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As dovish as it could be!!! The MPC delivers its second consecutive unanimous rate cut of 25 bps, in line with market expectations. Additionally, the stance has been revised to “Accommodative” from “Neutral,” exceeding market expectations. Clearly, the tone was set to provide growth support as confidence in inflation moderation increases. FY26 GDP and inflation have both been revised downwards by 20 bps, with inflation now expected to reach the RBI’s target of 4%. The commitment to provide adequate liquidity was reiterated. Overall, this policy is more dovish than previous ones, acknowledging growth concerns due to global turmoil and showing comfort with the inflation trajectory.

Even as the MPC keeps a vigil on global developments, the mention of divergent monetary policies across countries, while factoring in domestic growth-inflation dynamics, provides room for further rate cuts. Market reaction was subdued, largely due to the hardening of global yields. However, favourable fiscal demand-supply conditions, further improving liquidity, and rate cut expectations will drive yields lower.

Key decisions/Highlights



Rate cut by 25 bps

- Policy repo rate at 6.00%
- Standing deposit facility (SDF) rate at 5.75%
- Marginal standing facility (MSF) rate and the Bank Rate changes at 6.25%.



Policy stance changed to Accommodative

- MPC unanimously voted to change the monetary policy stance to Accommodative from Neutral



FY26 Real GDP projected at 6.5%

- FY26 projection at 6.5% (down from 6.7%)
- Q1FY26 at 6.5% (down from 6.7%)
- Q2FY26 at 6.7% (down from 7.0%)
- Q3FY26 at 6.6% (up from 6.5%)
- Q4FY26 at 6.3% (down from 6.5%)



CPI projected at 4% for FY26

- FY26 projection at 4% (down from 4.2%)
- Q1FY26 at 3.6% (down from 4.5%)
- Q2FY26 at 3.9% (down from 4.0%)
- Q3FY26 at 3.8% (retained)
- Q4FY26 at 4.4% (up from 4.2%)

Dovish policy announcement by MPC; rate cut by 25 bps and policy stance shifts to Accommodative

In the previous three monetary policies, RBI had maintained a cautious tone while still delivering the actions in line with an easing policy. For instance, in the previous Feb policy, RBI administered its first 25 bps rate cut but maintained a hawkish tone, which disappointed the market, causing G-Sec yields to rise despite the rate cut.

Since the last policy, both global as well as domestic factors had turned conducive for consecutive rate cut as global growth concerns had become stronger with US's new tariff policies and the domestic inflation had surprised positively with last print coming at ~3.61%. Accordingly, the market had priced in 25 bps rate cut in April policy, however the market was still divided on policy stance change, given the extreme global turmoil and RBI's usual hawkish tone in previous policies.

Exceeding market expectations, RBI took a pivotal turn to support growth and delivered a notably DOVISH policy with a 25 bps rate cut and a policy stance change from “Neutral” to “Accommodative”. Even more critical was the commentary on inflation, which came out to be very comforting after a long time. This move clearly signals RBI's intent to support growth amid global uncertainties and readiness to implement further policy measures if necessary.

April 09, 2025

Benign commentary on inflation after a long time; expected to remain below 4% over next 3 quarters

After a very long time, RBI gave a comforting commentary on inflation trajectory, revising FY26 inflation downwards from 4.2% to 4%. It is worth noting is that for the first 3 quarters of FY26, headline inflation is expected to remain well below RBI's long-term target of 4%. Food inflation, which has been a problem for India, seems to have turned corner. RBI expects robust Kharif crop arrival & normal monsoon, which will help in durable moderation in food prices. RBI Governor's strong words that "The outlook for food inflation has turned decisively positive" summarizes it all. Further, the global uncertainty could lead to softening of commodity and crude oil prices, which could lead to faster moderation in inflation, which has not been yet factored in revised projections. While we remain vigilant about the global environment and any unexpected erratic weather conditions, inflation currently appears well contained and may not pose a risk to monetary policy.

GDP growth projections lowered citing global concerns; more downside risk due to global turmoil

RBI has acknowledged the slowing growth momentum as it revised the FY26 GDP projection downward from 6.7% to 6.5%. Although economic activity has picked up in 3QFY25 after a significant decline in 2QFY25, on the back of improving government capital expenditure and healthy domestic demand, RBI admitted that it remains below the potential. Further, the recent tariff imposition and global trade tensions would have a significant bearing on global as well as domestic growth. Given these lingering growth concerns, RBI has clearly signaled that monetary policy has to turn its focus on growth now, as moderating inflation gives space for easing. This marks a pivotal shift in RBI's approach from inflation-growth priority to growth-inflation order now.

