

RBI MPC likely to ease policy repo rate by 25bps to 6% and change stance to accommodative at April meet

April 8, 2025

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RBI MPC likely to ease policy repo rate by 25bps to 6%

- The market polls are pricing 25bp rate cut by the RBI MPC on 9-Apr-25 that will take the policy repo rate to 6%. In Feb-2025, the RBI MPC had eased the repo rate by 25bps for the first time in five years, as domestic growth slumped in Q2-FY25.

- A lot has transpired since the last MPC meeting that concluded on 7-Feb-25. Domestically, headline CPI inflation slipped below 4% in February, and high frequency economic activity indicators have improved in Q4-FY25, though recovery remains uneven and underwhelming. In this backdrop, external uncertainties have escalated, as the US administration has imposed reciprocal tariffs across economies, including India. Financial markets have turned volatile globally, as fears of a recession in the US and global economic slowdown has triggered risk-off sentiment. Amid resultant weakness in the dollar index and RBI intervention, the USDINR has taken a U-turn post depreciation pressures between Oct-2024 to Feb-2025.

- The RBI has also been aggressively infusing liquidity into the system since January via daily and term VRR operations, OMO purchases, and USD/INR buy/sell swap auctions. As a result, banking system liquidity switched to surplus towards the end of March after remaining in deficit since mid-Dec 2024. These measures have also triggered market talk of likely changes to the liquidity adjustment facility framework that could ensure comfortable surplus liquidity in the system amid increased downside risks to domestic growth.

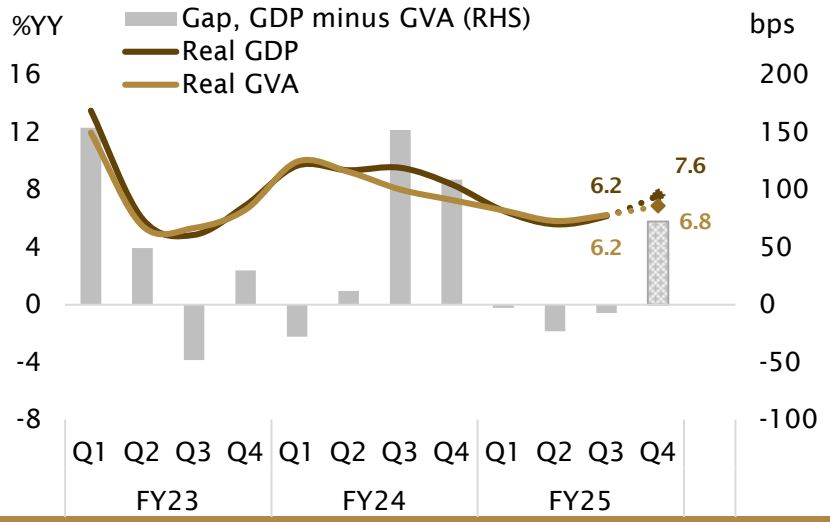
- The markets are currently pricing easing to the tune of more than 50bps in three months time, indicating another 25bp cut likely at the policy meeting in June. As the system liquidity turned to surplus towards the end of March and early April, overnight rates in both collateralized and unsecured segments slipped below 6%, which is also the standing deposit facility (SDF) rate or the floor of the LAF corridor. The one-year OIS, which tends to reflect market expectations about the repo rate, has also eased below 6%. This signals an easing bias being priced in by market participants beyond the 25bp rate cut expected in April. There is a reasonable probability that the MPC changes the policy stance to ‘accommodative’ from ‘neutral’ amidst rising global headwinds.

- In early April, the RBI appointed Dr. Poonam Gupta, Director General, National Council of Applied Economic Research (NCAER), New Delhi as Deputy Governor. Dr. Gupta will be replacing Shri M Rajeshwar Rao as a member of the MPC. Shri Rao had been temporarily handling the monetary policy portfolio at the RBI after Dr. Patra's term concluded in January.

