

RBI Monetary Policy Meeting

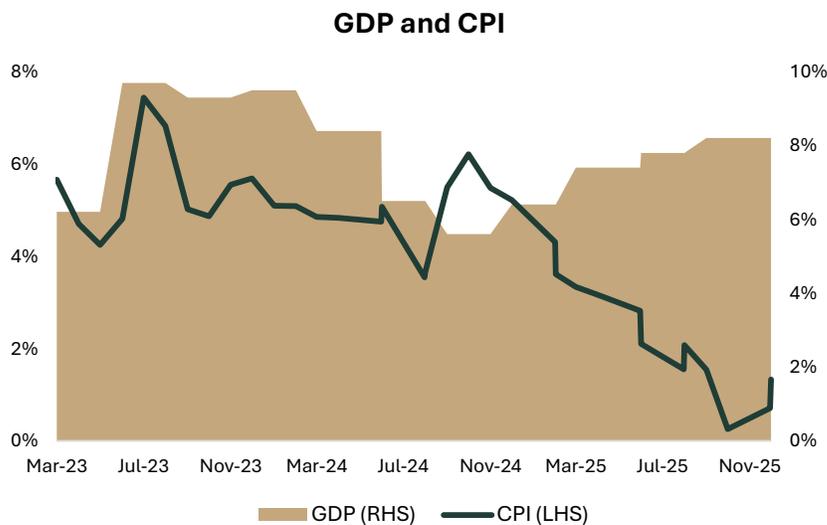
The RBI MPC met on the 4th to 6th of February to decide the outcome for the 1st Interest Rate decision of CY2026. This particular meeting was important given the **backdrop** of multiple domestic and international factors:

- The Union Budget was presented on 1 February 2026, outlining a higher overall budget with a particular focus on increased expenditure, especially in Capex.
- **Trade tensions eased** between India and the west with both India-EU FTA being signed on 27th January 2026 and the details of the Interim India-US Trade deal being released on the 9th of February
- **Increased currency volatility** saw the Indian Rupee depreciate significantly, with the USD/INR breaching the 92 threshold

The Governor’s opening remarks were optimistic, framing India as a resilient outlier in a volatile global economy. Despite the tough geopolitical environment characterized by persistent global inflation, trade uncertainty, and political fragmentation in developed markets – **India remains strategically well-placed**

Amidst this tricky global environment, India remains well placed for growth as:

- **The inflation-targeting framework (4% +/- 2%) has worked well for the RBI** – as they were able to manage inflation to support the strong GDP growth



Source: Trading Economics, Investing.com

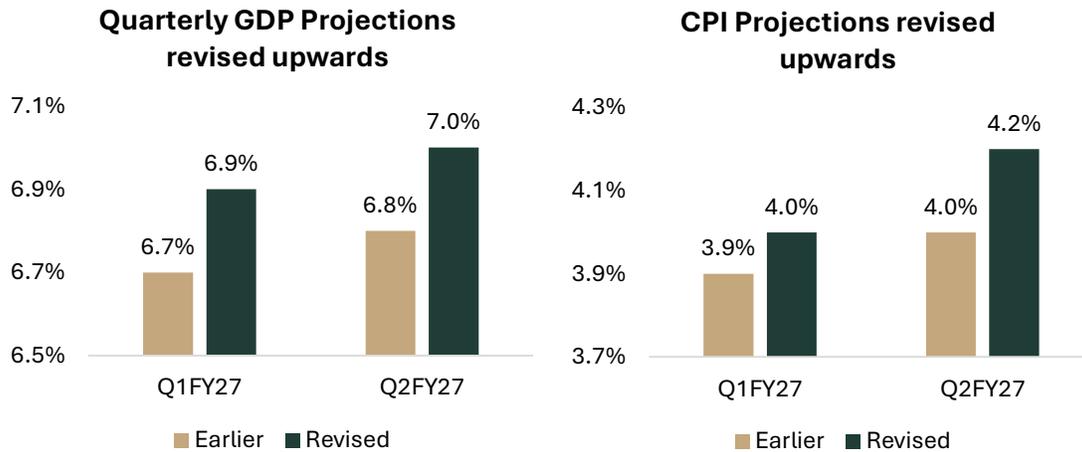
The RBI has also **retained the neutral stance** – which we interpret to be equivalent to ‘**wait and watch**’ – meaning RBI will continuously **monitor incoming economic data to take a call to increase/decrease/not change interest rates.**



