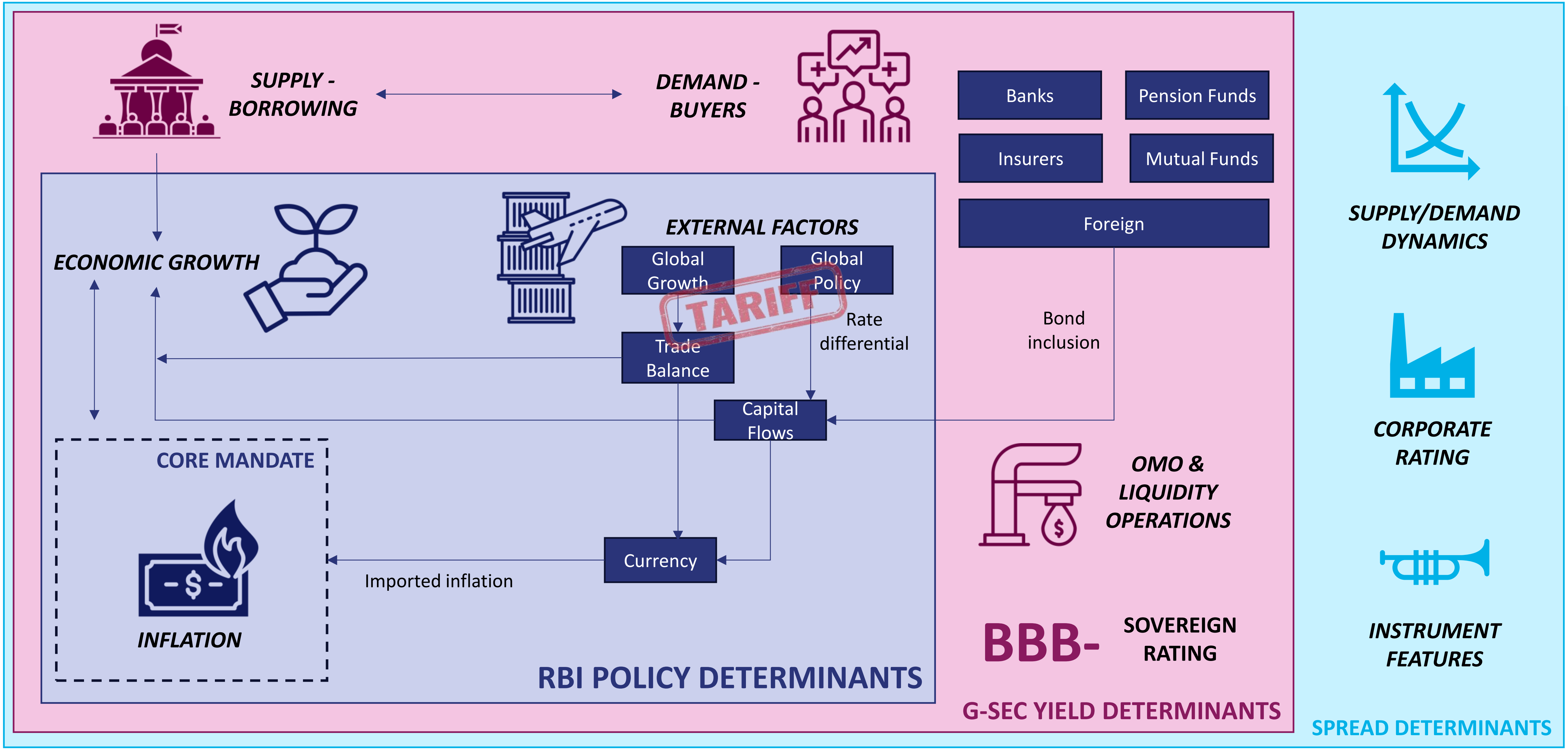
RBI unleashes its full toolkit for liquidity management, ensuring effective transmission of rates

Liquidity, in deficit for much of Q1CY25, flipped to surplus in Apr’25. This is as the RBI has undertaken substantial market interventions, with net OMO purchases of ~Rs. 2.6 trn and G-sec buybacks of Rs. 1.2 trn—among the highest historically. This sharp reversal eased funding pressures, pulling short-end rates lower, with T-bill yields and TREPS rate below the repo rate and the 10Y Union G-sec benchmark hovering ~6.50%. *While the RBI seems to have won this round, unwinding of large forward positions (which is already in progress) could pressure liquidity and the INR a bit in the near term. Further, improved liquidity, softening growth, and lower rates would lead to lower bank deposit rates from late Q1FY26*

Yield to tend downwards, with currency and liquidity acting as brake and accelerator

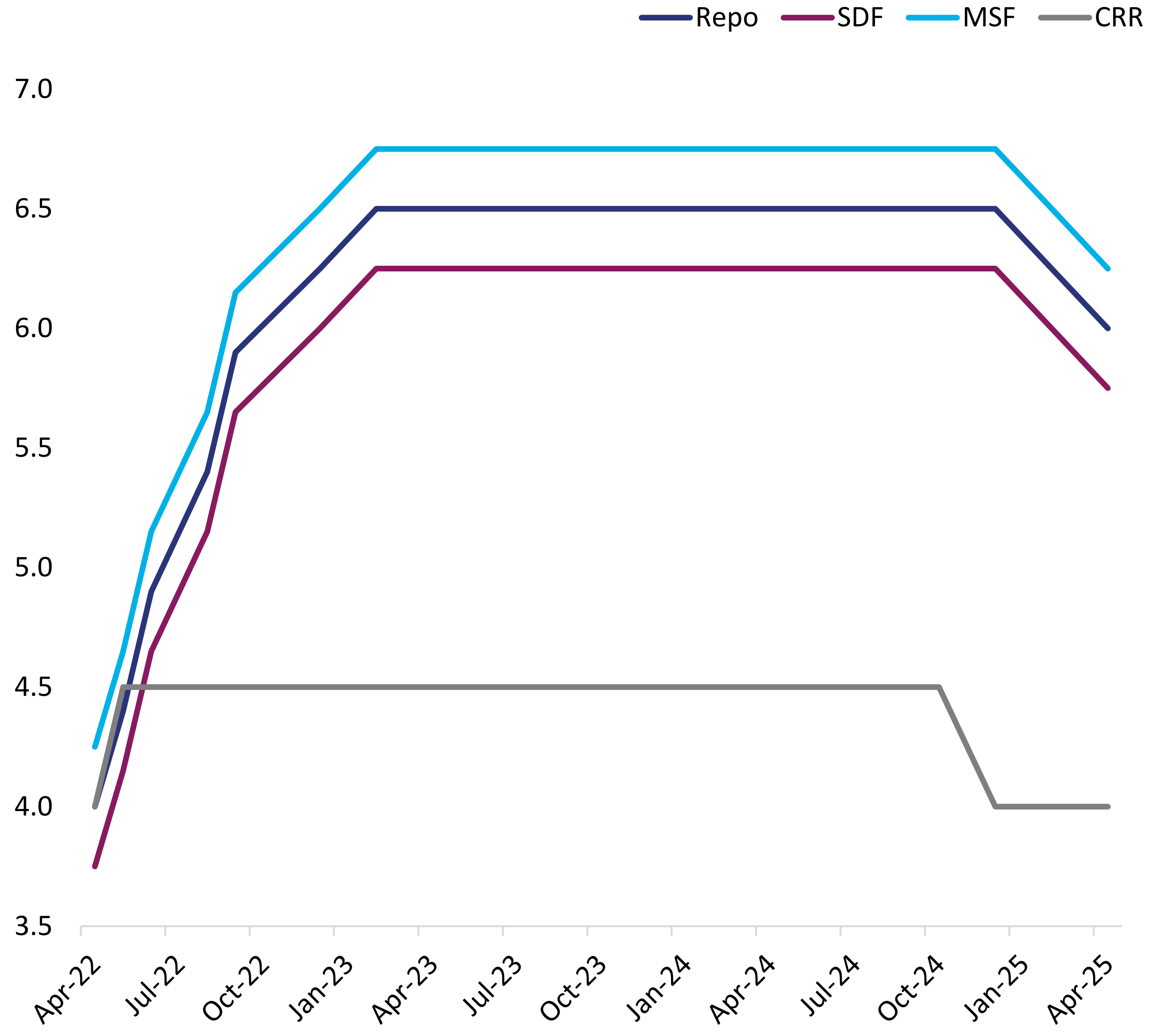
The decline in 10Y Union G-sec bond yields to ~6.50% reflects easing rate expectations, supported by surplus banking system liquidity, which has driven a sharp drop in short-term yields. With inflation moderating and growth risks persisting, the *RBI is likely to institute 50-75 bps of additional rate cuts in CY25 besides existing cuts. However, the broader outlook remains sensitive to currency volatility and the RBI’s participation through OMOs. Given the higher risk premium, credit spreads—especially for AA-rated and below bonds—may widen slightly compared to last year as investors demand higher risk premia*

RATE > YIELD > SPREADS: EXTERNAL FACTORS AND LIQUIDITY TO THE FORE



RBI CUTS KEY RATES IN LINE WITH EXPECTATIONS, CHANGES STANCE

KEY RATES (%)



STANCE OF POLICY

DATE	STANCE	VOTE
04-May-22	Remain accommodative, while focusing on withdrawal of accommodation	6-0
08-Jun-22 05-Aug-22	Withdrawal of Accommodation	6-0
30-Sep-22	Withdrawal of Accommodation	5-1
07-Dec-22 08-Feb-23	Withdrawal of Accommodation	4-2
06-Apr-23 08-Jun-23 10-Aug-23 06-Oct-23 08-Dec-23 08-Feb-24 05-Apr-24	Withdrawal of Accommodation	5-1
07-Jun-24 07-Aug-24	Withdrawal of Accommodation	4-2
09-Oct-24 05-Dec-24 07-Feb-25	Neutral	6-0
09-Apr-25	**Accomodative**	**6-0**

- The Governor declared that the stance signals the intended direction of policy rates going forward, i.e., barring any shocks, the MPC is considering only “status quo” or “cut” in future policy meetings. Also, the stance is not associated with liquidity conditions
- With the RBI offering a clear trajectory for a benign rate path, and real rates high at 2% (repo – FY26E CPI), *we expect 50-75 bps of additional rate cuts in CY25*

STATEMENT ON DEVELOPMENTAL AND REGULATORY POLICIES

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Securitisation Of Stressed Assets

Draft framework for securitization of stressed assets intends to enable a market-based mechanism for resolution of such assets, in addition to the existing ARC route

Co-Lending Framework

Recognizing the ability to sustainably meet credit needs of wider audience, RBI widened the framework for co-lending, which only covered bank-NBFC partnerships for priority sector lending. The new framework covers co-lending arrangements among all REs for all loans.

Guidelines For Lending Against Gold

Comprehensive regulations are being issued on prudential norms for loans against gold

Review Of Non Fund-Based Facilities

Revised guidelines for NFB facilities include instructions on issuance of partial credit enhancements by REs, aimed at broadening sources for infrastructure financing.

PAYMENTS SYSTEMS

Expanding UPI's Limits:

RBI has proposed that NPCI may upward revise limits for UPI transactions, with banks having the discretion to do the same for internal limits, to promote new use cases within appropriate safeguards

FINTECH

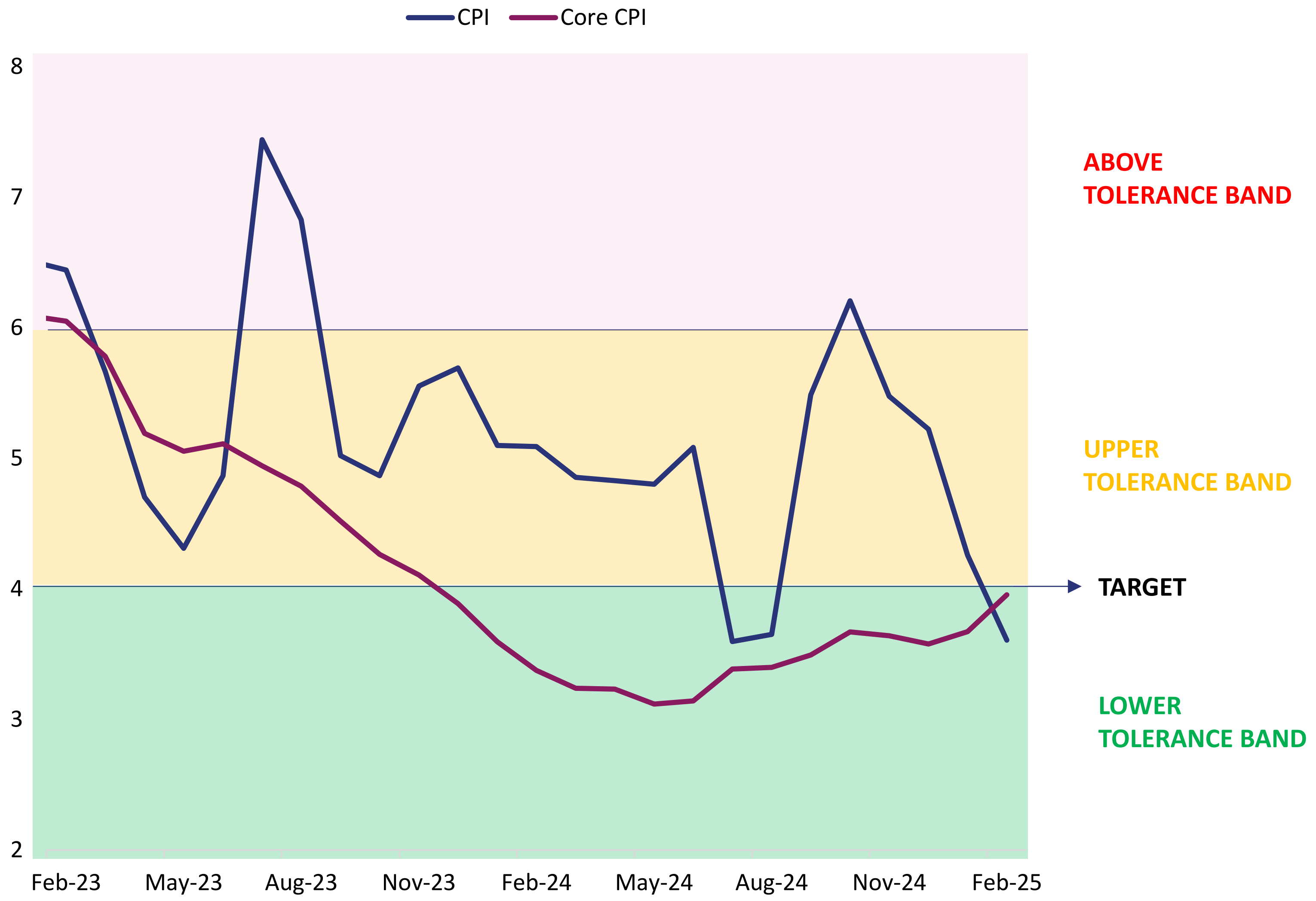
Innovation and rapidly evolving Regulation:

RBI has proposed to make the Regulatory Sandbox 'Theme Neutral' and 'On Tap', meaning any disruptive solution could be tested, if eligible, to support rapidly evolving businesses and regulatory landscapes

Source: RBI, SBICAPS

INFLATION CONCERNS RECEDE INTO THE BACKGROUND

CPI AND CORE CPI (% Y/Y)



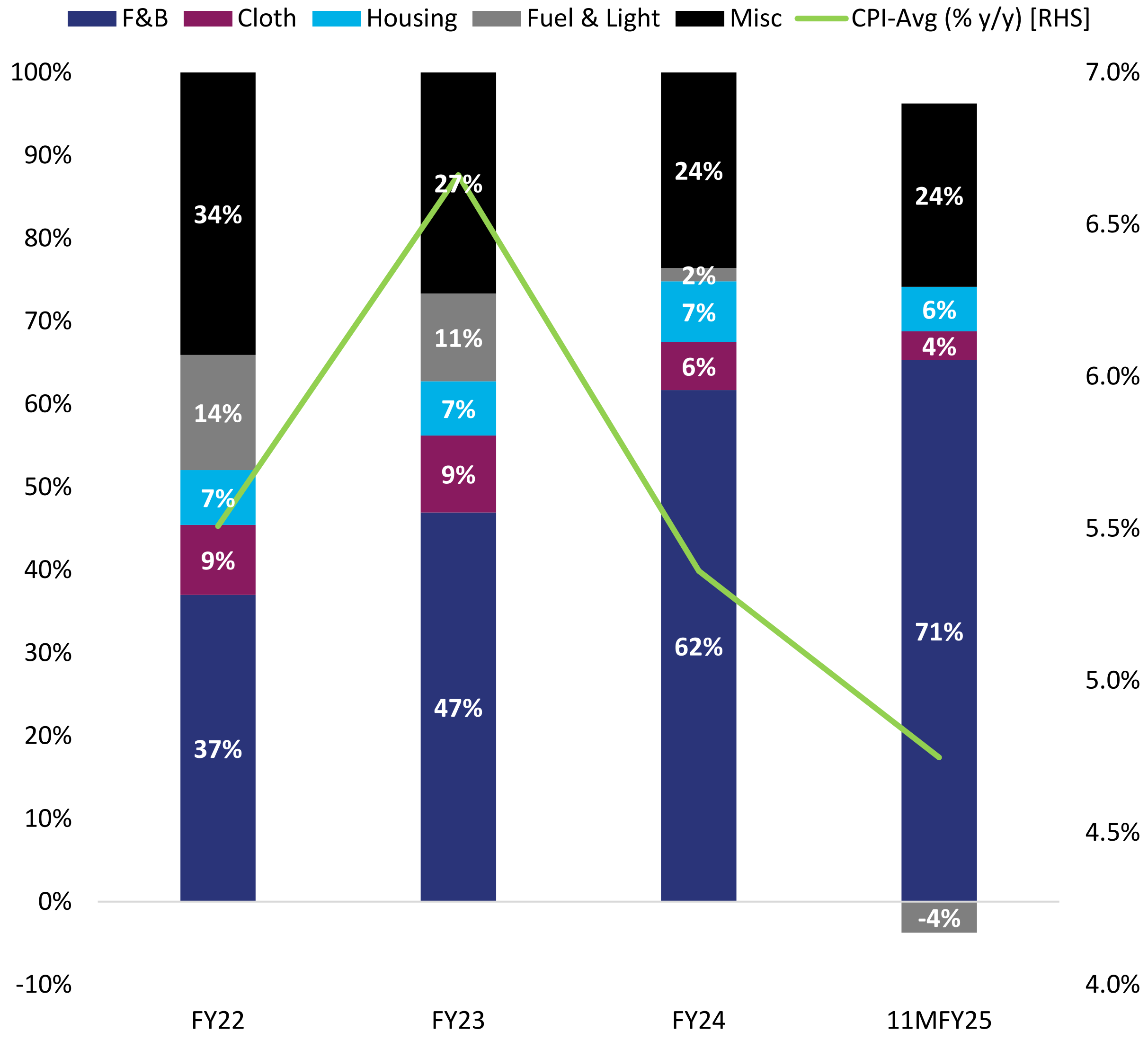
PROJECTED CPI (Y/Y) AS PER RBI

Period	07-Feb-25 Meeting	09-Apr-25 Meeting
Q1FY26	4.4%	3.6%
Q2FY26	4.0%	3.9%
Q3FY26	3.8%	3.8%
Q4FY26	4.2%	4.4%
FY26	4.2%	4.0%

- CPI inflation chimed in within the target in Feb'25 for the first time since Aug'24
- Reflecting confidence in easing prices, RBI dipped its forecast for CPI in FY26 to 4%, which is on target, with downward revisions made for 9MFY26
- Real rate remains high at 2% considering 6% repo and 4% CPI projection for FY26

SOFTER GLOBAL COMMODITY PRICES COULD AID THE DESCENT

CONTRIBUTION TO Y/Y CHANGE IN CPI (%)



CHANGE IN PRICES OF KEY COMMODITIES

COMMODITY	%1M CHANGE	%1Y CHANGE
LME Metals Index	-11%	-7%
Copper	-10%	-7%
Aluminium	-13%	-5%
Iron Ore 62% Fe*	-2%	-3%
Gold	5%	29%
Brent Crude	-13%	-31%
Natural Gas	-21%	86%
Newcastle Coal	-5%	-24%

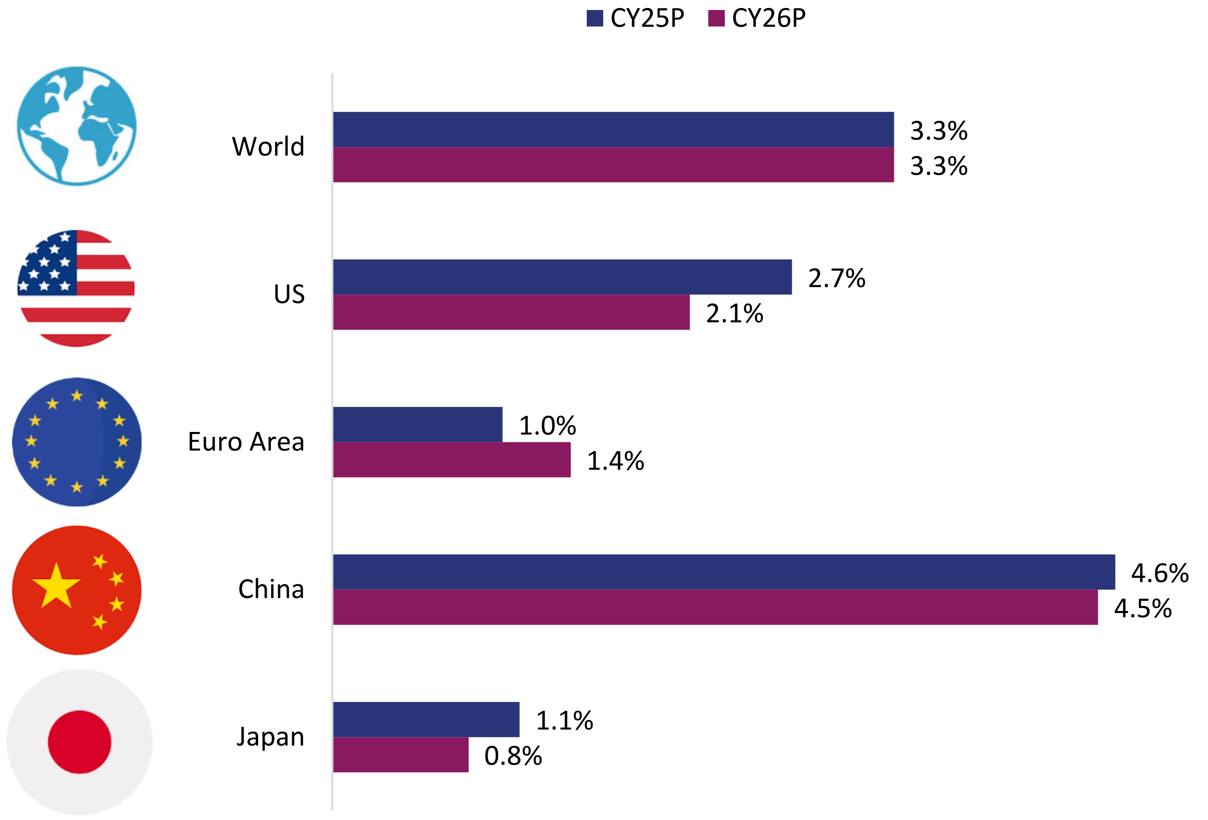
**As on 9th Apr'25*

- Food inflation's share in CPI increase was the highest in 11MFY25 in the last decade. In FY26, food inflation is likely to die down on a high base, helped by record grain production expected
- Fuel prices have also largely been disciplined throughout FY25, and recent dip in Brent prices inspires confidence. While core inflation has bottomed out, benign global commodity prices could ensure it stays near the trough.
- *We expect downward tugs on our CPI estimate for FY26, hence revise our estimate down to 4.2% y/y.* Even so, the final word on inflation is yet to be uttered, and geopolitical scuffs spiralling oil price or a sub-par monsoon impacting vegetable prices could easily play truant

Note: F&B is Food and Beverage, and includes Pan, Tobacco & Intoxicants. Similarly, Cloth includes clothing & footwear; *Source: MoSPI, Bloomberg, CEIC, SBICAPS*

GROWTH COULD BE IMPACTED BY GLOBAL GLUM

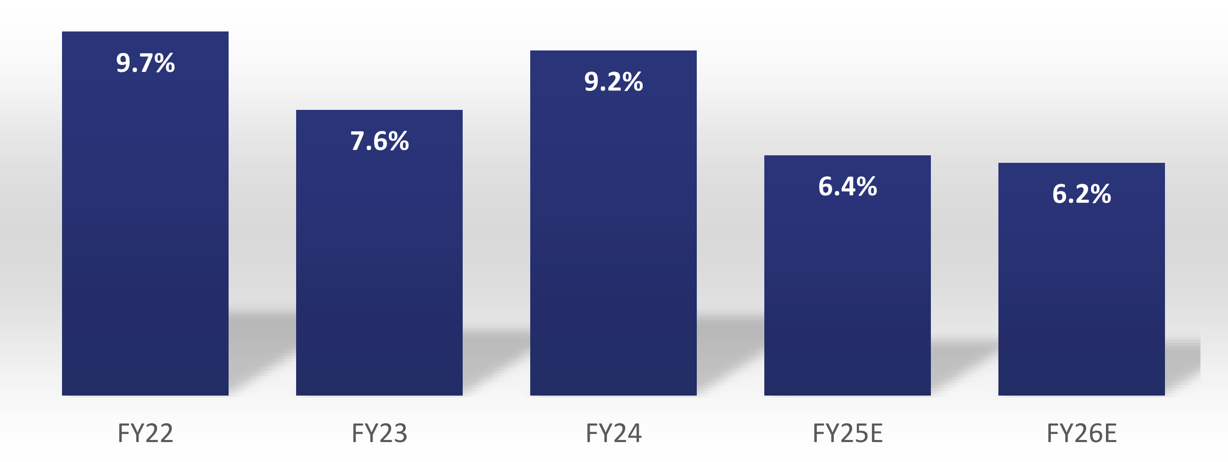
REAL GDP GROWTH (Y/Y)



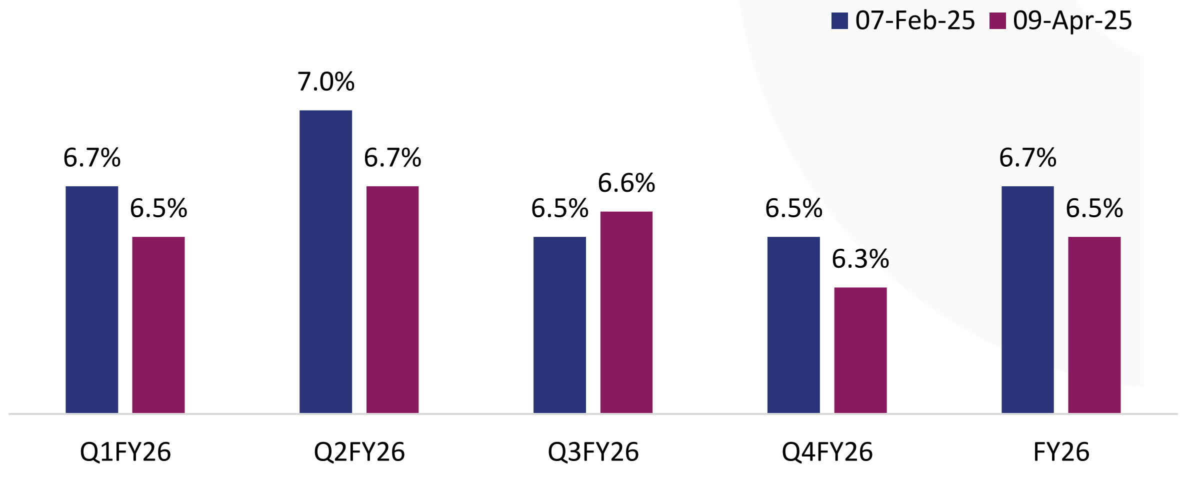
- The sudden imposition of tariffs is set to hit global GDP growth, posing significant downward risks to IMF's projections

