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Policy on expected lines. Status quo on policy rates and dovish accommodative policy stance expected to be sustained till growth revives. RBI's market supportive approach, G-SAP 2.0 and other liquidity measures are welcome confirmations, while fears of unwinding of policy measures seems a distant possibility. Revision in GDP and inflation numbers in line with evolving conditions & appear reasonable.

Key decisions/Highlights

Policy **Repo rate remains unchanged at 4%** and Reverse repo rate at 3.35%.

No change in other policy rates; Marginal Standing Facility (MSF) rate and Bank rate stands unchanged at 4.25%.

Monetary Policy Committee (MPC) to **continue with the accommodative stance as long as necessary** to revive and sustain growth on a durable basis and continue to mitigate the impact of COVID-19 on the economy, while ensuring that inflation remains within the target going forward.

All MPC members **unanimously voted in favor of keeping the policy rates unchanged.**

The **Consumer Price Index (CPI) based inflation marginally increased upwards for FY22 by 10 bps and is now projected at 5.1%;** 5.2% in Q1 (no change); 5.4% in Q2 (earlier 5.2%); 4.7% in Q3 (earlier 4.4%); and 5.3% in Q4 (earlier 5.1%) with risks broadly balanced

Real Gross Domestic Product (GDP) growth revised downwards to 9.5% in 2021-22 (10.5% earlier) consisting of 18.5% in Q1 (earlier 26.2%), 7.9% in Q2 (earlier 8.3%), 7.2% in Q3 (5.4% earlier) and 6.6% in Q4:2021-22 (earlier 6.2%).

Regular operations for liquidity management to continue; with the second wave intensifying this financial year, the focus of the RBI is increasingly turning from **systemic liquidity to its equitable distribution**

G-SAP 1.0, for purchase of G-Secs of Rs. 40,000 crores to be conducted on June 17, 2021. Of this, Rs. 10,000 crores would constitute purchase of state development loans (SDLs)

G-SAP 2.0 of Rs 1.2 lakh crores in Q2 2021-22 announced

On-tap Liquidity window of Rs. 15,000 crores with tenors of up to three years at the repo rate till March 31, 2022 for certain contact-intensive sectors i.e., hotels and restaurants, tourism – travel agents etc.

Further special liquidity facility of Rs. 16,000 crores to Small Industries Development Bank of India (SIDBI) in order to meet MSMEs' short- and medium-term credit needs to kick start the investment cycle.

Overall a Dovish policy with clear focus on maintaining financial stability and sustaining economic recovery

Today's MPC policy was set amidst the significant disruption caused by the Covid-19 second wave, which not only led to severe health hazards & fatalities relative to the first wave, but also obstructed the nascent economy recovery which had just started gaining some pace in early 2021. While, the economic impact is expected to be contained this time (relative to the nation-wide lockdown in first wave), the second wave of Covid-19 has raised the risk of many such disruptions which can be led by subsequent waves, unless the large part of the population is successfully vaccinated.

Accordingly, we had expected RBI to continue with the market supportive measures to keep the interest rates lower for longer time and support growth, while keeping a close watch on the inflation trajectory. MPC has unanimously delivered on our expectations of continued growth supportive measures through accommodative policy & benign liquidity stance. This is the sixth consecutive policy when MPC has maintained the status quo on rates and we feel that RBI will prioritize growth and will continue with its accommodative stance while keeping the rates steady for the rest of year.

Moderation of 1% in FY22 growth projection

Acknowledging the Covid-19 related disruptions, MPC has revised GDP growth to 9.5% in 2021-22 from 10.5% earlier with downside risk emanating from increased spread of Covid-19 infections in rural areas while strong rural demand and expected normal monsoon will support economic growth.

Inflation a key monitorable but not a concern

MPC notes that inflation trajectory will be influenced by both upside and downside factors. Hardening of global commodity prices & domestic supply chain disruption could add to the inflation worries, while the normal south-west monsoon and comfortable buffer stocks can keep the food prices contained. Even as inflationary pressures persist as of now, RBI is expected to take comfort as long as the inflation remains within the inflation targeting framework of 2% to 6% and is not led by the demand driven factors. The MPC has projected CPI at 5.1% during 2021-22, which remains within its target. Despite the risks of a buildup of inflationary pressures in the near term, we feel MPC is likely to give higher priority to the concerns around growth recovery.

GSAP amounting to Rs. 1.2 Lakh crores is a welcome conformation but a tad lower than expectations

The announcement of GSAP 2.0 for 2QFY22 reflects the RBI's continued support to ensure the completion of record-high G-Sec borrowing program in a non- disruptive way, although the amount of Rs 1.2 lakh crores is a tad lower than the market expectations. Additionally, the regular use of Open Market Purchase Operations (OMOs) & Operating Twists is in line of RBI's endeavor to ensure orderly evolution of the yield curve.

Further, the RBI has included state development loans (SDLs) in the third and last tranche of the G-SAP 1.0 which will be conducted on June 17. This clearly indicates RBI's holistic approach and suggests RBI is actively watching all segments of the market and considering SDLs and corporate bonds from the context of equitable distribution of liquidity.

