THE ECONOMIC TIMES | News
English Edition | E-Paper

RBI's 'Main Hoon Naa' policy hints at rate hike ahead; what should investors do?

Last Updated: Oct 08, 2021, 02:30 PM

Synopsis

The equity market cheered RBI's stance and buying was seen following the policy statement, but the bond market was not buying RBI's inflation projection. India 10-year bond yield hit 6.32 per cent, highest in last 18 months.

NEW DELHI: Analysts across the spectrum lauded the action, or rather the lack of it, in Reserve Bank of India's money policy, as they believe a 'wait and watch' approach is appropriate for the time being.

RBI kept all policy rates unchanged to bolster a fragile economic recovery and reiterated an accommodative stance to back sufficient liquidity and keep borrowing costs low for both the state and companies to help drive investments.

Analysts, though, saw some signs of tightening ahead in Shaktikanta Das' speech.

"RBI signalled the beginning of gradual 'tapering'of liquidity by extending VRR auction tenor, a measure widely expected by markets. While RBI has refrained from committing any GSAP amount to support bond yields, its emphasis on an 'orderly evolution of the yield curve' should provide comfort to the bond market," said Churchil Bhatt, EVP Debt Investments, Kotak Mahindra Life Insurance.

He expects 10-year G-Sec to trade in the 6.20-6.40 per cent range in the near term.

The equity market cheered RBI's stance and buying was seen following the policy statement, but the bond market was not buying RBI's inflation projection. India 10-year bond yield hit 6.32 per cent, highest in last 18 months.

RBI said it sees inflation to be within the mandated 4±2 per cent range in the next few months. It has projected the CPI inflation at 5.7 per cent during 2021-22: 5.1 per cent in the second quarter, 4.5 per cent in third, and 5.8 per cent in the fourth, with risks broadly balanced. CPI inflation for the first quarter of 2022-23 is projected at 5.2 per cent. It also maintained its FY22 GDP growth guidance at 9.5 per cent.

"With greater restraint on the inflation front, the MPC has decided to support growth by continuing with status quo. With growth concerns continuing in the contact-intensive sectors and with the commercial credit by the banking system continuing to be tepid, we do not expect policy reversal in the immediate future," said M Govinda Rao, Chief Economic Advisor, Brickwork Ratings.

But some see a rate hike by the February meeting. Morgan Stanley has also projected at least four rate hikes in Calendar 2022, starting in February.

"We do not see RBI in a hurry to normalise liquidity conditions as well as the reverse repo rate in the near term. We continue to see the February policy as the earliest period of review for RBI to narrow the policy rate corridor by raising the reverse repo rate," said Suvodeep Rakshit, Senior Economist, Kotak Institutional Equities.

What should investors do?
Does the inaction of RBI's MPC require any action from debt fund investors? Not much. Analysts and fund managers believe they should stick to short and medium-term products.

"We advise investors seeking asset allocation to fixed income to retain the short/mid products viz. Corporate bond and Banking & PSU fund categories. There could be some allocation to the Dynamic bond category depending on their appetite to handle yield volatility. Investors with a shorter horizon (upto 1 year), should allocate to the Ultra Short and Low Duration Funds," said Kumaresh Ramakrishnan, CIO-Fixed Income, PGIM India Mutual Fund.

On the equity front, Naveen Kulkarni, Chief Investment Officer, Axis Securities, said the backdrop of low interest rates amidst the festive season should push consumption in housing and its ancillary sectors. "We remain positive on stocks such as HDFC, CanFin Homes, and large banks such as SBI, ICICI Bank," he said.

How others rated the policy announcement

Nilesh Shah, Group President & MD, Kotak Mahindra AMC
This is a "Main Hoon Naa" policy aimed to achieve multiple objectives--keep supporting growth, inflationary expectations under check, financial markets stable, liquidity adequate and appropriate, yield curve in shape and ensure smooth passage of govt's borrowing program.

Amit Tripathi, CIO - Fixed Income Investments, Nippon India Mutual Fund
The RBI policy is driven predominantly by domestic considerations, a gradualistic non-disruptive approach, focusing on liquidity absorption as the first step for normalization. Some disappointment with complete withdrawal of a G-Sap calendar. Though a reiteration of the yield curve as a public good does give comfort on support via twists and OMOs. Curve to remain in range and retain steepness near term.

Amar Ambani, Sr. President and Head of Institutional Equities, YES Securities
RBI's end of GSAP is in line with the policy normalization process of global central banks. Tapering of bond purchases will likely be followed by a rate hike. Effectively, we think there is a strong chance of a 15-20bps hike in the reverse repo rate in the December policy meeting. A move on the repo rate will probably prevail by the end of this fiscal year, with RBI buying time before the supply and demand conditions stabilise.

Deepak Jasani, Head of Retail Research, HDFC Securities
Though RBI has not hinted at a hike in rates, reverse repo rates could be hiked in December, signaling the start of policy normalization. The equity markets are relieved temporarily by the dovish tone but will be aware of the rate hike possibilities going ahead.

Indranil Pan, Chief Economist, YES Bank
We think that RBI will then be open to adjusting the Reverse repo rate to reduce the size of the corridor. Overall, we think that RBI has kept the room open for a reverse rate repo increase in the upcoming December policy. No changes are envisaged to the Repo rate in the current fiscal and can only be addressed during FY22-23.