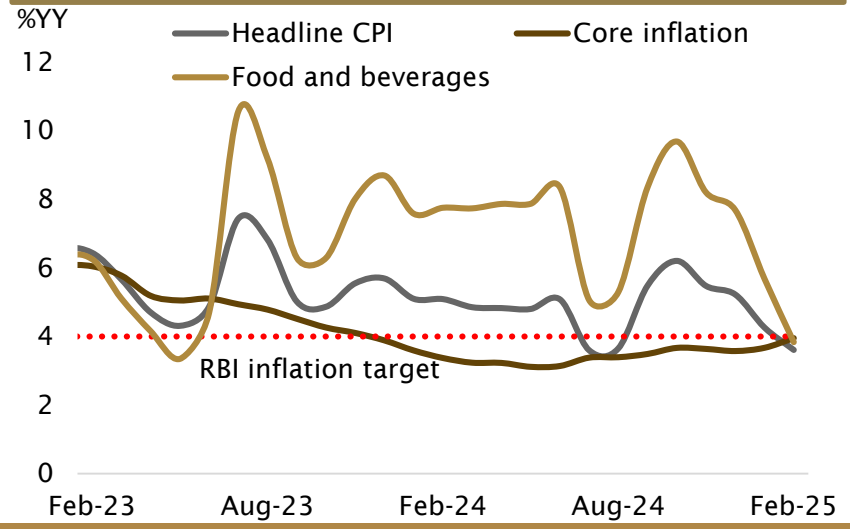
External woes have raised risks to growth; disinflation on track

- In Q3-FY25, both real GDP and GVA growth improved to 6.2%YY from sub-6% growth in Q2. For Q4, the high frequency data indicated resilience in economic activity in January but turned weak in February. In March, the signals remain somewhat mixed, suggesting that recovery from the slump in Q2 could be underwhelming.
- The latest upward revisions to growth data for FY23 and FY24 point to scope for such revisions to quarterly data for FY25, as the underlying momentum for growth could have been stronger than earlier measured for FY25. However, risks remain that growth undershoots the second advance estimates (SAE) for FY25 released by the statistics office at 6.4% for GVA and 6.5% for GDP growth. In this environment, the imposition of reciprocal tariffs by the US across economies, including India, have only raised downside risks to growth.
- On the other hand, the disinflation process is on track. Headline CPI slipped below 4% in February, as food inflation moderated to 21-month low. The easing was due to seasonal correction in prices of vegetables that was sharper than historical trend. Core inflation (ex-food, fuel) rose but remained benign at 4.0%.
- The latest estimates for Kharif and Rabi produce for FY25 show year-on-year growth, with record output in certain items. Summer sowing is progressing well and is above last year's levels across most major crops, except certain oilseeds. Reservoir levels for the country as a whole remain above average, though there are deficiencies in some Northern and Eastern states. However, above normal number of heatwave days in most parts of the country in Apr-Jun, as predicted by the IMD, remain a risk to food inflation outlook.

Growth improved in Q3-FY25; downside risks remain



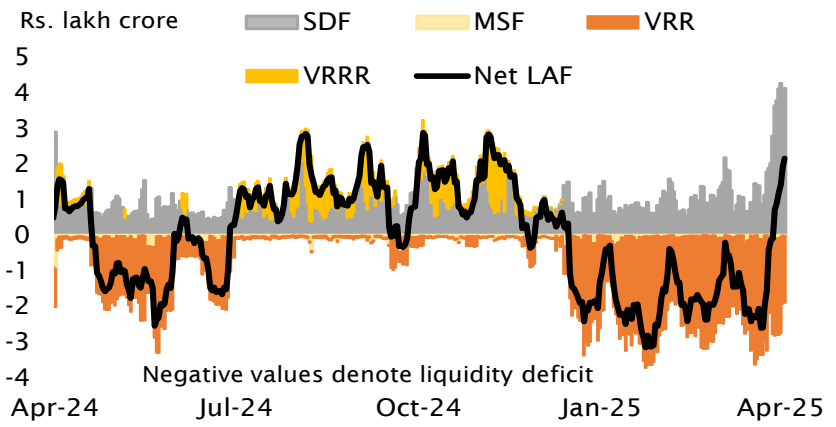
Low food inflation pushed CPI inflation below 4% in Feb