All the rates remain unchanged:

Repo Rate	5.25%
MSF	5.50%
Bank Rate	5.50%
SDF	5.00%

RBI increased forecasts for FY26 GDP (7.4%) from the previous 7.3% and Inflation (2.1%) from the previous 2%



Source: RBI

The improvement in GDP outlook is on the back of improving trade sentiment. The RBI expects economic activity to hold up well in FY27 as well. For holistic growth of the country, **we observe the following Key monitorable:**

- Healthy water reservoir levels: **All India reservoirs at 66.6% of total capacity**, up ~5% from a year ago and **up 13.3% from the decadal average of 53.3%**
- Robust rabi sowing – growth of 2.4% YoY
- The Economic Survey highlighted **Foodgrain production hit a record 3,577.3 Lakh Metric Tonnes (LMT)** in the Agriculture Year 2024-25, with the growth rate (4.45%) of the last 10 years being the **highest amongst previous decades**
- Continuing momentum in the informal sector should ideally boost the Manufacturing sector as well – **Private manufacturing companies indicate an increase in operating profit by 8.3% in Q3FY26, up from 2.7% in Q3FY25**

We can see this growth being reflected in the economy, with the recent Union budget emphasizing on Manufacturing as well as Services. On a relative basis, **India maintains one of the strongest PMI numbers in the world.**



The chart below highlights India’s PMI numbers post-Covid. Green indicates Composite PMI numbers to be well over 50 (indicating expansion):



Source: JP Morgan

As we have been highlighting in our notes throughout – we believe that the policymakers and GOI have been working in sync to increase consumption in the economy – and this effect is visible especially if we track **vehicle sales**:

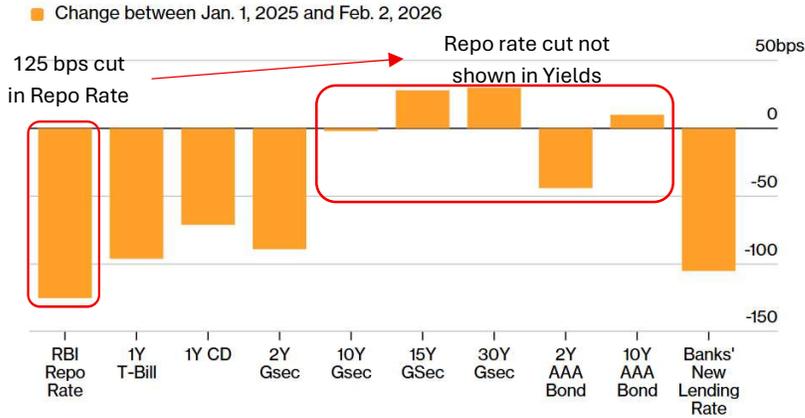
Category	CY'25	CY'24	YoY %
2W	2,02,95,650	1,89,24,815	7.24%
3W	13,09,953	12,21,886	7.21%
E-Rickshaw (P)	4,76,936	4,81,747	-1.00%
E-Rickshaw with Cart (G)	83,403	58,932	41.52%
Three-Wheeler (Goods)	1,32,919	1,25,016	6.32%
Three-Wheeler (Passenger)	6,15,216	5,55,236	10.80%
Three-Wheeler (Personal)	1,479	955	54.87%
PV	44,75,309	40,79,532	9.70%
Tractors	9,96,633	8,93,706	11.52%
CE	74,029	79,316	-6.67%
CV	10,09,654	9,46,190	6.71%
LCV	6,11,306	5,62,224	8.73%
MCV	82,423	68,886	19.65%
HCV	3,15,170	3,13,902	0.40%
Others	755	1,178	-35.91%
Total	2,81,61,228	2,61,45,445	7.71%

