

India Special Coverage:

Food inflation leads RBI to keep policy rates unchanged

Key takeaways

- ◆ The Reserve Bank of India (RBI) kept the key policy rate unchanged at 6.5% at the 8 August monetary policy meeting. The RBI decided to continue the withdrawal of monetary accommodation to ensure that inflation continues to decline towards the 4.0% target.
- ◆ The RBI kept its FY 25 (Apr 2024-Mar 2025) GDP growth forecast unchanged at 7.2%, projecting relatively steady growth between 7.1% - 7.3% across the upcoming quarters. While the inflation forecast for FY 25 was retained at 4.5%, the RBI adjusted the trajectory, forecasting higher inflation of 4.4% in Q2 FY 25, but lowered the inflation forecast for Q4 FY 25.
- ◆ RBI Governor Shaktikanta Das highlighted that food inflation remained “stubborn” and said that “without price stability, high growth cannot be sustained”. RBI’s decision is in line with our expectations as we had pushed back rate cut expectations to Q4, following the recent spike in food inflation. Overall, given the strong underlying growth momentum, we expect the current rate cut cycle to be a shallow one, with cumulative 0.50% rate cuts till 1Q 2025. The latest meeting does not alter our base case for Indian assets. We continue to be bullish on Indian equities, Indian local currency bonds and the Indian rupee.



James Cheo

Chief Investment Officer,
Southeast Asia and India,
HSBC Global Private
Banking and Wealth



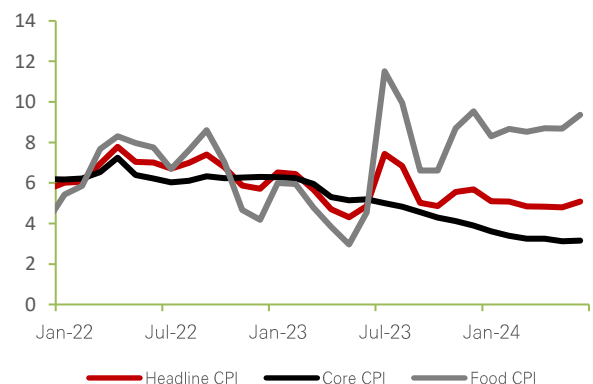
Abhilash Narayan, CFA

Investment Strategist,
HSBC Global Private
Banking and Wealth

What happened?

- The RBI Monetary Policy Committee (MPC) meeting was broadly in-line with market expectations, which had gradually positioned for the no-cut scenario following the last CPI print. 10-year bond yields and USD/INR were largely unchanged at the time of writing.
- In the meeting, RBI’s Monetary Policy Committee (MPC) kept the benchmark repo rate unchanged at 6.5%. Similar to the previous meeting, the decision on interest rates was based on a 4-2 vote, with Prof. Verma and Dr. Goyal voting for rate cuts. The RBI also maintained its stance of “withdrawal of accommodation” with a 4-2 vote as well.
- The RBI also released the updated growth and inflation forecasts. In the press release, it maintained FY 25 (Apr 2024-Mar 2025) GDP growth forecast unchanged at 7.2%, projecting relatively steady growth between 7.1% - 7.3% across the upcoming quarters.

Elevated food inflation delays RBI rate cuts



Source: Budget documents HSBC Global Private Banking and Wealth as of 5 August 2024. Past performance is not a reliable indicator of future performance.

- The MPC highlighted the strong industrial production as well as sustained momentum in manufacturing and services activities point towards steady urban demand.
- The RBI said that while inflation has moderated the progress has been uneven – largely due to sticky food inflation. Steady progress in monsoon (c. 7% above long-term average) and sowing of crops (3% higher y-o-y), adequate buffer foodgrain stocks and easing of global food prices were highlighted as potential positives by the RBI.
- RBI Governor Shaktikanta Das highlighted that food inflation remained “stubborn” and said that “without price stability, high growth cannot be sustained”. He also highlighted that unlike some other central banks like the US Federal Reserve (Fed) who have dual mandates of managing inflation while ensuring maximum employment, RBI’s official mandate is to ensure price stability. In our opinion, this indicates that RBI is likely to remain firmly focused on inflation, especially since the GDP growth remains robust.
- The RBI also highlighted concerns around banking system stability, the elevated loan-to-deposit ratio and greater reliance of banks on wholesale funding which could lead to liquidity and asset-liability mismatch. We could see more measures by policymakers in future to address this issue.