Liquidity switched from deficit to surplus due to RBI actions

- The system liquidity had been in deficit since mid-December 2024, worsening to (-)Rs.3.2 lakh crore on January 23. However, as a result of RBI actions since January, banking system liquidity swung back to surplus towards the end of March, and as on April 3, stood at Rs.2.2 lakh crore.
- To address the deficit situation, the RBI announced daily VRR operations in mid-January and since then, undertook a slew of measures to inject liquidity, including OMO purchases, term repo operations, and USD/INR buy/sell swap auctions. The amount injected via OMO purchases (including through NDS-OM and the ones to be held in April) amounted to Rs.3.6 lakh crore; the forex swap auctions amounted to injections worth Rs.2.2 lakh crore. The term repo operations (that matured in first week of April) amounted to Rs.1.8 lakh crore, taking overall total liquidity injections to the tune of Rs.7.7 lakh crore.
- Additionally, since the last MPC meet held in February (until April 4), the RBI conducted two main and 42 fine-tuning VRR operations that added liquidity of around Rs.27.4 lakh crore.
- Despite the deficit situation for most of Q4-FY25, there were increases in funds that banks parked under the standing deposit facility (SDF) from an average of Rs.0.8 lakh crore in January to Rs.1.0 lakh crore in February to Rs.1.5 lakh crore in March. This indicated asymmetric distribution of liquidity within the banking system and banks' increased preference for liquidity.

Liquidity back in surplus due to RBI actions



(Rs. crores)

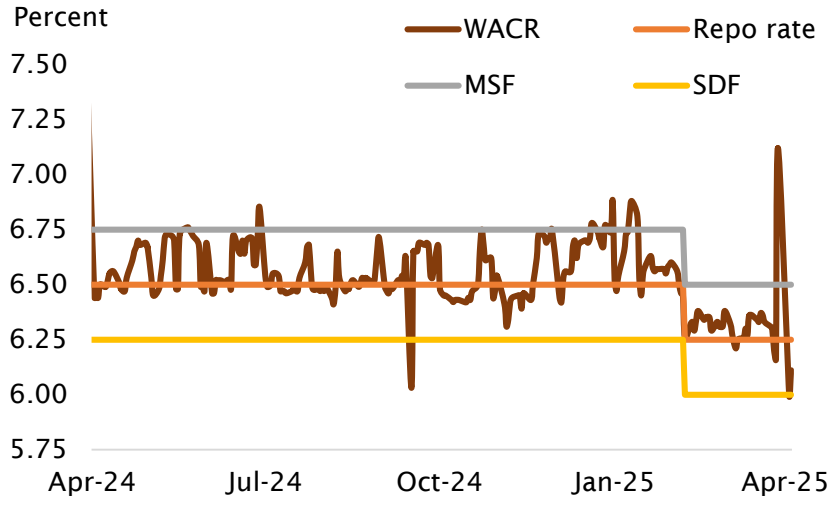
Measure	Description	Auction date	Amount injected
OMO purchase	Through NDS-OM	Jan-25	38,825
OMO purchase auction		30-Jan-25	20,020
		13-Feb-25	40,000
		20-Feb-25	40,000
		12-Mar-25	50,000
		18-Mar-25	50,000
		25-Mar-25	44,541
		03-Apr-25	20,000
		08-Apr-25	# 20,000
		22-Apr-25	# 20,000
		29-Apr-25	# 20,000
Term repo auctions	56-day VRR auction	07-Feb-25	50,010
	49-day VRR auction	14-Feb-25	75,003
	45-day VRR auction	21-Feb-25	57,951
USD/INR buy sell swap auction	Tenor: 6 months	31-Jan-25	~ 44,000 *
	Tenor: 3 years	28-Feb-25	~ 88,000 **
	Tenor: 3 years	24-Mar-25	~ 88,000 ***
		Total	**~ 7,66,350**