- *Domestic demand in India stays strong, underpinning our FY26 GDP forecast of 6.2% real and 9% nominal growth (below NSO estimates and RBI projections)*

INDIA REAL GDP (Y/Y)



PROJECTED REAL GDP (Y/Y) AS PER RBI



DOMESTIC FISCAL SPACE AVAILABLE TO COUNTERACT

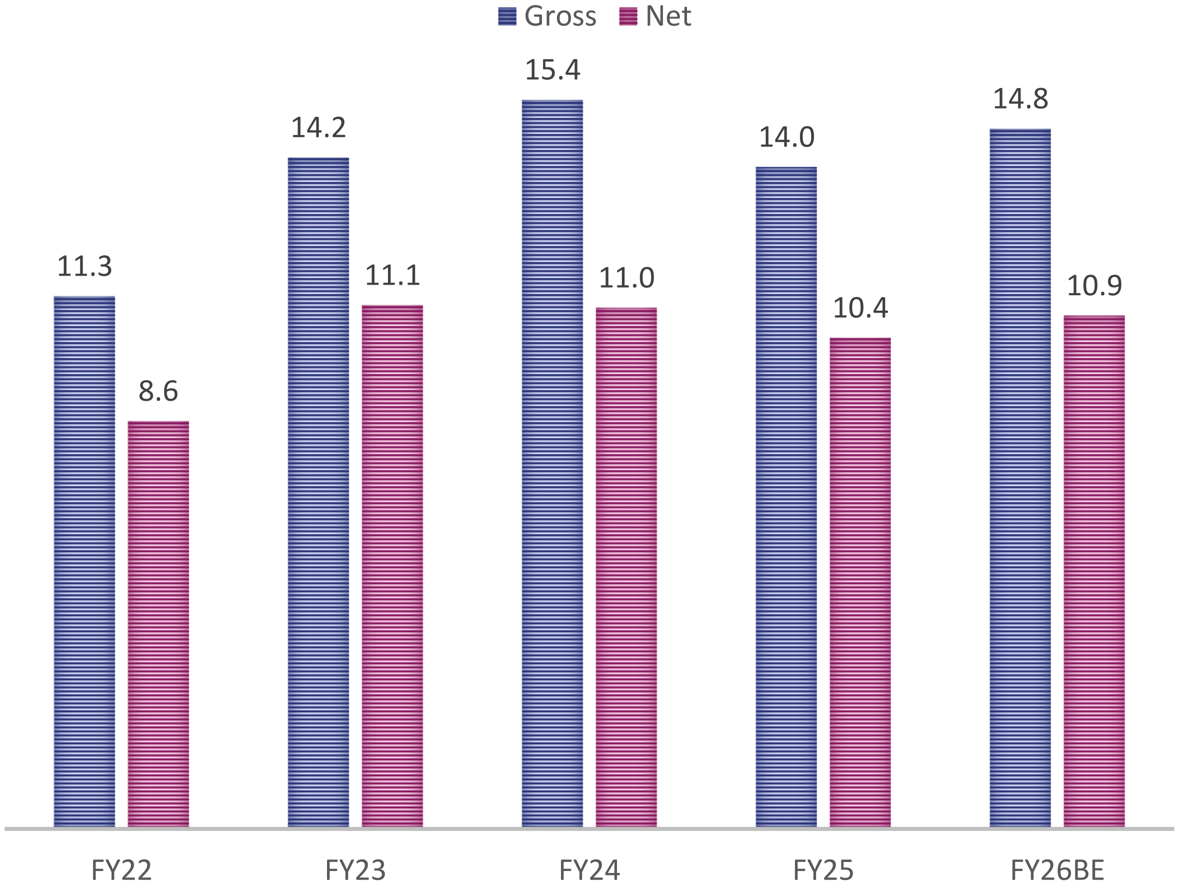
ITEM (Rs. bn.)	FY24A	FY25RE	FY26BE	GROWTH FY25RE/ FY24A	GROWTH FY26BE/ FY25RE
Corporation Tax	9,111	9,800	10,820	7.6%	10.4%
Income Tax	10,447	12,570	14,380	20.3%	14.4%
Customs Duty	2,331	2,350	2,400	0.8%	2.1%
Excise Duty	3,054	3,050	3,170	-0.1%	3.9%
Service Tax	4	1	1	-76.5%	0.0%
GST	9,572	10,619	11,780	10.9%	10.9%
Other Taxes	39	50	50	27.3%	0.0%
Gross tax revenue	**34,558**	**38,440**	**42,601**	**11.2%**	**10.8%**
(-) Transfer to States, UTs	11,295	12,869	14,224	13.9%	10.5%
Net tax revenue	**23,272**	**25,570**	**28,374**	**9.9%**	**11.0%**
Non-Tax Revenue	**4,018**	**5,310**	**5,830**	**32.2%**	**9.8%**
Non-debt Capital Receipts	**598**	**590**	**760**	**-1.3%**	**28.8%**
Total Receipts	**27,888**	**31,470**	**34,964**	**12.8%**	**11.1%**
Revenue Expenditure	34,943	36,981	39,443	5.8%	6.7%
Capital Expenditure	9,492	10,184	11,211	7.3%	10.1%
Total Expenditure	**44,434**	**47,165**	**50,653**	**6.1%**	**7.4%**
Revenue Deficit	**7,652**	**6,101**	**5,238**	**-20.3%**	**-14.1%**
Fiscal Deficit	**16,546**	**15,695**	**15,689**	**-5.1%**	**0.0%**
Fiscal Deficit (as % of Nominal GDP)	**5.6%**	**4.8%**	**4.4%**		

- As per media sources, the Union has met its capex target for FY25, in accordance with revised estimates
- Coupled with in line revenues in 11MFY25 upwardly revised GDP as per SAE, this means that fiscal deficit could be lower than FY25RE
- In FY26, revenues are expected to be buoyed by a mega-sized Rs. 2.56 trn dividend from the RBI, in addition to decent growth in taxes
- Growing revenues coupled with rationalized expenditures mean that borrowing in FY26 is expected to be moderate

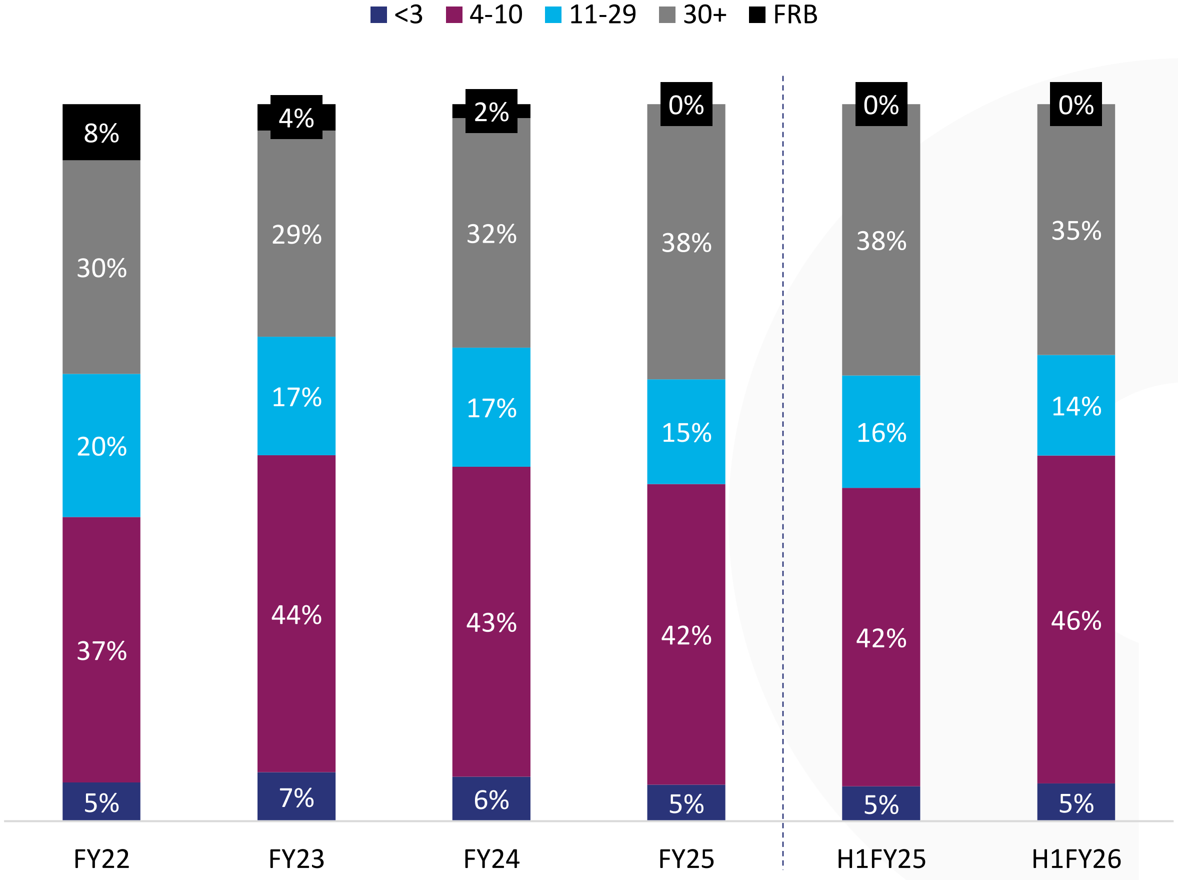
Source: Union Budget Documents, SBICAPS

UNION BORROWINGS TO REMAIN IN CHECK

GROSS AND NET G-SEC BORROWING (Rs. trn)



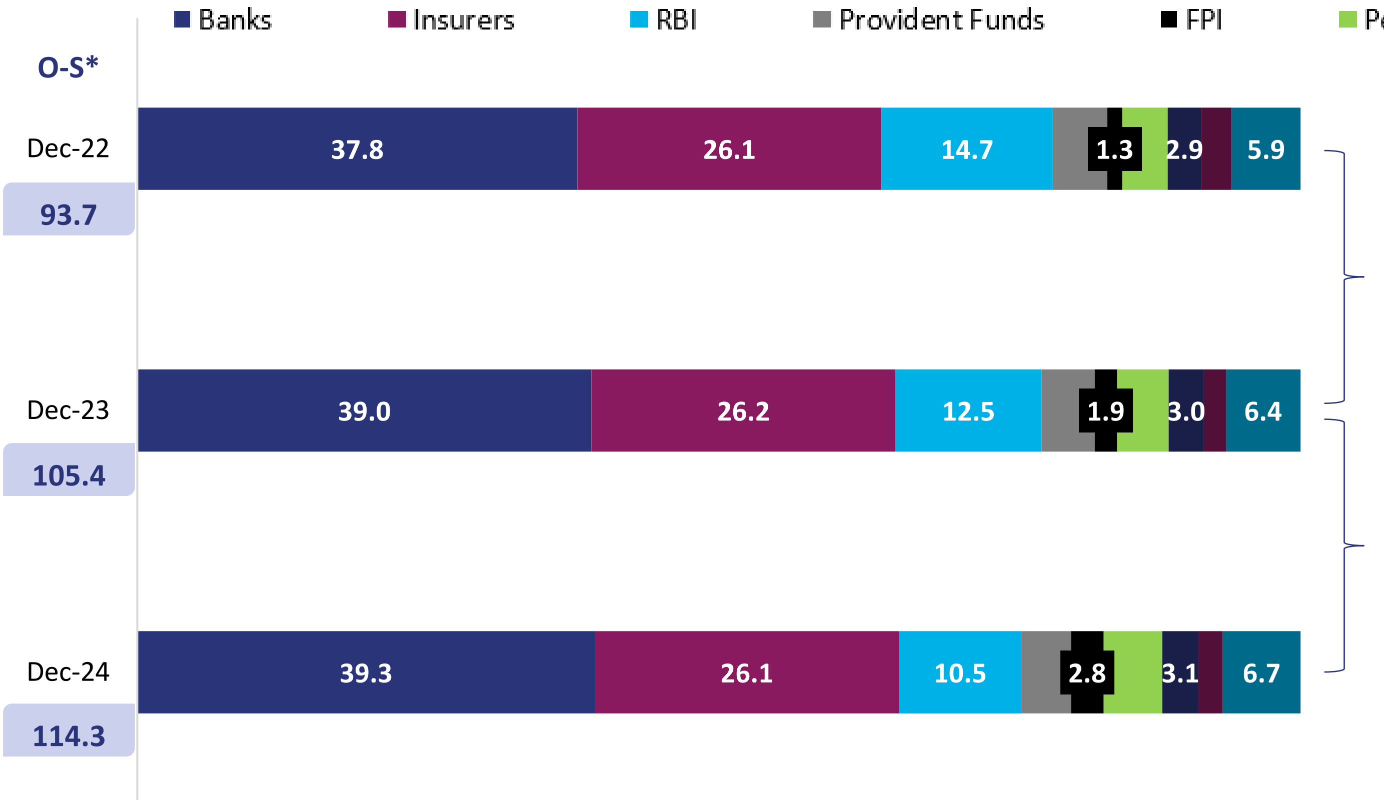
SHARE OF EACH TENOR IN GROSS G-SEC ISSUANCES



