RBI Monetary Policy - February 2018

A Comforting Policy

Kumaresh Ramakrishnan
Head - Fixed Income

The Monetary Policy Committee today maintained the status Quo on Rates and delivered a comforting Policy for the markets which was not as Hawkish as the Markets were expecting .

The committee (MPC) voted 5-1 in favour of leaving the repo rate unchanged with Dr. Michael Patra being the lone dissenter , who was in favour of a Rate hike.

Key Takeaways

Policy Stance: The Policy Stance was retained as **"Neutral"**

Inflation Forecast: The Inflation forecast has been revised higher to 5.1% for Q1 2018 (from 4.3-4.7% in H2 FY18 earlier). For FY19 (ending March 2019), RBI projects inflation at 5.1-5.6% for H1 and 4.5-4.6% for H2 while flagging Upside risks.

RBI has reiterated the uncertainty surrounding the outlook on Inflation and mentioned that the pick-up in price pressures was broad based due to various factors, which included higher global oil prices, an increase in customs duties on a number of items, and the potential impact from the change in the calculation of the minimum support price for the kharif crop that was announced during last week's Union Budget for FY19.

Fiscal Concern: It also highlighted the concern on fiscal slippage though Qualified the statement by mentioning in the press conference that Fiscal deficit has been coming down since 2014.

Growth Forecast: The Growth projection for FY18 was marginally reduced to 6.6% y-o-y from 6.7%. For FY19 RBI projected a slightly stronger growth of 7.2% in FY19 (7.3-7.4% in H1 and 7.1-7.2% in H2) with balanced risks. This is in line with the Nominal GDP Projection in the Budget.

Overall RBI is on wait and watch mode and remains data dependent while remaining vigilant on Inflation Risks.

Our Outlook:

We are of the view that though the Rate Easing cycle has ended, the bond market has already discounted this.

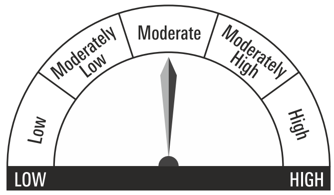
Over the last two quarters bonds yields have risen by 120 bps and at the current yield market is factoring in a 50bps rate increase.

Bond Yields have risen quite sharply over the last 5 months and are now trading at attractive valuations and we continue to recommend high quality short duration products with an average maturity in the range of 1-3 years. These products will limit the return volatility for investors at a time when the yields are inching higher. The rise in yields over the last six months have also given an attractive entry point to investors from a medium term perspective.

In addition we also recommend the 'accrual category' which is positioned well given the higher YTM (carry) in this segment and limited exposure to duration. We recommend the DHFL Pramerica Credit Opportunities fund in this space.

The DHFL Pramerica Dynamic Bond Fund as a tactical Investment for those investors with a slightly higher appetite to handle volatility.

We expect the 10yr bond yield to trade in a range of 7.30% to 7.80%

This product is suitable for investors who are seeking*:	Riskometer
DHFL Pramerica Dynamic Bond Fund • Regular income for short term. • To generate optimal returns through active management of a portfolio of debt and money market instruments. • Degree of risk – **MODERATE**	 Investors understand that their principal will be at moderate risk
DHFL Pramerica Credit Opportunities Fund • Income and capital appreciation over medium to long term • Investment predominantly in corporate bonds of various maturities and across ratings • Degree of risk – **MODERATE**	

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

C166/17-18