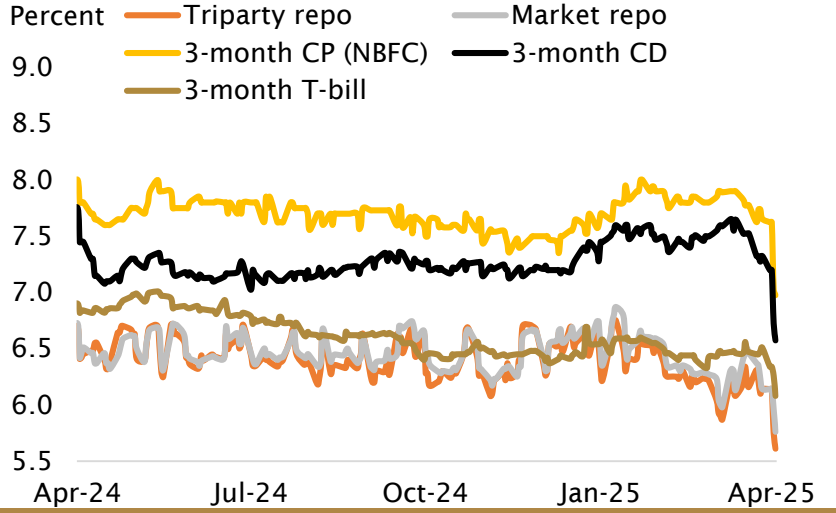
*(USD 5.10 bn); **(USD 10.06 bn); **(USD 10.04 bn); # announced

Overnight rates slipped below 6% as liquidity turned to surplus

- As the system liquidity swung back into surplus towards the end of March and in early April, the weighted average call rate (WACR) slipped below the standing deposit facility (SDF) rate at 6%. The WACR is the operating target of monetary policy and represents the unsecured segment of the overnight money market. The SDF represents the floor of the LAF corridor. Rates in the collateralized segment also moderated below the SDF.
- As on April 4, the one-year OIS, which tends to reflect market expectations about the repo rate, fell around 10bps below 6%, signaling an easing bias being priced in by market participants beyond the 25bp rate cut expected in April that would take the policy repo rate to 6%. The market pricing has accentuated post the imposition of US reciprocal tariffs on April 2 on economies across the globe, including India.
- The trends in money market rates have been a bit mixed since the last MPC meet, though there has been easing in early April. The yields on 3-month T-bills, certificates of deposit (CDs) and 3-month commercial papers (CPs) issued by NBFCs averaged 6.42 percent, 7.42 percent, and 7.75 percent, respectively between the last MPC meeting outcome on 7-Feb-25 and till 3-Apr-25. In the previous inter-meeting period, the 3-month T-bill had averaged higher at 6.53 percent, the 3-month CD almost stable at 7.43 percent, while 3-month CP by NBFCs had averaged fractionally lower at 7.73 percent. The average risk premia (3-month CP minus 91-day T-bill) increased to 133 bps from 120 bps in the prior inter-meeting period.

Overnight rates slipped below the SDF rate at 6% as liquidity turned surplus; mixed trends in money market yields





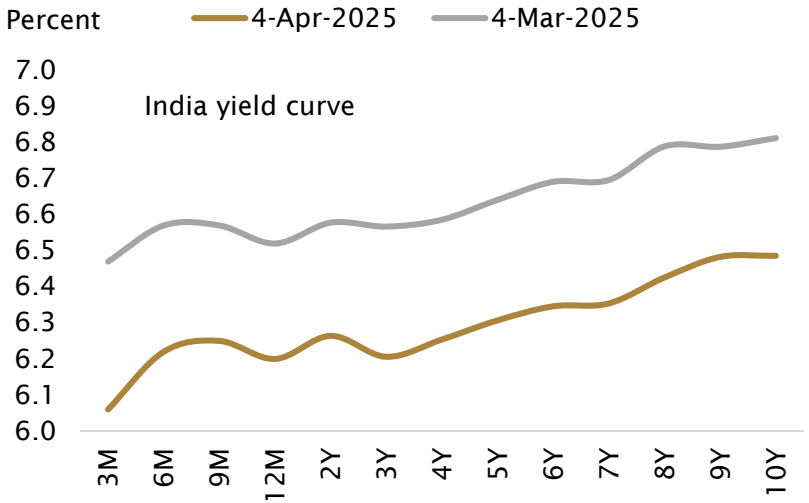
Bond yields have rallied across the curve on domestic, global cues