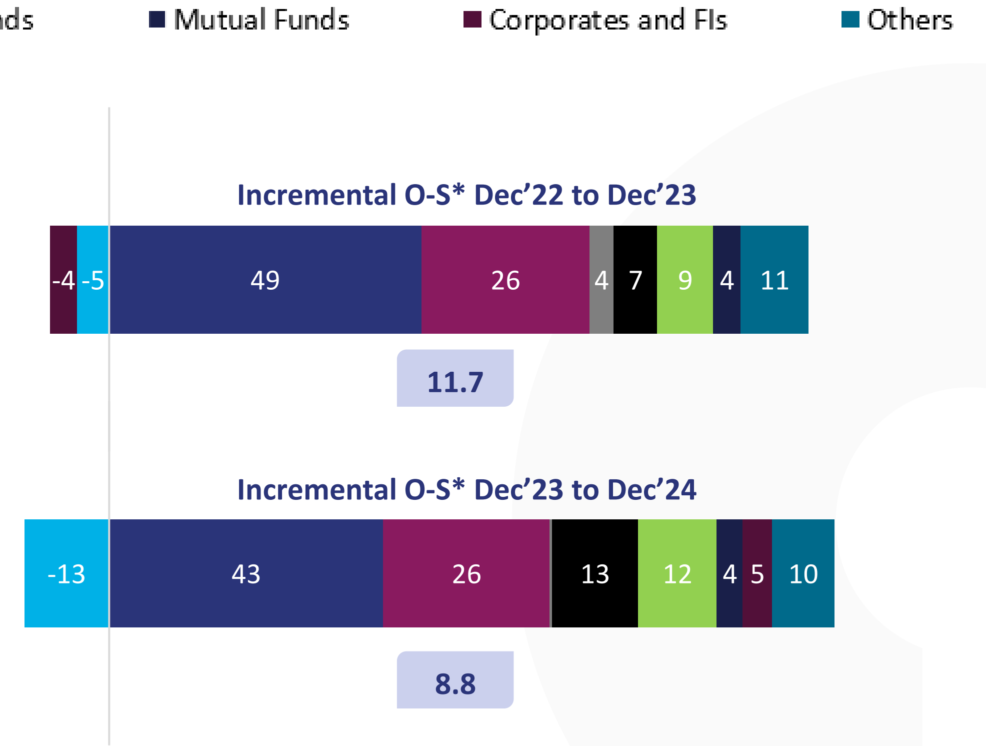
- Union has committed to the path of fiscal consolidation with net borrowings expected to rise only 4.5% y/y to Rs. 10.9 trn, despite a 6% y/y rise in gross borrowings, owing to higher repayments scheduled in FY26

FINANCIALISATION AND FOREIGN INTEREST CHANGES G-SEC OWNERSHIP PATTERN

G-SEC OWNERSHIP SHARE (%)



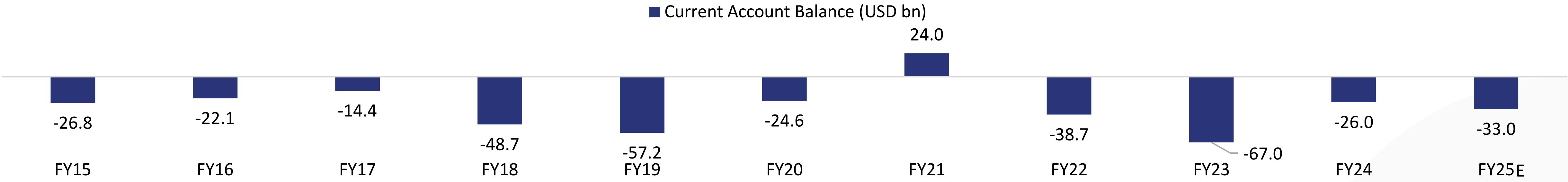
SHARE IN INCREMENTAL G-SEC OWNERSHIP (%)

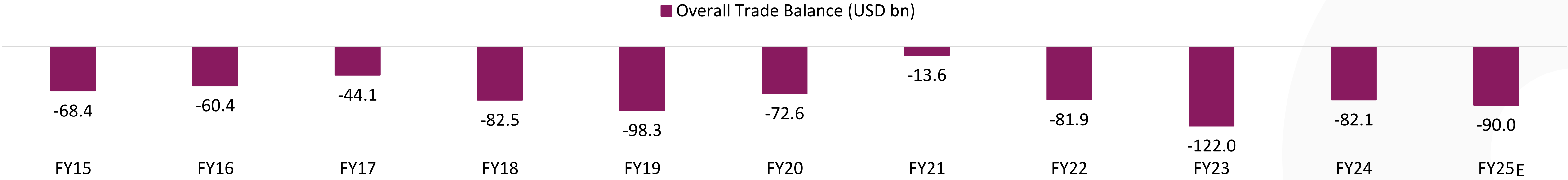


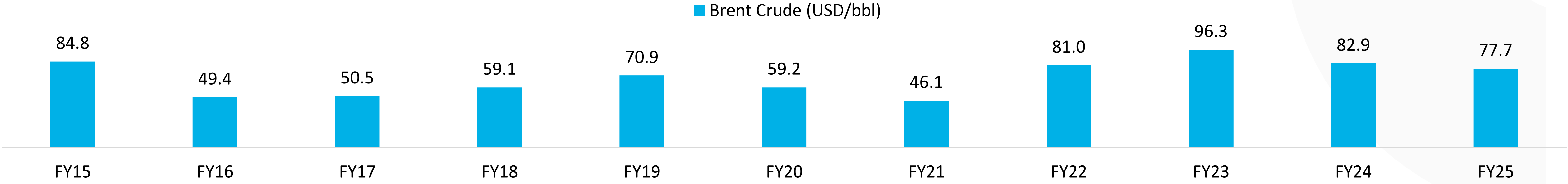
- RBI's share of G-Sec is at its' lowest in 14 years as of Dec'24 as it winded down pandemic era positions. Albeit this is poised to increase moving forward as RBI has done net OMO purchases of Rs. 2.8 trn in Q4FY25
- Pension funds, which held just 4.4% of outstanding G-secs as of Dec'23, have stepped up their participation, accounting for ~12% of incremental purchases in CY24
- India's bond index inclusion has driven FIIs to pump in a net Rs 1.4 trn in FY25

Source: RBI, NSDL, SBICAPS; Note: Outstanding is in Rs. trn

EXTERNAL INDICATORS REMAIN RESILIENT







- Current account deficit is expected to remain comfortable in FY25, reducing further in FY26
- Lower oil prices in FY26 augur well for reducing merchandise trade deficit

Source: RBI, CEIC, SBICAPS

ECB AND FII DEBT FLOWS TO MODERATE IN FY26

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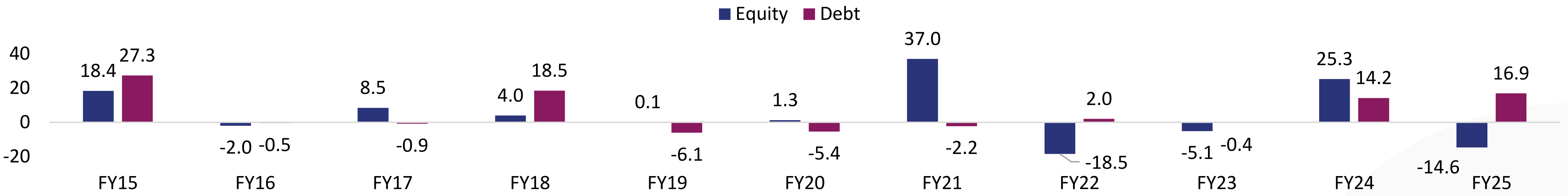
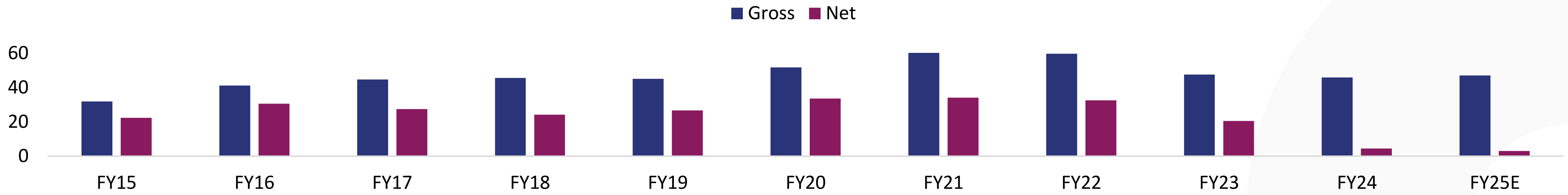
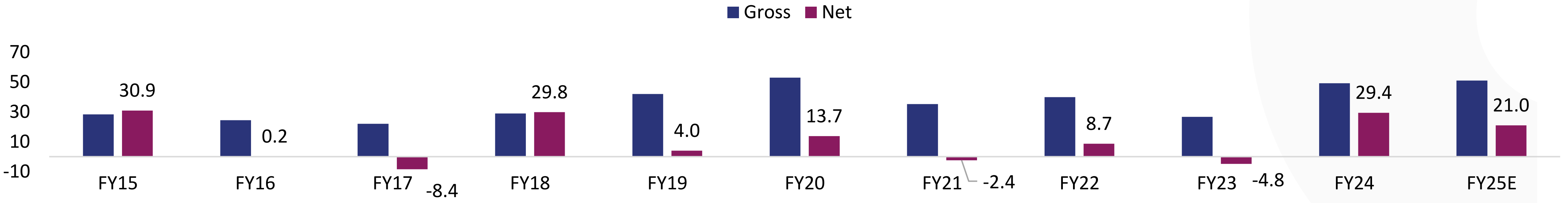
FPI FLOWS (USD bn)



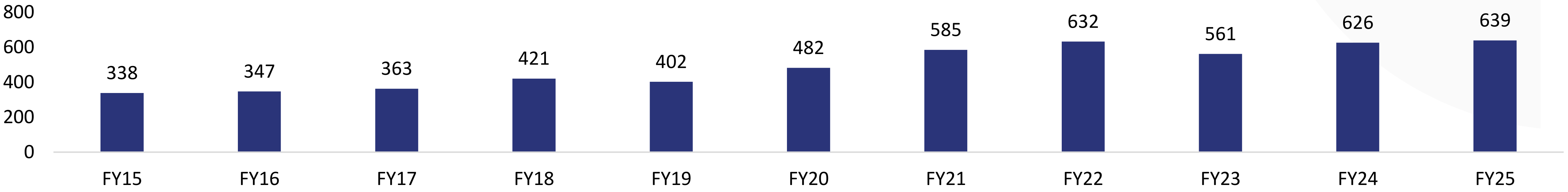
FDI EQUITY FLOWS (USD bn)



ECB FLOWS (USD bn)



FOREX RESERVES (USD bn)



INDIA'S MAJOR TRADING PARTNERS: USA DOMINATES EXPORTS

TOP MERCHANDISE EXPORT DESTINATIONS – 11MFY25

COUNTRIES	EXPORTS (USD bn)	GROWTH (Y/Y)
USA	76.4	9.1%
UAE	33.3	5.2%
Netherlands	21.0	3.7%
UK	13.2	12.5%
China PRP	12.7	-15.7%
Singapore	12.1	-5.6%
Saudi Arabia	10.8	4.0%
Bangladesh PR	10.4	5.1%
Germany	9.5	7.4%
Australia	7.8	4.4%
Others	188.5	-4.5%
GRAND TOTAL	**395.6**	**0.1%**

TOP MERCHANDISE IMPORT SOURCES – 11MFY25

COUNTRIES	IMPORTS (USD bn)	GROWTH (Y/Y)
China PRP	103.8	10.4%
Russia	58.3	4.9%
UAE	55.7	29.2%
USA	41.6	7.2%
Saudi Arabia	26.8	-7.9%
Iraq	26.1	-2.0%
Switzerland	21.1	2.9%
Indonesia	21.0	-2.3%
Singapore	19.5	-0.7%
Korea RP	19.4	-0.2%
Others	263.3	4.2%
GRAND TOTAL	**656.7**	**5.7%**

- USA is India's largest export destination and India enjoys a significant trade surplus with it. India stands favourably placed on major export items such as textiles and electronics as competitors such as China, Vietnam, Thailand, and Malaysia have been slapped with higher tariffs

- Sectors such as marine exports and gems and jewellery are expected to face headwinds from the new tariffs. Mr. Trump also said tariffs on pharmaceuticals were also incoming. Indirect impact of tariffs on other countries could reduce cost of imports, though there is chance of dumping

Source: MOSPI, FE, SBICAPS

CRUDE OIL REMAINS A MAJOR ITEM OF IMPORT FOR INDIA

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TOP COMMODITIES BY EXPORTS – 11MFY25

GOODS	EXPORTS (USD bn)	GROWTH (Y/Y)
Engineering Goods	105.8	8.0%
Petroleum Products	58.6	-25.6%
Electronic Goods	34.0	32.9%
Gems & Jewellery	26.9	-10.5%
Drugs & Pharmaceuticals	26.8	7.0%
Organic & Inorganic Chemicals	25.8	1.0%
RMG of all Textiles	14.5	10.7%
Rice	11.3	21.2%
Cotton Yarn/Fabs./made- ups, Handloom Products etc.	10.9	3.3%
Plastic & Linoleum	8.1	11.2%
Others	72.8	1.1%
GRAND TOTAL	**395.6**	**0.1%**

TOP COMMODITIES BY IMPORTS – 11MFY25

GOODS	IMPORTS (USD bn)	GROWTH (Y/Y)
Petroleum, Crude & products	166.7	2.7%
Electronic goods	89.3	11.2%
Gold	53.5	21.6%
Machinery, electrical & non-electrical	48.9	9.3%
Transport equipment	30.6	12.1%
Coal, Coke & Briquettes, etc.	28.8	-19.1%
Organic & Inorganic Chemicals	26.2	6.5%
Non-ferrous metals	22.5	15.2%
Iron & Steel	20.9	-5.7%
Artificial resins, plastic materials, etc.	20.6	0.8%
Others	148.6	6.1%
GRAND TOTAL	**656.7**	**5.7%**