Commitment to maintain sufficient liquidity reiterated

System liquidity was in deficit in January 2025 however, towards the end of March, liquidity turned surplus owing to RBI's aggressive liquidity measures. RBI conducted eight Open Market Operations (OMO) purchase auctions injecting liquidity amounting to Rs. 2.85 lakh crore, three term Variable Rate Repo (VRR) auctions totaling Rs. 1.83 lakh crore and three USD/INR Buy/Sell swaps auctions of Rs. 2.18 lakh crore so far. Additionally, two OMO purchase auctions for Rs. 40,000 crore are scheduled for later in April 2025. Government spending is also expected to pick up pace in the second half of March which would further improve system liquidity. We expect RBI to maintain surplus banking liquidity through more OMOs / Fx swap in order to ensure effective rate cut transmission to corporate borrowers.

External factors remain comfortable to cushion the global uncertainty

RBI sounded confident on India's external sector as the indicators have remained resilient with strong service exports, a manageable current account deficit (CAD), healthy import cover of about 11 months, moderating inflation, fiscal consolidation and a relatively stable credit environment. Despite global headwinds putting pressure on emerging countries, India is expected to remain strong. The INR also strengthened against USD from 87.44 at the end of February to 86.22 as of Apr 08, 2025, on the back of sharp moderation in February trade deficit and healthy foreign portfolio investments (FPI) flow in debt segment. India's forex reserves have grown to USD 676.3 billion due to RBI's forex market interventions and valuation changes of foreign assets.

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Market reaction was muted given the sharp overnight increase in US treasury yields and ongoing US-China tariff war

Domestic yields experienced significant intraday swing before and after the policy announcement. The market opened on a weak note with domestic G-sec yields hardening by 5-7 bps before the policy as US Treasury yields had spiked up sharply overnight by 20-25 bps. Despite the MPC policy exceeding market expectations, market was initially reluctant to reflect this in yields. While the activity picked up later and eventually the G-Sec yields closed lower by 3-5 bps, we believe the response was still muted to the dovish policy. The ongoing tariff war between US & China, which escalated further as China announced higher tariffs of ~84% on US's goods, along with beginning of US's new tariff policy against other countries, likely resisted any significant moves today.

Segment	Broad movement of yields in bps (as on April 9, 2025)	
	G-Sec	AAA Corporates
3 months	-3 bps	-2 bps
6 months	-5 bps	-2 bps
1 year	-5 bps	-2 bps
2 -3 years	-5 bps	-3 bps to -5 bps
4 - 5 years	-5 bps	-3 bps to -5 bps
10 years	-3 bps	-3 bps to -5 bps
15 years	-2 bps	NA
30 years	-1 bps	NA

Source: Bloomberg

Domestic growth-inflation dynamics opens-up space for more rate cuts; worsening of global tariff environment will add further space for rate cuts

At the start of CY25, the market had a consensus opinion of 2 rate cuts in this easing cycle due to global uncertainty resulting in currency pressure and elevated food inflation. However, factors have turned more benign since then, with currency pressures have receding to an extent as the USD loses strength against its trading partners. Domestically, inflation has moderated much faster than anticipated and growth momentum remains subdued. The current policy rate at 6% and forward looking FY26 inflation projection at 4% leave the real rate at an elevated 200 bps. Given that RBI has shifted its focus to supporting growth, we believe RBI may find space for two more rate cuts so as to bring the real rates down to 150 bps. The US's trade policy in current form & ongoing trade tussle with China is very disruptive for global growth and will likely lower global inflation (except in the US, which may see increasing inflation). RBI's Governor also mentioned during the press conference that US's tariff may raise more concerns on growth than inflation. If tariff war continues for a longer time and global growth is disrupted, we believe RBI will have to step in and deliver further rate cuts to bolster economic growth.

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Risk-reward remains favorable for debt markets

Against the backdrop of global uncertainty, the Indian fixed income market is expected to remain largely resilient, though it may experience knee-jerk reactions. The Central Government's clearly articulated fiscal consolidation path over the next few years remains a structural driver for domestic fixed income market. The G-Sec borrowing calendar for 1HFY26 is in line with expectations at 54% of FY26 gross borrowings. The supply is largely concentrated in the belly of curve, with longer end having a relatively smaller proportion. Foreign investors remain net buyers in domestic debt with ~Rs 50,000 cr inflow in CY25 so far. RBI's Open Market Purchase operations have exceeded the expectations which further sweetens the demand-supply dynamics. RBI's dividend in May is expected to exceed the budgeted ~Rs 2.2 lakh cr on the back of higher accrual income and profits booked on Fx sale, thereby providing cushion to fiscal consolidation.

While the yields may remain volatile and react to global developments, domestic factors remain quite supportive. Overall, risk-reward remains favorable at current juncture as healthy domestic demand-supply dynamics, expectations of further rate cuts and RBI's OMOs will help in bringing the market yields down and likely generate capital gains. However, considering the shape of yield curve, it will be critical to position appropriately on G-Sec & Corporate bonds as we find G-Sec yield curve above 5 yr tenor and Corporate bond yield curve upto 5 yr tenor more attractive. Any uptick in yields due to still evolving global factors should be seen as an opportunity to build further exposure.

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