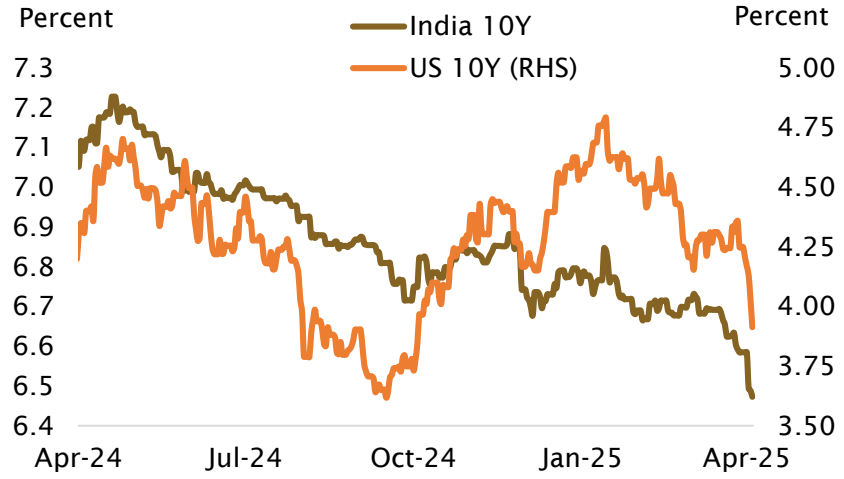
- In the past one month, yields have rallied across the curve in India, aided by a host of domestic and global factors. Domestic factors include 1) year-end book closure activities by provident and mutual funds, and other financial entities that likely kept demand firm for bonds 2) foreign inflows into debt markets surged to around USD4.5bn in March 3) liquidity turned to surplus, supporting overnight and money market rates 4) RBI MPC is expected to cut the repo rate by 25bp in April, following cut of a similar magnitude in February.

- Globally 1) crude oil prices have reached four-year lows amid higher OPEC+ supply and concerns that global trade wars will keep demand muted 2) US yields have rallied, with the 10-year benchmark slipping below 4% on safe haven demand and worries that the imposition of reciprocal tariffs by the US could tip the economy into recession.

- Based on data from Bloomberg for India, the 10Y G-sec benchmark slipped below 6.50% in early April for the first time since January 2022. As on April 4, the yield was at 6.47%, implying a softening of around 25bps from the recent peak of 6.73% around a month back. The 10Y benchmark yield ended FY25 lower for the second consecutive year by 47bp at 6.59% versus 7.05% in FY24. This is sharper than the moderation of 23bp in the previous fiscal year.

In the past one month, yields have rallied across the curve, including 10Y benchmark; 10Y UST has slipped below 4%

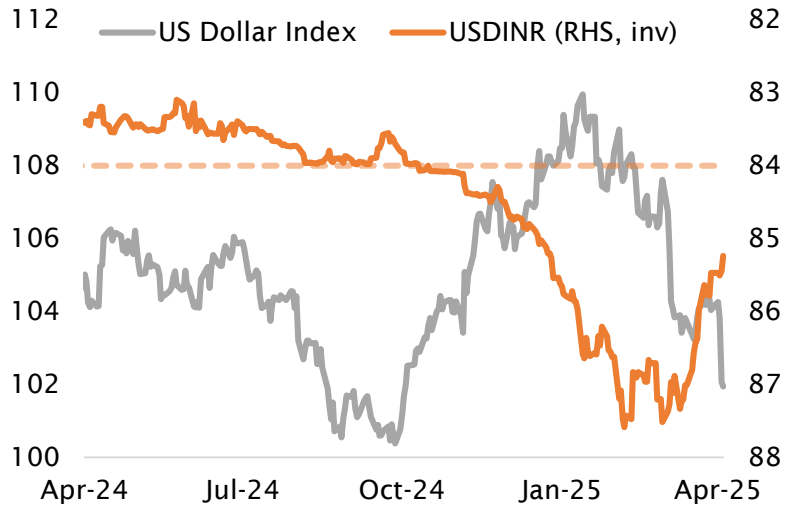




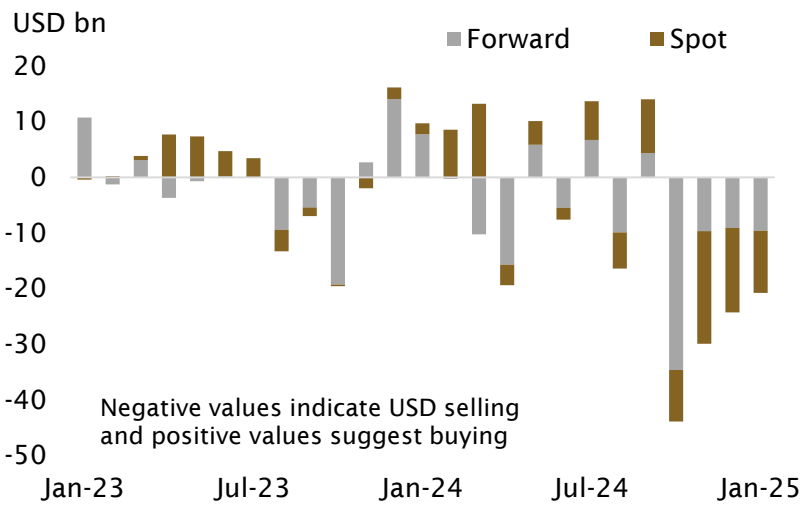
USDINR took a U-turn amid RBI intervention, USD weakness

