

RBI Monetary Policy – Status quo as widely expected

October 2023

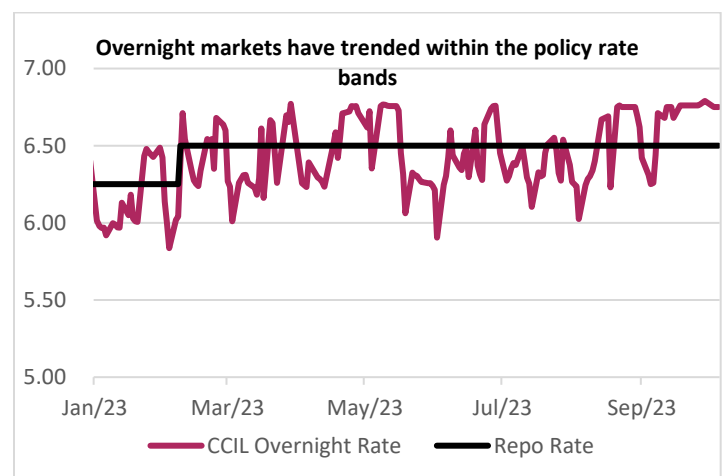
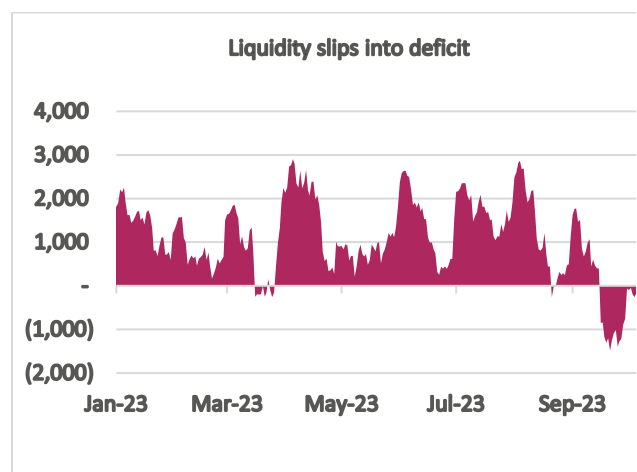
As widely expected and concurrent to our view, the Reserve Bank of India (RBI) continued with a pause on interest rates, but with a hawkish bias. The governor highlighted uncertainty around inflationary pressures and added that the policy remains focused on aligning inflation to 4% target on durable basis and not in the band of 2-6%.

Policy Decision

- Repo rate unchanged at 6.5%
- SDF rate unchanged at 6.25% and MSF rate unchanged at 6.75%
- All six members voted in favor of the pause.
- Five members voted to “remain focused on withdrawal of accommodation to ensure inflation progressively aligns with the target, while supporting growth”
- Possibility of OMO sales to keep liquidity in check

RBI could consider OMOs

The central bank could consider Open Market Operations (OMOs) of government securities to manage liquidity. The timing and quantum of such operations would depend upon evolving liquidity conditions. The governor phased out the I-CRR initiated in its last MPC.



Source: RBI, Axis MF Research, Bloomberg. Data as of 6th October 2023.

Outlook on growth and inflation unchanged

The governor reiterated concerns from his earlier MPC statement on global growth highlighting divergent and slowing trajectories across regions amidst moderating but above target inflation, tight financial conditions, ongoing geopolitical conflicts, geo-economic fragmentation and high public debt. The central

bank retained its estimates both on growth and inflation but pointed out risks to the outlook from external sector.

RBI Projections	Q2	Q3	Q4	Q1FY25	FY 2023-24
Real GDP Growth	6.5%	6.0%	5.7%	6.6%	6.5%
CPI Inflation	6.4%	5.6%	5.2%	5.2%	5.4%

Source: RBI Governor' Statement dated 6th October 2023

The measures taken by the government have helped correct vegetable prices. The central bank expects inflation to fall lower over the near term but the future trajectory could be dependent on factors such as sub-normal monsoon, and a lower area sown under pulses, low reservoir levels, and volatile global energy and food prices. While vegetable prices may undergo further correction and core inflation is easing, the MPC noted that headline inflation is ruling above the tolerance band and its alignment with the target is getting interrupted. Domestic economic activity is holding up well and is expected to be boosted by festive consumption demand, pick up in investment intentions and improving consumer and business outlook.

Market Reaction

The headline policy action was in-line with market consensus. Money markets have seen an uptick of 5-10 bps within bonds of up to 5 years while the 6-10-year government bonds saw a rise of 10-14 bps. The benchmark 10-year G-Sec stood at 7.35%.