Investment implications

- In our assessment, the RBI is comfortable with the GDP growth but needs to see more progress on inflation before cutting interest rates. The RBI is focused on food inflation, given its significant weightage in the CPI index. Hence, we now expect RBI to cut rate in 4Q 2024.
- Despite edging modestly lower after the RBI meeting, it is worth noting that Indian equities have outperformed global and US equities year-to-date. While this creates a risk of near-term underperformance due to profit-taking by foreign investors, we remain overweight on Indian equities. Robust earnings growth, superior RoEs and strong domestic investor base should help Indian equities outperform over the next 6-12 months.
- We believe the Union Budget was largely supportive for the outlook for Indian equities - fiscal consolidation should support investor confidence, welfare measures should boost domestic consumption and continued high-quality capex and construction spending should boost long-term growth potential and job creation. From a sector perspective, we retain our preference for Financials, Consumer Discretionary and Industrials.
- For the bond market, 10-year Indian government bond yields were largely unchanged following the RBI meeting given that the “hold” was largely priced-in. RBI guidance on 8 August does not change our bullish stance on Indian local currency bonds. Continuation of strong index inclusion inflows and lower supply announced in the Union Budget create favourable demand-supply dynamics, offsetting negative impact from potential delay in the RBI rate cuts.
- Our expectation of largely stable oil prices and RBI’s proactive management of INR volatility should lead to stable USD/INR, with modest INR appreciation potential towards the end of 2024.

Latest Projections by RBI MPC

	CPI Projection		Growth Projection	
	Aug 24	Jun 24	Aug 24	Jun 24
Q1 (Apr-Jun 24)	4.9%	4.9%	7.1%	7.3%
Q2 (Jul-Sep 24)	4.4%	3.8%	7.2%	7.2%
Q3 (Oct-Dec 24)	4.7%	4.6%	7.3%	7.3%
Q4 (Jan-Mar 25)	4.3%	4.5%	7.2%	7.2%
FY 2025	4.5%	4.5%	7.2%	7.2%

Source: RBI, HSBC Global Private Banking and Wealth as of 5 August 2024. Past performance is not a reliable indicator of future performance.

Disclaimer

This document or video is prepared by The Hongkong and Shanghai Banking Corporation Limited ('HBAP'), 1 Queen's Road Central, Hong Kong. HBAP is incorporated in Hong Kong and is part of the HSBC Group. This document or video is distributed and/or made available, HSBC Bank (China) Company Limited, HSBC Bank (Singapore) Limited, HSBC Bank Middle East Limited (UAE), HSBC UK Bank Plc, HSBC Bank Malaysia Berhad (198401015221 (127776-V))/HSBC Amanah Malaysia Berhad (20080100642 1 (807705-X)), HSBC Bank (Taiwan) Limited, HSBC Bank plc, Jersey Branch, HSBC Bank plc, Guernsey Branch, HSBC Bank plc in the Isle of Man, HSBC Continental Europe, Greece, The Hongkong and Shanghai Banking Corporation Limited, India (HSBC India), HSBC Bank (Vietnam) Limited, PT Bank HSBC Indonesia (HBID), HSBC Bank (Uruguay) S.A. (HSBC Uruguay is authorised and oversought by Banco Central del Uruguay), HBAP Sri Lanka Branch, The Hongkong and Shanghai Banking Corporation Limited – Philippine Branch, HSBC Investment and Insurance Brokerage, Philippines Inc, and HSBC FinTech Services (Shanghai) Company Limited and HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group (collectively, the "Distributors") to their respective clients. This document or video is for general circulation and information purposes only.

The contents of this document or video may not be reproduced or further distributed to any person or entity, whether in whole or in part, for any purpose. This document or video must not be distributed in any jurisdiction where its distribution is unlawful. All non-authorized reproduction or use of this document or video will be the responsibility of the user and may lead to legal proceedings. The material contained in this document or video is for general information purposes only and does not constitute investment research or advice or a recommendation to buy or sell investments. Some of the statements contained in this document or video may be considered forward looking statements which provide current expectations or forecasts of future events. Such forward looking statements are not guarantees of future performance or events and involve risks and uncertainties. Actual results may differ materially from those described in such forward-looking statements as a result of various factors. HBAP and the Distributors do not undertake any obligation to update the forward-looking statements contained herein, or to update the reasons why actual results could differ from those projected in the forward-looking statements. This document or video has no contractual value and is not by any means intended as a solicitation, nor a recommendation for the purchase or sale of any financial instrument in any jurisdiction in which such an offer is not lawful. The views and opinions expressed are based on the HSBC Global Investment Committee at the time of preparation and are subject to change at any time. **These views may not necessarily indicate HSBC Asset Management's current portfolios' composition. Individual portfolios managed by HSBC Asset Management primarily reflect individual clients' objectives, risk preferences, time horizon, and market liquidity.**

The value of investments and the income from them can go down as well as up and investors may not get back the amount originally invested. Past performance contained in this document or video is not a reliable indicator of future performance whilst any forecasts, projections and simulations contained herein should not be relied upon as an indication of future results. Where overseas investments are held the rate of currency exchange may cause the value of such investments to go down as well as up. Investments in emerging markets are by their nature higher risk and potentially more volatile than those inherent in some established markets. Economies in emerging markets generally are heavily dependent upon international trade and, accordingly, have been and may continue to be affected adversely by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade. These economies also have been and may continue to be affected adversely by economic conditions in the countries in which they trade. Investments are subject to market risks, read all investment related documents carefully.