- Before the Feb-2025 RBI MPC policy meet, the USDINR had reached a low of 87.6/USD on 6-Feb-2025 (Data source: Bloomberg) from around 83.8/USD in end-Sep 2024, implying depreciation of about 4.5%. But post the first week of March and until 4-Apr-2025, the USDINR has gained around 2.5%, aided by multiple factors, including RBI intervention and recent weakness in the dollar index.
- Between end-Sep 2024 and 13-Jan-2025, the dollar index appreciated by 9.5% to 109.96. Since then, it has corrected by over 7% and reached 101.94 on 4-April-2025, the lowest level since early Oct-2024.
- Since Oct-2024, the RBI has been buying USD in both spot and forward markets, with outstanding net forward sales amounting to USD77.5bn in Jan-2025. Amid depreciation pressures in the previous inter-meeting period, foreign exchange reserves dwindled by around USD17bn to USD638.3bn. However, since the last MPC meeting, there has been an accretion to reserves of about USD27bn to USD665.4bn (28-Mar-2025), the highest level since mid-Nov 2024.
- The sell-off in Indian equities by foreigners eased to around USD400mn in Mar-2025 from USD9bn in Jan-2025 and USD4bn in Feb-2025. The inflows into debt rose to USD4.5bn in Mar-2025, implying total net inflows of USD4.1bn during the month, after posting net outflows in the previous two months. Cumulative foreign portfolio flows in debt instruments since the announcement of bond index inclusion in Sep-2023 and till Mar-2025 has been USD27.1bn, while equities have posted outflows due to selloff in recent months.

USDINR took a U-turn; USD fell post reciprocal tariffs



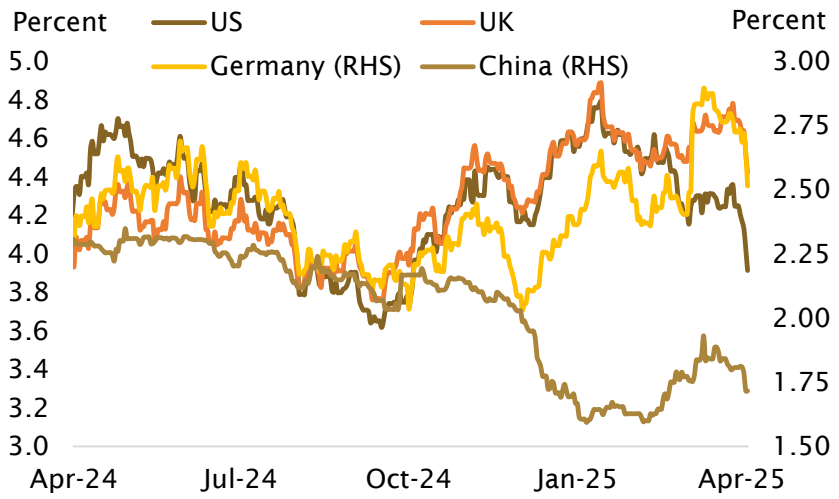
RBI selling USD in spot, forward markets since Oct-24