Liquidity measure extended

The liquidity window of Rs 15,000 crores to some of the stressed sectors and special liquidity facility of Rs. 16,000 crores SIDBI will add to the durable liquidity. Overall, RBI has again re-iterated its commitment to surplus liquidity which is to be seen in conjunction of accommodative policy stance.

Fears of unwinding of policy measures seems a distant possibility

Given the uncertainty regarding economic outlook due to the impact of pandemic led state-wide lockdowns and the fears of subsequent Covid-19 waves, we expect MPC will give precedence to growth and thus RBI's policy unwinding measures are expected to be pushed further to next calendar year amid second wave of Covid-19 and will remain a function of growth revival, vaccination pace and inflation trajectory.

Market reaction post policy announcement

Segment	Broad movement of yields today in bps	
	G-Sec	AAA Corporates
3 Months	Flat	Flat
6 Months	-1	Flat
1 year	+2	Flat
2 -3 years	-1 to -2	-2
4 - 5 years	+3	Flat
10 years	+3	+2

Data source: Bloomberg.

Fund Positioning

The unanimous decision on policy rates and accommodative stance has reconfirmed our expectation that RBI will remain market supportive given current economic woes. We continue to believe that RBI will maintain accommodative policy and use all the possible tools to revive & support the growth over next few quarters, which bodes well for the overall fixed income market as the rates are expected to remain stable.

The policy stance with regards to liquidity management also augers well for short end of the yield curve, while the long end gets supported by the active yield management by RBI through the G-SAP programmes and OMOs.

We feel that 1-5 years segment of the yield curve continues to provide attractive opportunity from risk-reward perspective. Additionally, favorable demand-supply dynamics also augers well for this segment.

Our funds such as Invesco India Treasury Advantage Fund, Invesco India Corporate Bond Fund, and Invesco India Short Term Fund largely positioned in 1-4 years space provide attractive investment opportunity amid RBI's continued policy and liquidity stance.

Announcement of G-SAP 2.0 and regular OMOs adds to the confidence at long end of the curve. We feel that current yields at longer-end provide good entry point to the investors looking for long term allocation given the steepness of yield curve. Some allocation at the longer end also finds merit on the back of conviction that RBI will manage the yield curve and may support the long-term yields.

Investors with long term horizon and ability to absorb short term volatility may consider Invesco India Banking & PSU Debt Fund which is positioned at longer-end of the curve.

Besides, we believe credit dispersion will continue, with very high-quality credits benefitting from RBI's benign liquidity policy but the lower quality credits continuing to be avoided for the time being. All the above funds have maintained highest asset quality and as of now are deployed in 100% AAA rated assets (on long term rating basis).

Disclaimer- The above fund positioning is based on current views and is subject to change from time to time. The information alone is not sufficient and shouldn't be used for the development or implementation of an investment strategy. It should not be construed as investment advice to any party.

Invesco India Banking & PSU Debt Fund

(An open-ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds)

Suitable for investors who are seeking*:

- Returns over short to medium term
- Investments primarily in debt & money market instruments issued by Banks, PFIs, PSUs and Municipal Bonds

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISKOMETER



Invesco India Short Term Fund

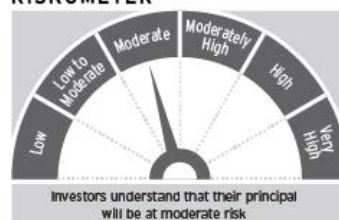
(An open ended short term debt scheme investing in instruments such that the Macaulay duration[^] of the portfolio is between 1 year to 3 years)

Suitable for investors who are seeking*:

- Income over short to medium term
- Investments in short term debt and money market instruments

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISKOMETER



Invesco India Corporate Bond Fund

(An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds)

Suitable for investors who are seeking*:

- Income over medium to long term
- Investments in AA+ and above rated corporate bonds

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISKOMETER



Invesco India Treasury Advantage Fund

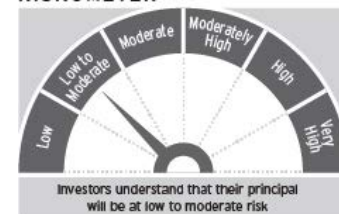
(An open ended low duration debt scheme investing in instruments such that the Macaulay duration[^] of the portfolio is between 6 months to 12 months)

Suitable for investors who are seeking*:

- Income over short term
- Investment in debt and money market instruments

*Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

RISKOMETER



[^]Please refer to the heading 'C. Asset Allocation Pattern' under Section 'II. Information about the Scheme' of Scheme Information Document where the concept of Macaulay duration has been explained.

Note - Macaulay duration of a bond is the number of years taken to recover the initial investment of a bond. It is calculated as the weighted average number of years to receive the cash flow wherein the present value of respective cash flows is multiplied with the time to that respective cash flows. The total of such values is divided by the price of the security to arrive at the duration.

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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.