- India's exports of electronics goods have sharply grown in recent years. The success is attributable to PLI for electronics, which has transformed India from a net importer to net exporter of mobile phones. Tariffs are higher for competitors such as Vietnam, Malaysia, China in this key segment
- India continues to be a large importer of petroleum. The demand for the former has increased at a solemn pace in 11MFY25

Source: PIB, SBICAPS

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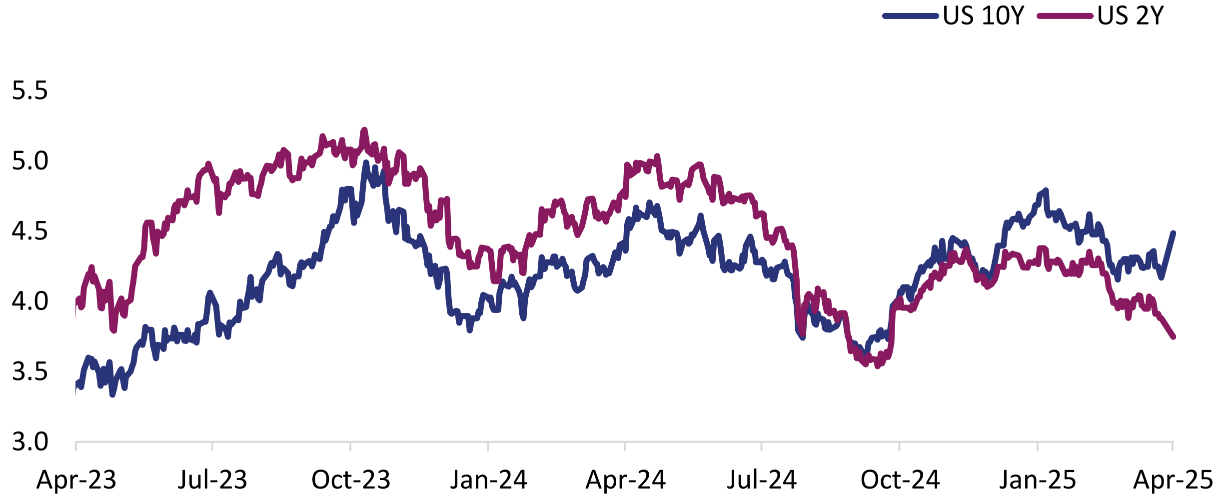
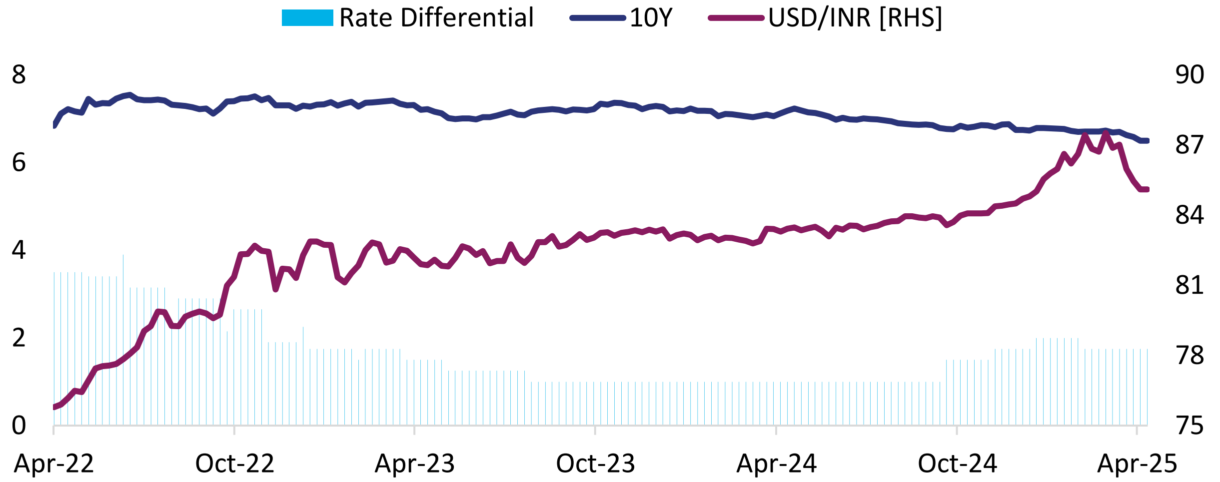
MARKET IS EXPECTING MASSIVE SLOWDOWN AND RATE CUT IN US

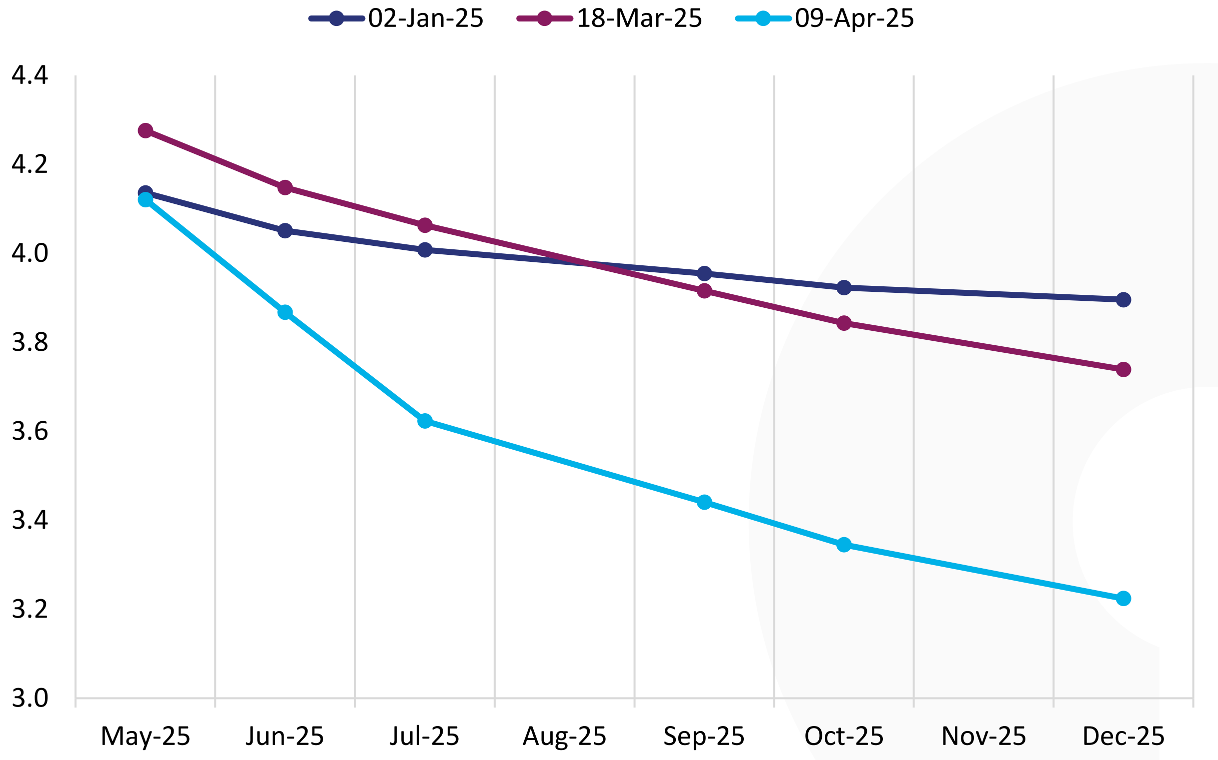
US G-SEC YIELDS (%)



INDIA-US POLICY RATE DIFFERENTIAL VS. INDIA YIELD VS. CURRENCY



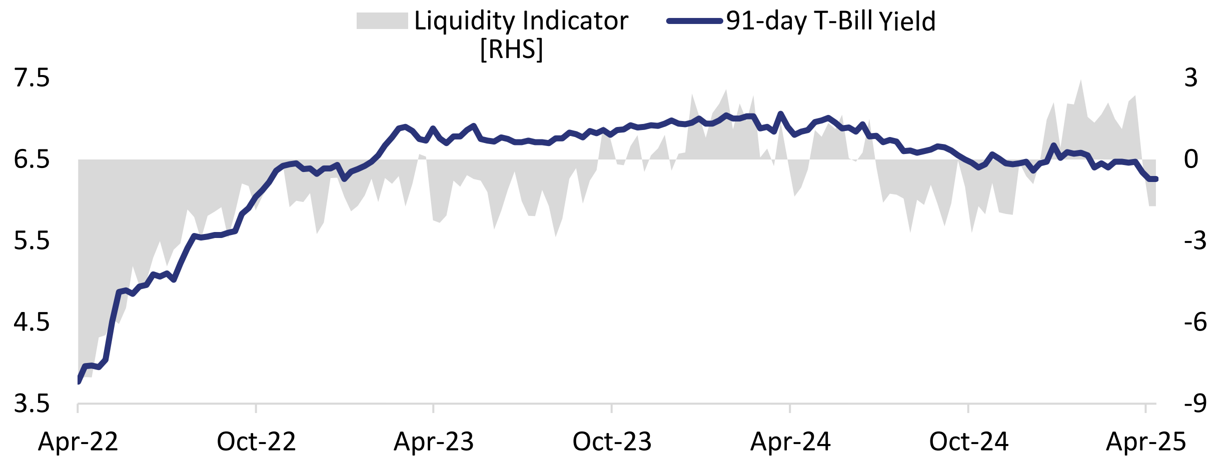
MARKET-IMPLIED PATH OF US FED POLICY RATE (IN %)



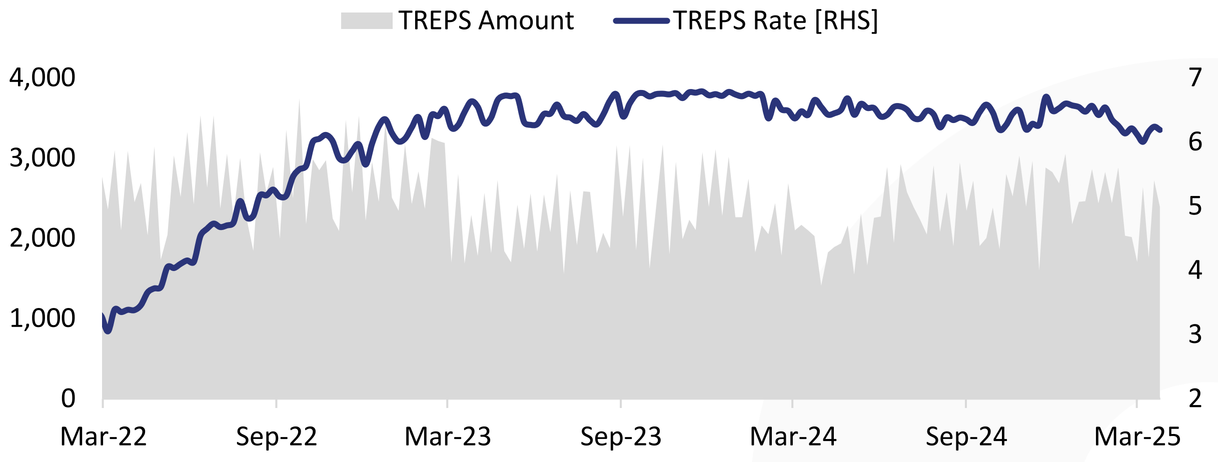
- Expectations of rate cuts from the US Fed has accelerated from 2 cuts in early Jan'25 to 4 cuts now, as Mr. Trump's tariff tyranny increases recessionary urges
- Even as the INR depreciated lost sharply against the USD in a recent bout, Indian yields continued to move downwards. This is uncharacteristic behaviour when looked at vis-à-vis historical episodes in 2013 and 2018

EASIER LIQUIDITY CONDITIONS HAVE PULLED DOWN SHORT TERM YIELDS

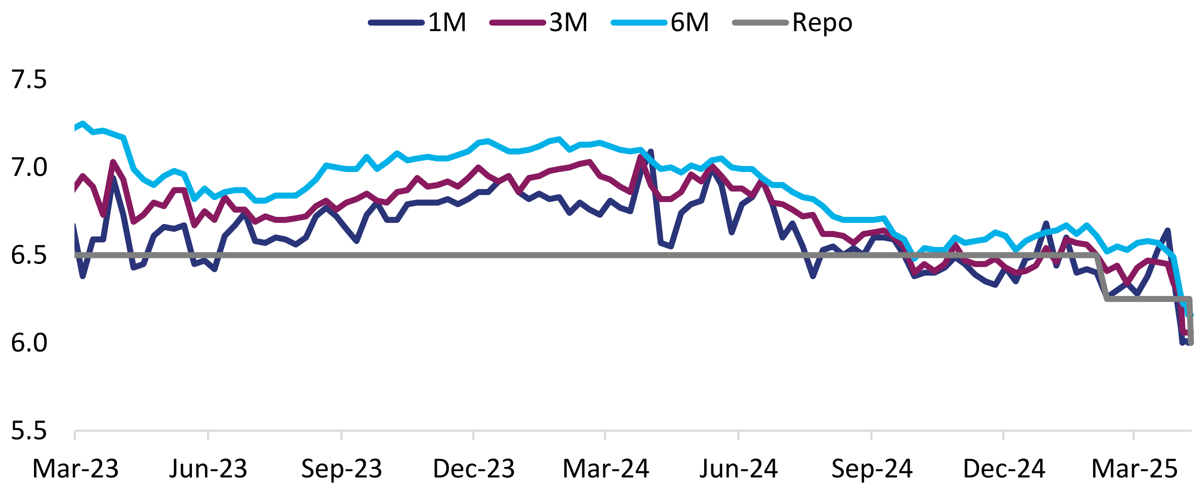
91-DAY T-BILL YIELD VS. BANKING LIQUIDITY*



TREPS DAILY AVG VOLUME (Rs. trn) AND RATE (%)