Our View

Though status quo was widely expected, policy action in the form of OMOs were completely unexpected by the markets and even by us. The immediate reaction has been a rise in yields and we believe that the yields would shift higher leading to a steeper yield curve and some nervousness should persist in the near term. Accordingly, we expect the 10-year benchmark to trade in a range of 7.25-7.45%. We retain our view that interest rate cycle in India and across the globe has peaked and will remain higher for longer. Inflation, as evidenced by core inflation continues to fall and this augurs well for policy rates to be on hold. Rising US Treasury yields and a stronger US dollar will have an indirect impact on the external sector which is one of the risks highlighted by the governor. Given the inclusion of Indian government bonds to the JP Morgan Emerging Market Indices and various news suggesting the likely inclusion into Bloomberg Indices as well, we expect stability in bond yields over the medium to longer term.

With policy rates remaining incrementally stable, we have added duration gradually across our portfolios within the respective scheme mandates. Investors can look at actively managed strategies to capitalize from fluctuations in rate movements. While the overall call is to play flat to falling interest rate cycle over the next 18-24 months, markets are likely to see sporadic rate movements. In such a scenario, active funds are ideally positioned to toggle across duration and the ratings curve to optimize medium term returns.

Product	Macaulay Duration	Current Positioning
Axis Ultrashort term Fund	172 Days	Actively managed parking solution offering with a duration profile of 6-12 months

Axis Corporate Debt Fund	2.96 Years	Actively managed corporate bond portfolio. 100% AAA oriented
Axis Strategic Bond Fund	3.48 Years	50% AAA % 50% AA portfolio actively managed best ideas fixed income strategy
Axis All Seasons Debt Fund of Funds	4.3 Years*	Actively managed portfolio of debt MFs aimed at capitalizing the best ideas from the Indian MF Industry

Allocation and strategy is based on the current market conditions and is subject to changes depending on the fund manager's view of the markets. Data as on 30th September 2023 *Mac Duration computed basis look through portfolios of underlying funds with a portfolio date of 31st August 2023.

Product Labelling

Fund Name & Benchmark	Product Labelling	Product Riskometer	Benchmark Riskometer	Potential Risk Matrix (PRC)																
Axis Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months. A moderate interest rate risk and moderate credit risk.) Benchmark: NIFTY Ultra Short Duration Debt Index B-I	This product is suitable for investors who are seeking* <ul style="list-style-type: none"> Regular income over short term Investment in Debt & Money Market instruments such that the Macaulay duration of the portfolio is between 3 months - 6 months. *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.			Potential Risk Class <table border="1"> <tr> <td>Credit Risk →</td> <td>Relatively Low (Class A)</td> <td>Moderate (Class B)</td> <td>Relatively High (Class C)</td> </tr> <tr> <td>Interest Rate Risk ↓</td> <td>Relatively Low (Class I)</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>B-II</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓	Relatively Low (Class I)					B-II					
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		B-II																		
AXIS CORPORATE DEBT FUND (An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds. A relatively high interest rate risk and moderate credit risk.) Benchmark: NIFTY Corporate Bond Index B-III	This product is suitable for investors who are seeking* <ul style="list-style-type: none"> Regular income over short to medium term Predominantly investing in corporate debt *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.			Potential Risk Class <table border="1"> <tr> <td>Credit Risk →</td> <td>Relatively Low (Class A)</td> <td>Moderate (Class B)</td> <td>Relatively High (Class C)</td> </tr> <tr> <td>Interest Rate Risk ↓</td> <td>Relatively Low (Class I)</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td>B-III</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓	Relatively Low (Class I)					B-III					
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AXIS STRATEGIC BOND FUND (An open ended medium term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 years to 4 years. A relatively high interest rate risk and relatively high credit risk.) Benchmark: NIFTY Medium Duration Debt Index C-III	This product is suitable for investors who are seeking* <ul style="list-style-type: none"> Optimal returns over medium term Investment in diversified portfolio of debt and money market securities to generate optimal risk adjusted returns while maintaining liquidity *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.			Potential Risk Class <table border="1"> <tr> <td>Credit Risk →</td> <td>Relatively Low (Class A)</td> <td>Moderate (Class B)</td> <td>Relatively High (Class C)</td> </tr> <tr> <td>Interest Rate Risk ↓</td> <td>Relatively Low (Class I)</td> <td></td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td>C-III</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> </tr> </table>	Credit Risk →	Relatively Low (Class A)	Moderate (Class B)	Relatively High (Class C)	Interest Rate Risk ↓	Relatively Low (Class I)						C-III				
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Axis All Seasons Debt Fund of Funds (An open ended fund of funds scheme investing in debt oriented mutual fund schemes) Benchmark: NIFTY Composite Debt Index	This product is suitable for investors who are seeking* <ul style="list-style-type: none"> To generate optimal returns over medium term Investment primarily in debt oriented mutual fund schemes *Investors should consult their financial advisers if in doubt about whether the product is suitable for them.
Riskometer	
Fund 	NIFTY Composite Debt Index

Disclaimer

Source of Data: RBI Governor' Statement, RBI Monetary Policy Statement & RBI post policy press conference dated 6th October 2023, Axis MF Research

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