Source: Fada.in



Effect on Yields:

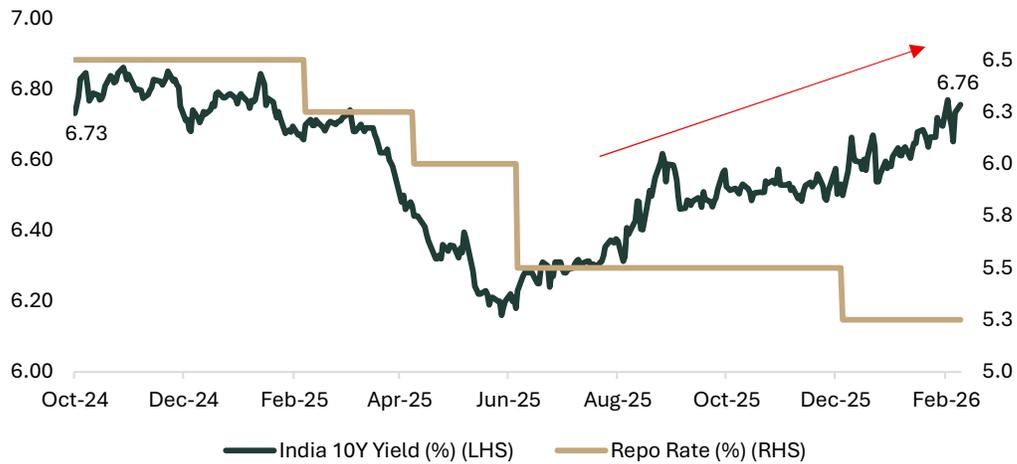
Despite RBI cutting rates from 6.5% to now 5.25% in this cycle, this decrease **hasn't translated across even across all maturities in the yield curve:**



Source: Bloomberg, RBI

Despite RBI's efforts, Repo rate cut hasn't translated into the economy – especially with the 10-year yields being at the same level as a year ago:

India 10-Year not decreasing with the Repo Rate

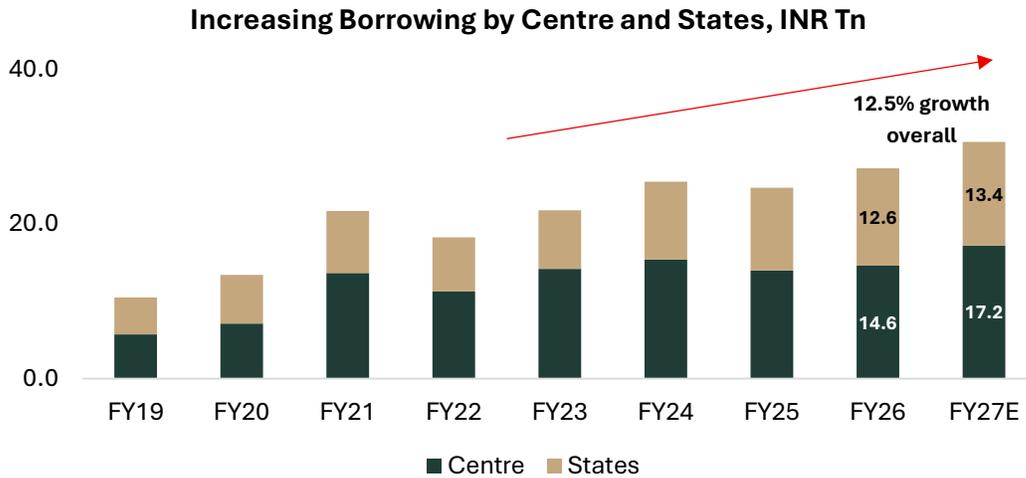


Source: Investing.com



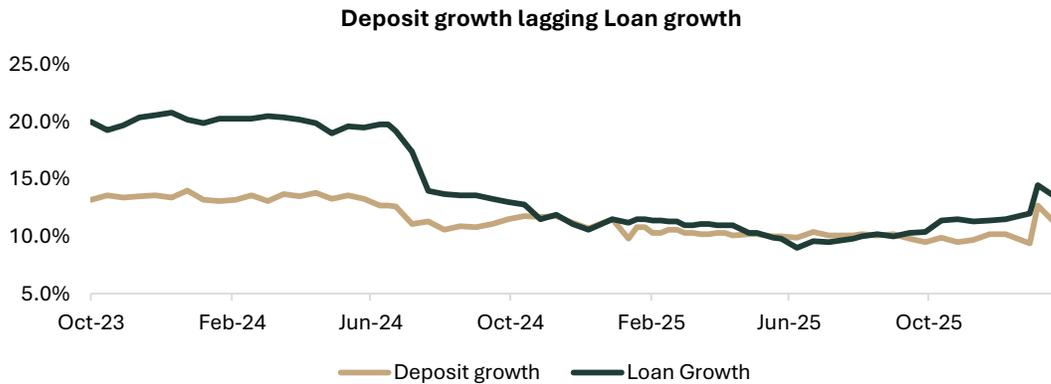
Why hasn't the lower Repo translated to lower yields?

There has been higher borrowing by both Centre and States which is pushing yields higher:

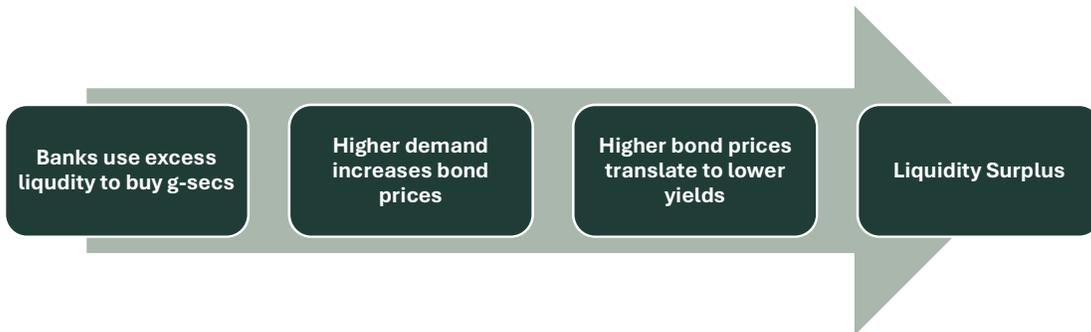


Source: Bloomberg; FY27 Estimate is from Emkay

The RBI has kept system liquidity in surplus over the past few months. However, since banks aren't using this liquidity to buy G-sec bonds and instead loan out money, Yields remain elevated.