T-BILL SECONDARY YIELDS VS. REPO

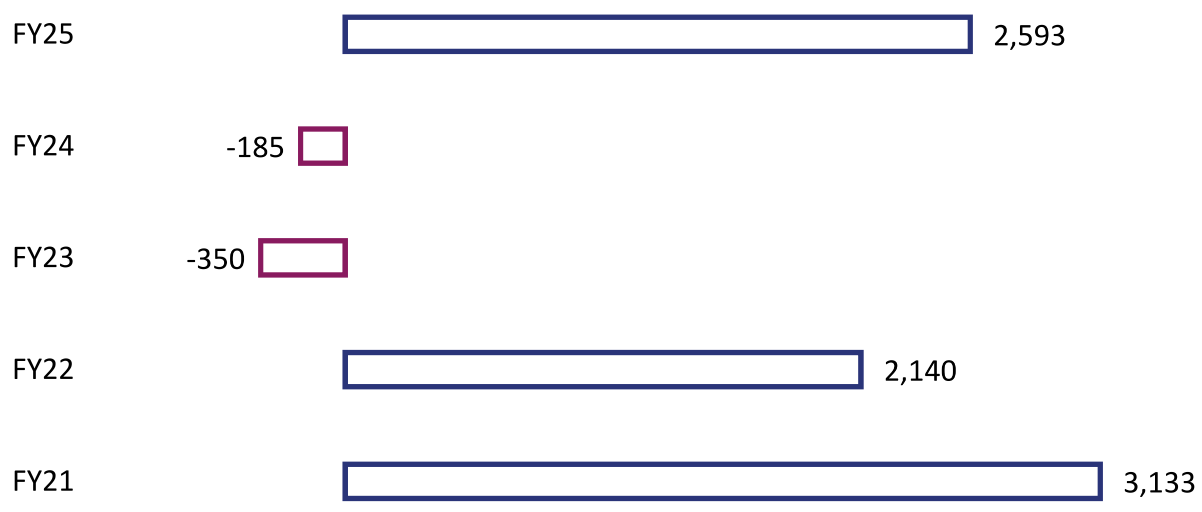


- Banking system liquidity turned positive for the first time in 3 months at the end of Mar’25, washing out the worst ever liquidity crunch
- This has led to short term yields as indicated by 91-day T-bill coming within touching distance of the repo rate

Source: Bloomberg, RBI, SBICAPS; *Negative values indicate surplus

RBI EASED MONEY MARKET BY INFUSING AMPLE LIQUIDITY IN Q4FY25

CUMULATIVE NET OMO PURCHASES (Rs. bn)



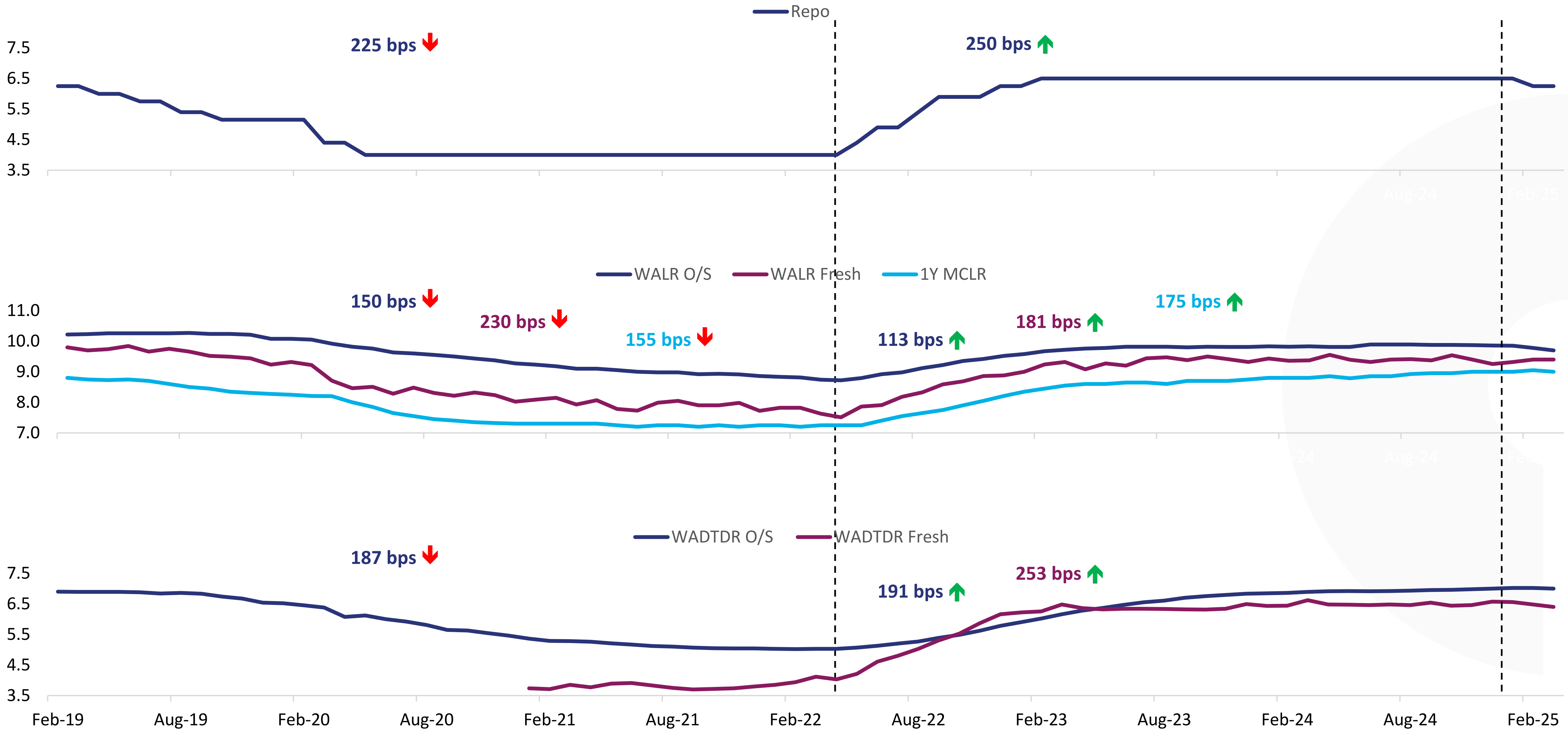
- This is as the RBI has undertaken substantial market interventions, with net OMO purchases of ~Rs. 2.6 trn and G-sec buybacks of Rs. 1.2 trn—among the highest historically.
- While the RBI seems to have won this round, unwinding of large forward positions (which is already in progress) could pressure liquidity and the INR a bit in the near term

DURABLE LIQUIDITY MEASURES BY RBI

MEASURE	DESCRIPTION	AUCTION DATE	AMOUNT INJECTED (RS. BN)
OMO Purchase	Through NDS OM	Jan'25	388
OMO Purchase Auctions	Auction Process	30th Jan	200
		13th Feb	400
		20th Feb	400
		12th Mar	500
		18th Mar	500
		25th Mar	445
Term Repo Auctions	56-day	7th Feb	500
	49-day	14th Feb	750
	45-day	21st Feb	580
USD/INR Buy/Sell Swap Auction	6M Tenor	31st Jan	440
	3Y Tenor	28th Feb	880
	3Y Tenor	24th Mar	880

Source: CEIC, RBI, SBICAPS

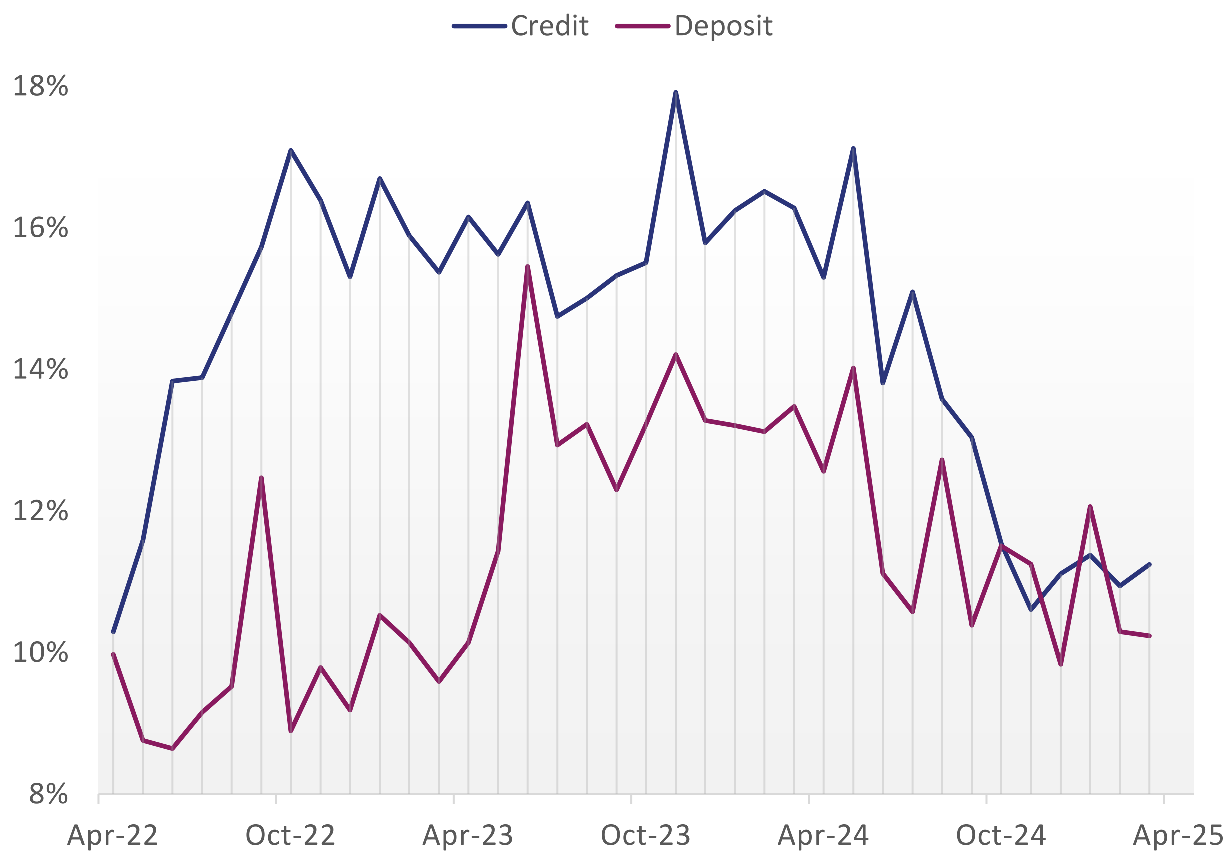
AMPLE LIQUIDITY WOULD LEAD TO BETTER TRANSMISSION TO RATES



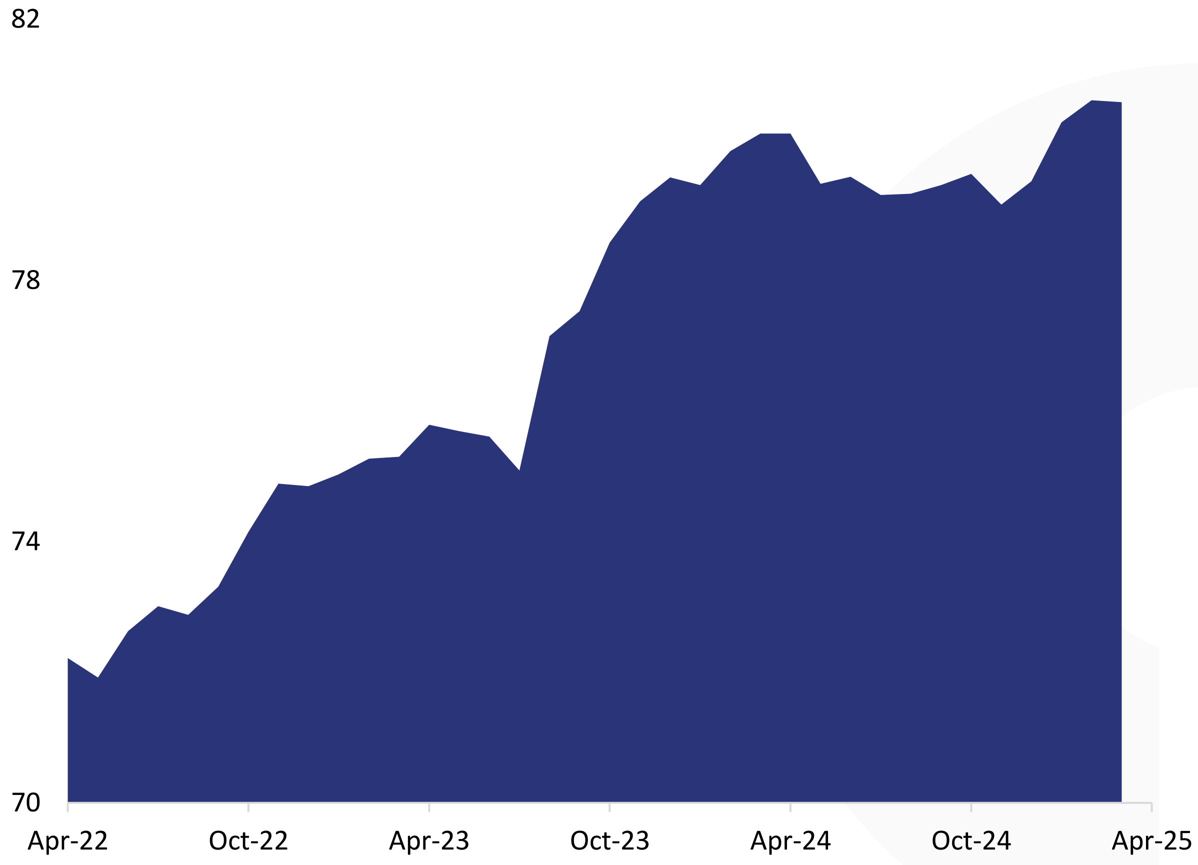
Source: RBI, CEIC, SBICAPS; Note: All figures in %