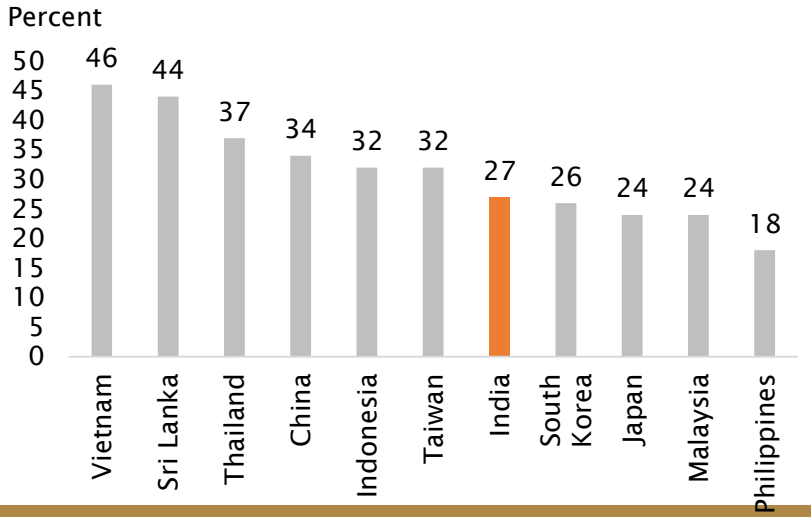
US reciprocal tariffs have accentuated external headwinds

- In the latest development on trade wars, the US administration has imposed 10% tariffs across all countries (effective Apr-5), and reciprocal higher tariffs on economies with which the US has the largest trade deficits (effective Apr-9). Under the latter, the tariff imposed on India stands at 27%. Though higher than expected, it is lower than on peer economies such as Vietnam (46%), China (34%), and Thailand (37%). Among advanced economies, the European Union faces 20% reciprocal tariffs, and Switzerland 32%.
- While the direct impact on India's GDP is estimated to be around 0.2-0.4% of GDP in FY26, there are concerns about the indirect effects if global growth falters in coming years. In its outlook note published in Oct-2024, the IMF noted that global rise in tariffs and greater trade uncertainty could lower global growth by 0.8% in 2025 and 1.3% in 2026. US GDP would fall by about 1% relative to the baseline in 2025.
- India is working on negotiating a trade deal with the US (to be finalized by fall 2025), but experts caution that the scope of the deal could extend beyond tariffs. To protect the domestic economy from these external headwinds, it is likely that the RBI leans towards easing more than was earlier anticipated in the current rate cut cycle. This raises the possibility that in addition to 25bp rate cut expected at the April meet, the RBI MPC changes the policy stance to accommodative.
- In its latest policy decision (19-Mar-25), the US Fed kept target range for the federal funds rate unchanged at 4.25-4.50%, the ECB cut benchmark rates by 25bps on 6-Mar-25 (deposit facility rate to 2.5%), the Bank of England (20-Mar-25) and Bank of Japan (19-Mar-25) held policy rates at 4.5% and 0.5%, respectively.