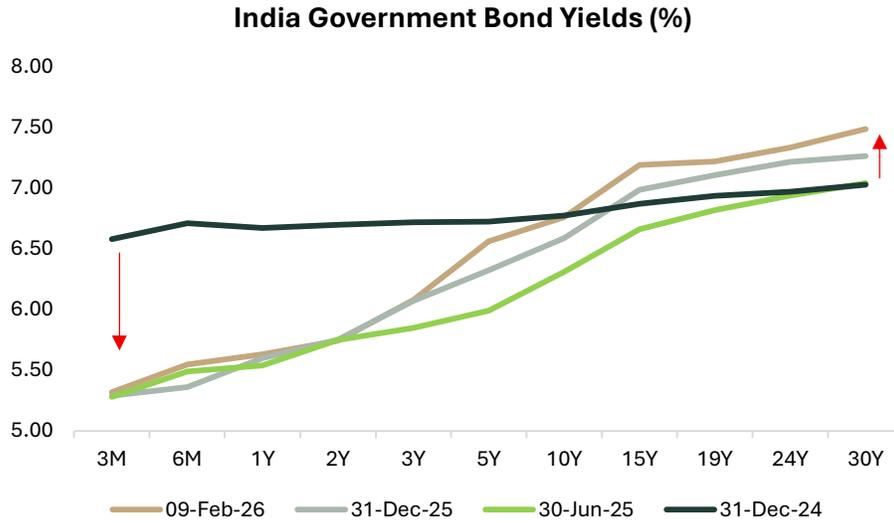


This leads to believe that system liquidity will continue to be in surplus.



Yield Curve:

A year ago, the Yield curve was flat, with not much of a risk premium associated with holding longer term bonds. More than a year later, we see an upward sloping yield curve, meaning there is a **higher risk premium per higher duration**. We believe the risk premium at this point in time isn't enough to enter into the longer end of the Yield curve, and **expect the opportunity to open up when the 10Y yield reaches ~7%** (currently at ~6.8%).



Source: Investing.com

Our View:

Main macro drivers –

RBI has, till now, managed Interest rates relatively well, with most of the macroeconomic indicators achieving the outcome any central bank should have – **higher growth drivers in place combined with manageable inflation**.

Some uncertainty exists –

There are a lot of **contradictory plays happening simultaneously**. While inflation and GDP being the major headlines are in line, **yields, especially at the long end have room to go upwards**, given global geopolitical and inflationary pressures still persist. This combined with **increasing borrowing by both State and Central Governments** have a possibility to create further upwards pressure.

Our take on rates –

Looking at the current scenario, **we expect the Repo rate to be at this level**, as we don't have any indication to make a directional call at this point in time. This is reinforced by the RBI's neutral stance – **it is going to continuously monitor data to decide future outcomes**– which means it isn't leaning towards cutting/hiking rates at this moment.



Investment implications:

Short duration –

The **short end of the yield curve looks relatively well placed**, as we expect borrowing to shift to that tenor.

Long duration –

We also **expect the long end to give us an opportunity to enter, but not at this point**. At ~7% yield on the 10-year G-sec, long end of the Yield curve could become interesting.

Alternates –

REITs across the board have run up in price, and hence aren’t offering very lucrative yields **at this point**. However, we are positive on the structural story that REITs have to offer and **will wait for lucrative entry points for the same**. InvITs on the other hand still continue to offer Lucrative yields v/s traditional fixed income instruments and are hence better placed.

REIT and InvIT Yields: (Distribution is TTM)

Major Listed REITs/InvITs	Distribution	CMP	Yield
Knowledge Realty Trust*	6.22	126.5	4.92%
Mindspace REIT	23.89	497.0	4.81%
Embassy Office REIT	24.46	452.3	5.41%
Brookfield India REIT	21.15	362.9	5.83%
Nexus REIT	8.62	160.0	5.39%
PGInvIT	12.00	93.3	12.87%
IndiGrid InvIT	15.85	164.0	9.66%
Indus InvIT	12.25	121.2	10.11%
IRB InvIT	7.50	62.2	12.07%

KRT is annualized as only one distribution is done till date

**Distribution and CMP is in INR*

Yield is calculated using TTM distributions on current market price

Source: Individual company websites

Fixed Income Funds Average Net YTM:

Fund Category	Net YTM (%)
Overnight Fund	5.36
Liquid	6.08
Arbitrage Fund	5.67
Money Market	6.35
Ultra Short Duration	6.45
Low Duration	6.67
Index Funds	6.23
Credit Risk Fund	7.05
Floating Rate	6.85
Short Duration	6.69
Banking and PSU Fund	6.55
Corporate Bond	6.75
Medium Duration	6.84
Dynamic Bond	6.44
Medium to Long Duration	6.33
Gilt	6.53
Long Duration	6.90

Source: Ace MF



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