VARIANT C/D RATIO CALLS FOR DIFFERENTIAL APPROACHES IN PSB VS. PVB

CREDIT AND DEPOSIT GROWTH (Y/Y)



CREDIT-DEPOSIT RATIO (%)



- Both credit and deposit growth rates have been high post the pandemic. Due to higher credit growth rate, C/D ratio was above equilibrium level, especially for private banks. The merger of a large HFC with its group bank also accentuated the need for deposits from Jul’23 onwards. This also led to sharp increase in fresh deposit rates.
- *Improved liquidity, softening growth, normalisation of credit/deposit ratio in recent months, and lower rates would lead to lower bank deposit rates from late Q1FY26*

DIFFERENTIAL TRANSMISSION HAS STEEPENED YIELD CURVE

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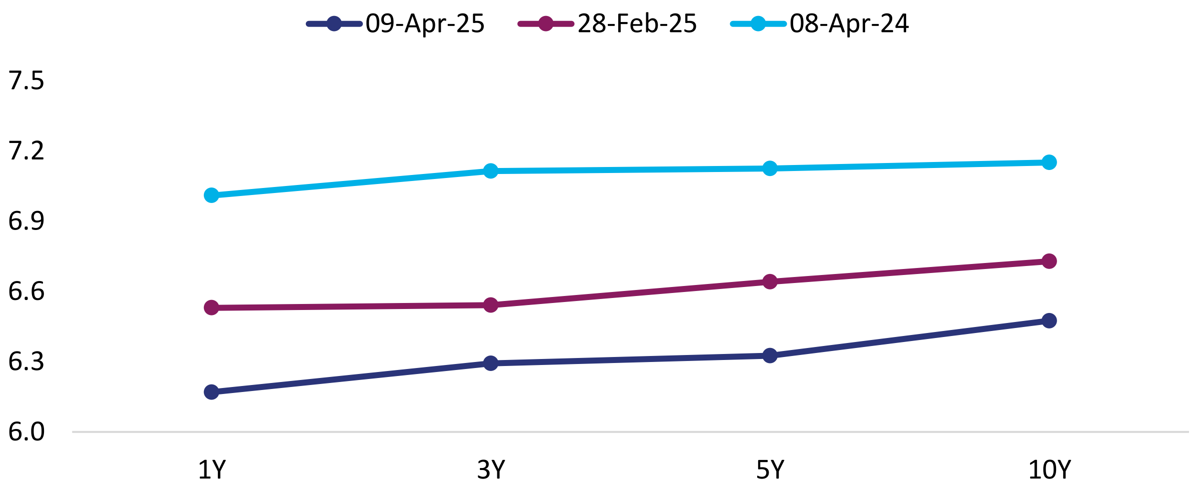
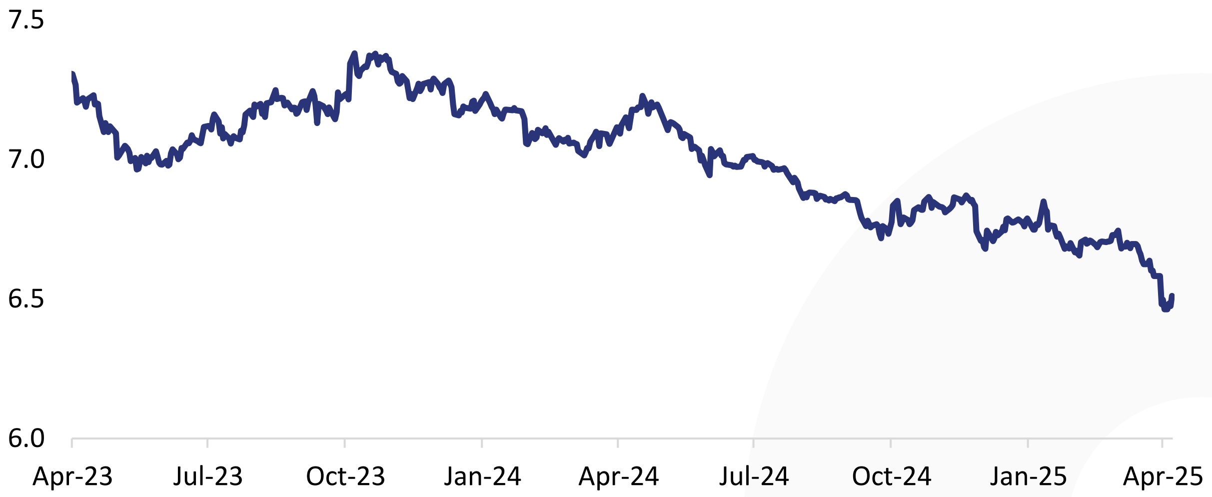
YIELD CURVE (%)



G-SEC YIELD (10 YEARS) (%)

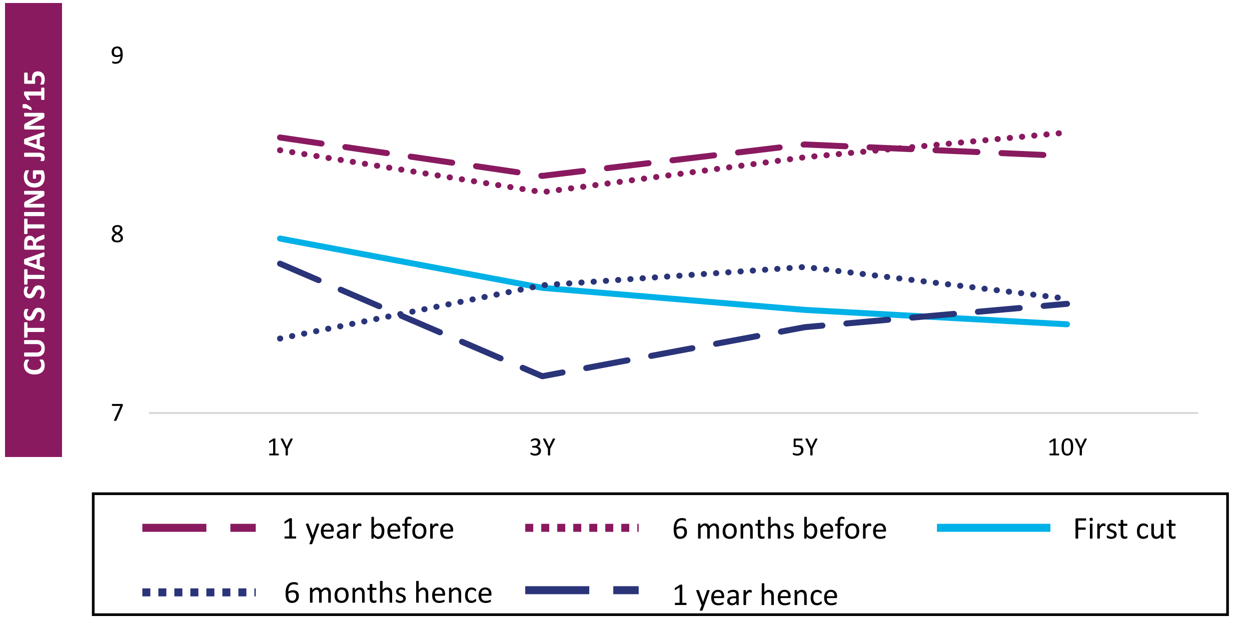


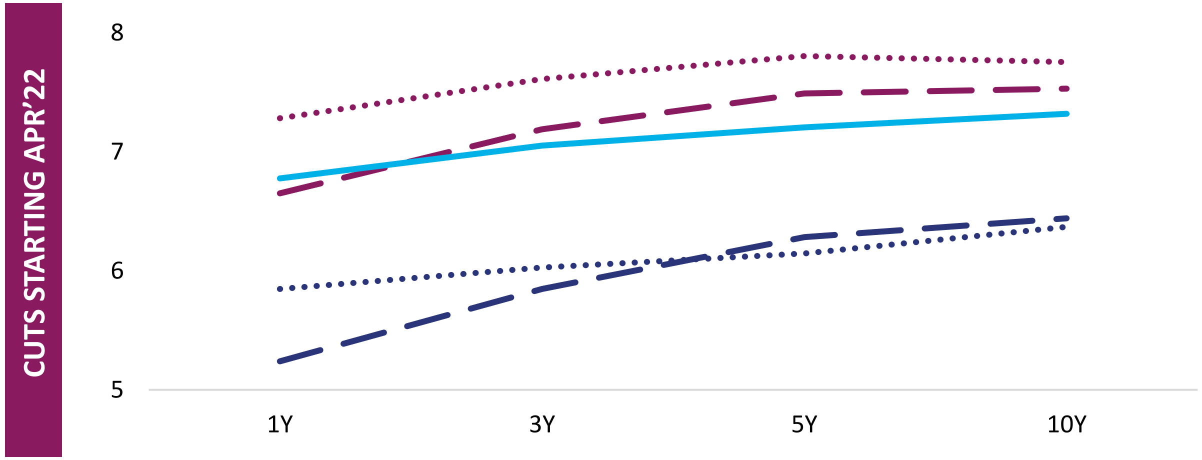
G-SEC YIELD (5 YEARS) (%)

- Benchmark Union G-sec yields dropped sharply in the new fiscal as surfeit liquidity enabled sudden transmission of policy rate cut to the yield curve
- Yield curve has steeped with term premium (10Y-1Y) now >25 bps

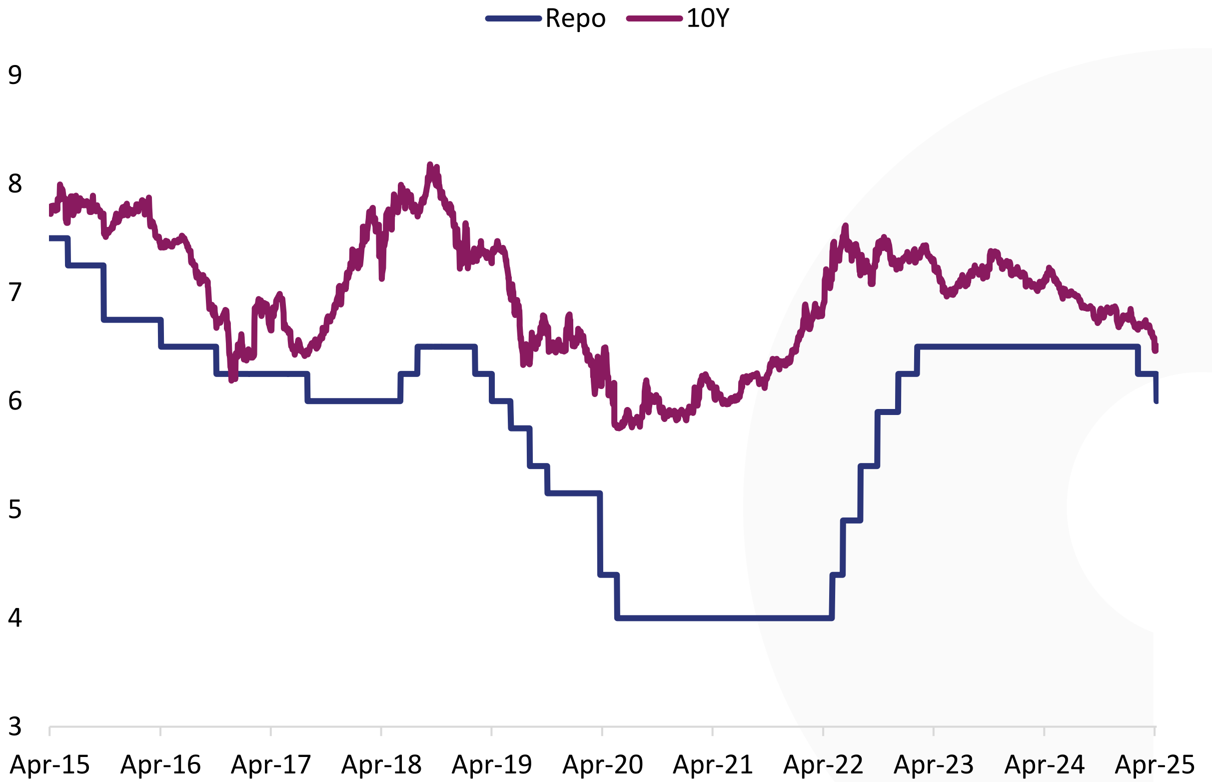
YIELD CURVE STEEPENING IN LINE WITH HISTORICAL CUT CYCLES