Yields rallied globally post US tariffs announcement

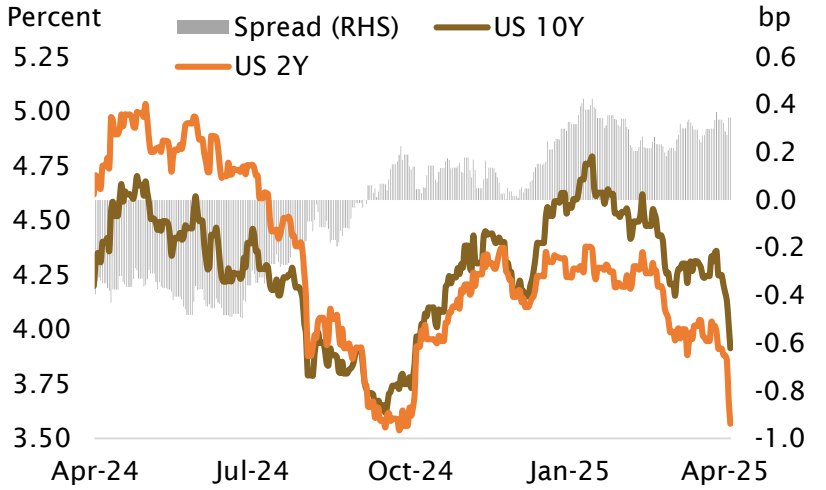


US reciprocal tariffs – Asian economies

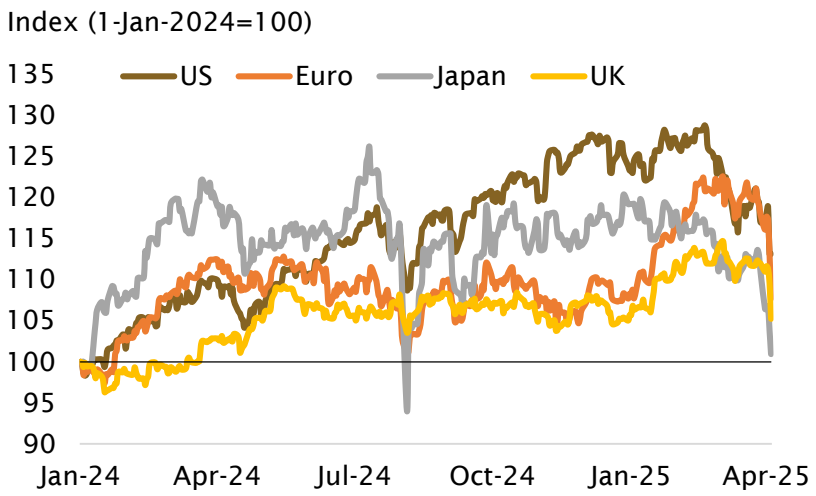


Appendix I – Financial market reaction to US reciprocal tariffs

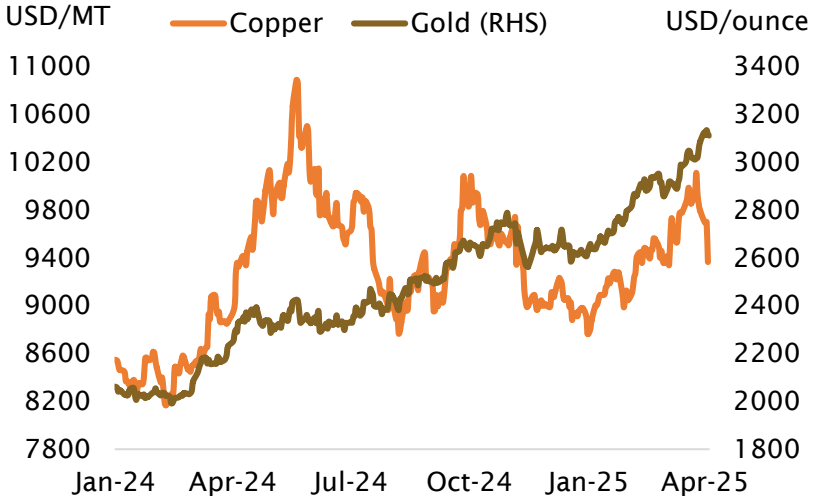
US yields have rallied post reciprocal tariffs



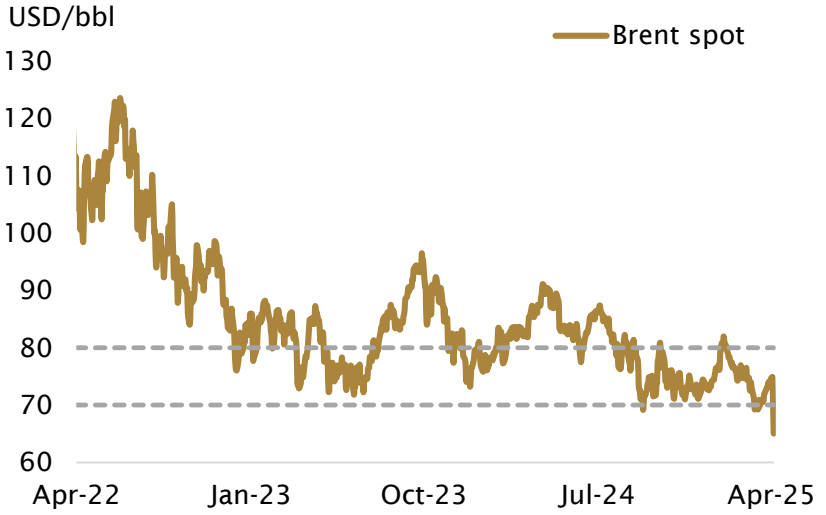
Risk-off sentiment triggered sell-off in equities



Gold rally on safe haven demand; industrial metals weak



Brent spot below USD70/bbl amid US recession fears



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1101, Naman Centre, Bandra Kurla Complex, Bandra (E), Mumbai -400 051, Maharashtra.

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