EVOLUTION OF YIELD CURVE





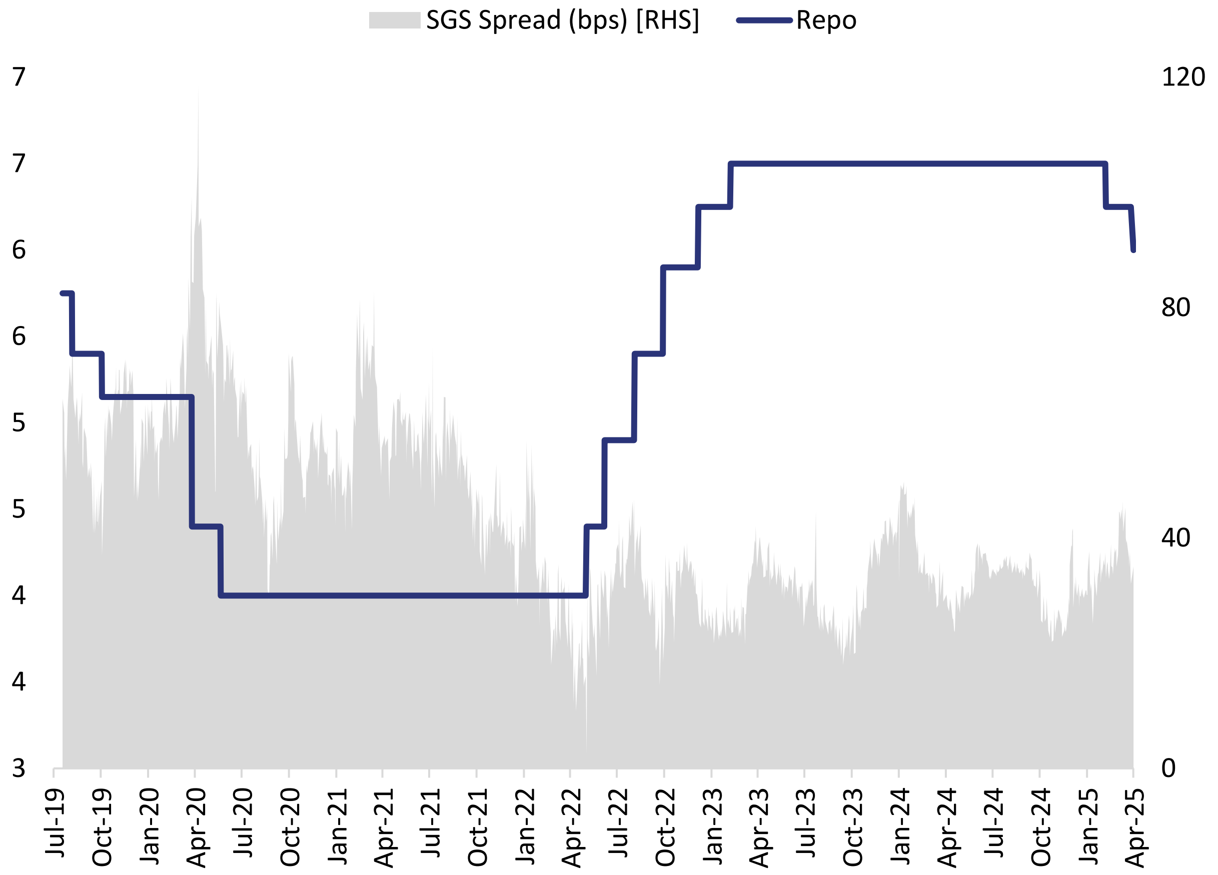
UNION G-SEC YIELD (10 YEARS) VS REPO (%)



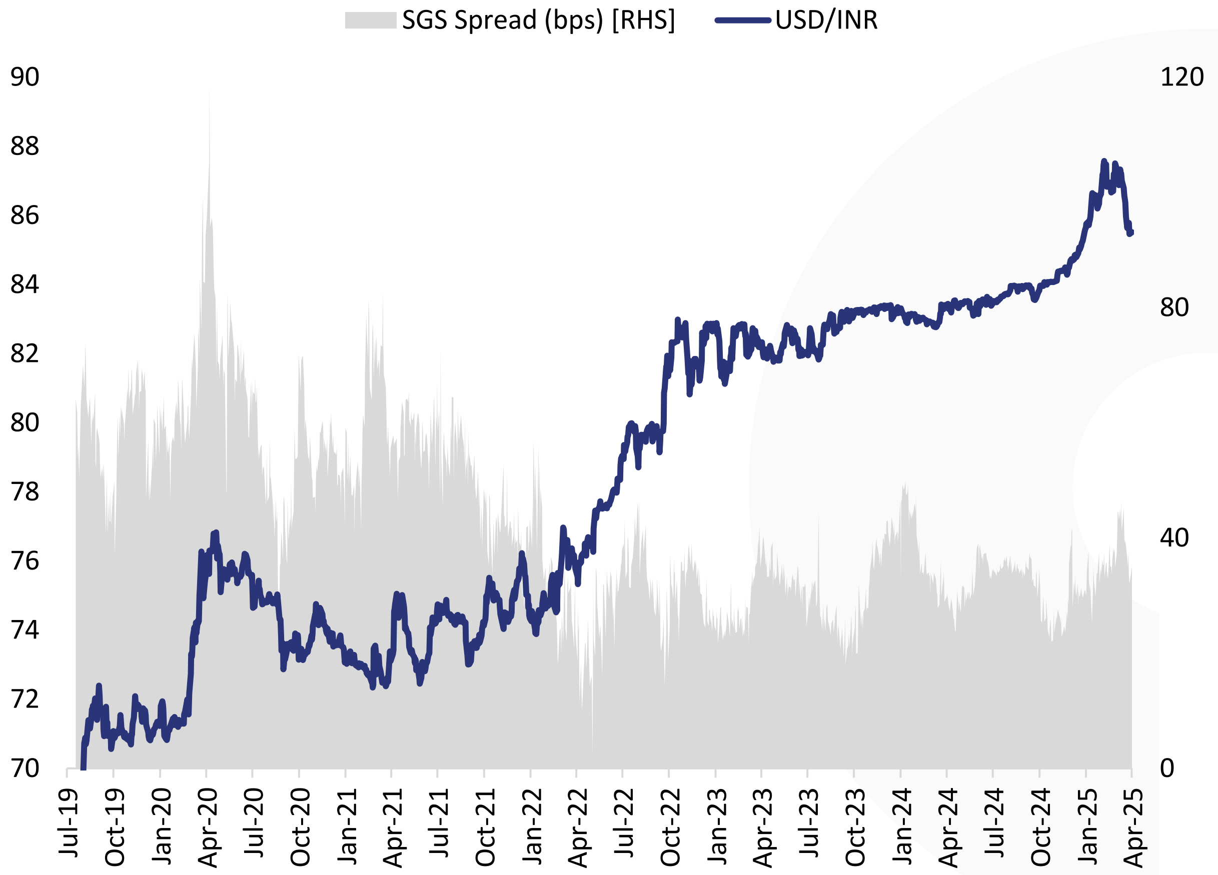
- The yield curve steepens when rates are cut as short-term rates are more closely anchored to policy than long term rates. This transformation is subject to ample liquidity
- Spread of 10Y G-sec over repo remains low by historical standards. B*roader outlook remains sensitive to currency volatility and the RBI's participation through OMOs*

SGS SPREADS GRADUALLY WIDENING FROM POST-PANDEMIC LOWS

SGS SPREAD OVER G-SEC (bps) VS. REPO (%)



SGS SPREAD OVER G-SEC (bps) VS. USD/INR

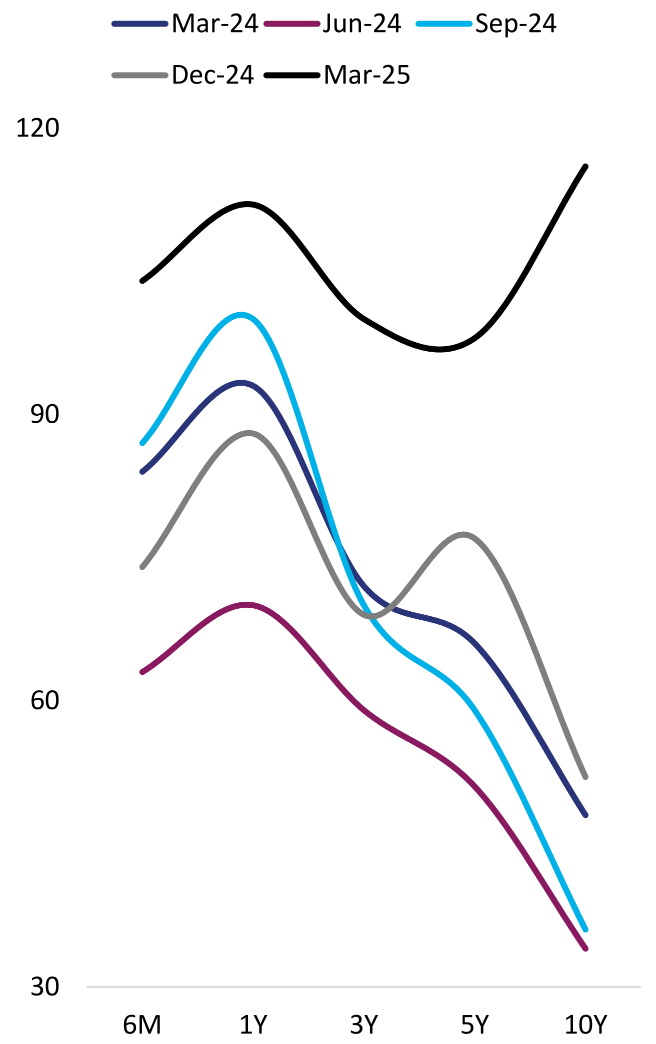


- We expect spread to remain higher, however slightly lower than Q4 levels, owing to relatively high borrowing by States vs. Union and targeted operations in Union G-sec rather than SGS by RBI

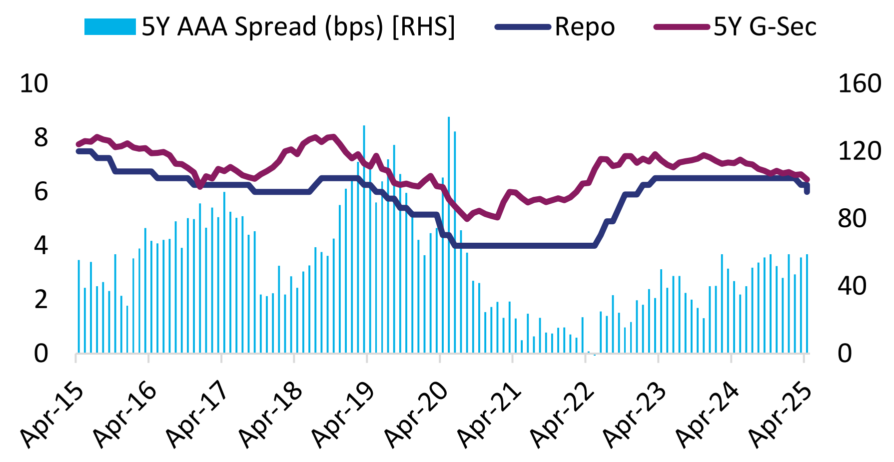
Source: Bloomberg, SBICAPS

CORPORATE SPREADS TO EXPAND AS INVESTORS DEMAND RISK PREMIA

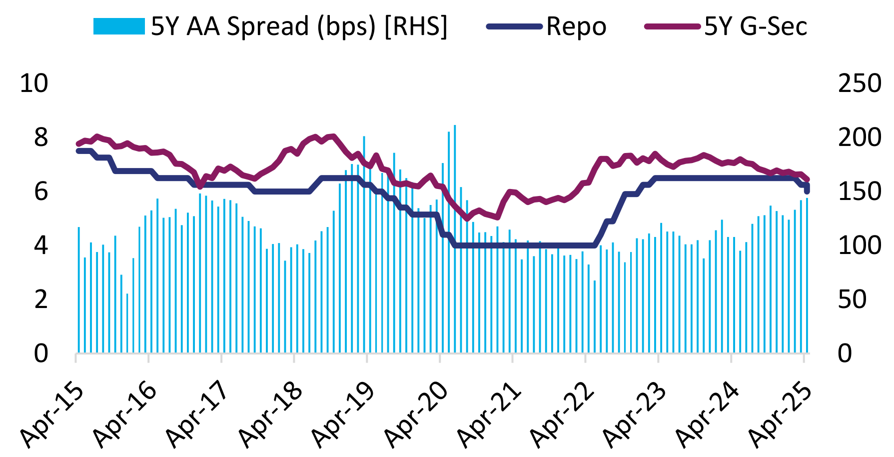
FIMMDA AAA 5Y CORP SPREAD (%)



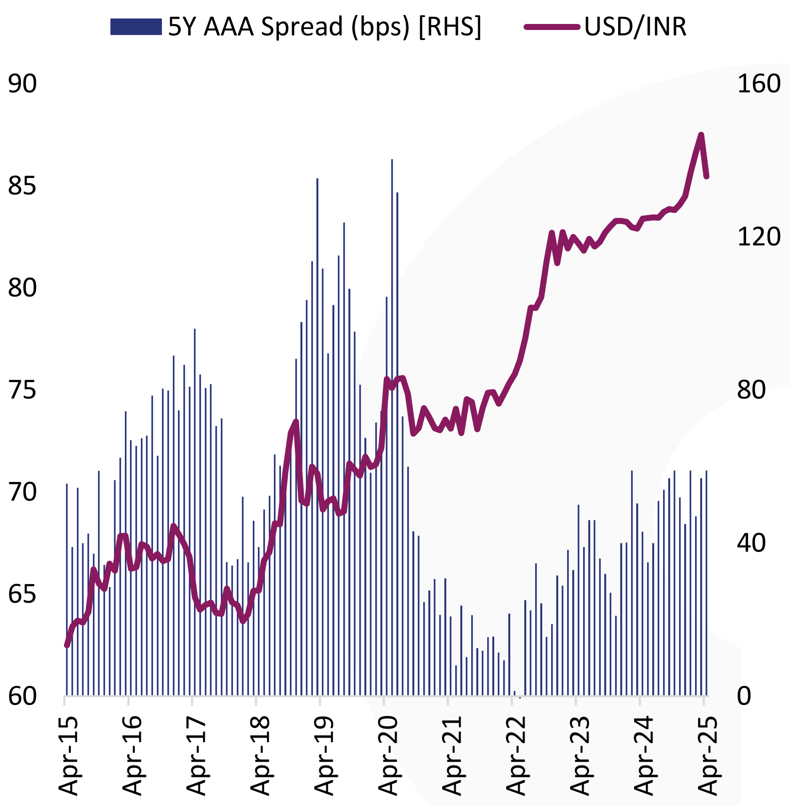
FIMMDA 5Y AAA SPREAD ANALYSIS (%)



FIMMDA 5Y AA SPREAD ANALYSIS (%)



FIMMDA 5Y AAA SPREAD VS USD/INR



- *Given the higher risk premium, credit spreads—especially for AA-rated and below bonds—may widen slightly compared to last year as investors demand higher risk premia*

THANK YOU

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