This document or video provides a high-level overview of the recent economic environment and has been prepared for information purposes only. The views presented are those of HBAP and are based on HBAP's global views and may not necessarily align with the Distributors' local views. It has not been prepared in accordance with legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of its dissemination. It is not intended to provide and should not be relied on for accounting, legal or tax advice. Before you make any investment decision, you may wish to consult an independent financial adviser. In the event that you choose not to seek advice from a financial adviser, you should carefully consider whether the investment product is suitable for you. You are advised to obtain appropriate professional advice where necessary.

The accuracy and/or completeness of any third-party information obtained from sources which we believe to be reliable might have not been independently verified, hence Customer must seek from several sources prior to making investment decision.

The following statement is only applicable to HSBC Mexico, S.A. Multiple Banking Institution HSBC Financial Group with regard to how the publication is distributed to its customers: This publication is distributed by Wealth Insights of HSBC México, and its objective is for informational purposes only and should not be interpreted as an offer or invitation to buy or sell any security related to financial instruments, investments or other financial product. This communication is not intended to contain an exhaustive description of the considerations that may be important in making a decision to make any change and/or modification to any product, and what is contained or reflected in this report does not constitute, and is not intended to constitute, nor should it be construed as advice, investment advice or a recommendation, offer or solicitation to buy or sell any service, product, security, merchandise, currency or any other asset.

Receiving parties should not consider this document as a substitute for their own judgment. The past performance of the securities or financial instruments mentioned herein is not necessarily indicative of future results. All information, as well as prices indicated, are subject to change without prior notice; Wealth Insights of HSBC Mexico is not obliged to update or keep it current or to give any notification in the event that the information presented here undergoes any update or change. The securities and investment products described herein may not be suitable for sale in all jurisdictions or may not be suitable for some categories of investors.

The information contained in this communication is derived from a variety of sources deemed reliable; however, its accuracy or completeness cannot be guaranteed. HSBC México will not be responsible for any loss or damage of any kind that may arise from transmission errors, inaccuracies, omissions, changes in market factors or conditions, or any other circumstance beyond the control of HSBC. Different HSBC legal entities may carry out distribution of Wealth Insights internationally in accordance with local regulatory requirements.

Important Information about the Hongkong and Shanghai Banking Corporation Limited, India ("HSBC India")

HSBC India is a branch of The Hongkong and Shanghai Banking Corporation Limited. HSBC India is a distributor of mutual funds and referrer of investment products from third party entities registered and regulated in India. HSBC India does not distribute investment products to those persons who are either the citizens or residents of United States of America (USA), Canada, Australia or New Zealand or any other jurisdiction where such distribution would be contrary to law or regulation.

The following statement is only applicable to HSBC Bank (Taiwan) Limited with regard to how the publication is distributed to its customers: HSBC Bank (Taiwan) Limited ("the Bank") shall fulfill the fiduciary duty act as a reasonable person once in exercising offering/conducting ordinary care in offering trust services/ business. However, the Bank disclaims any guarantee on the management or operation performance of the trust business.

The following statement is only applicable to PT Bank HSBC Indonesia ("HBID"): PT Bank HSBC Indonesia ("HBID") is licensed and supervised by Indonesia Financial Services Authority ("OJK"). Customer must understand that historical performance does not guarantee future performance. Investment product that are offered in HBID is third party products, HBID is a selling agent for third party product such as Mutual Fund and Bonds. HBID and HSBC Group (HSBC Holdings Plc and its subsidiaries and associates company or any of its branches) does not guarantee the underlying investment, principal or return on customer investment. Investment in Mutual Funds and Bonds is not covered by the deposit insurance program of the Indonesian Deposit Insurance Corporation (LPS).

Important information on ESG and sustainable investing

Today we finance a number of industries that significantly contribute to greenhouse gas emissions. We have a strategy to help our customers to reduce their emissions and to reduce our own. For more information visit www.hsbc.com/sustainability.

In broad terms "ESG and sustainable investing" products include investment approaches or instruments which consider environmental, social, governance and/or other sustainability factors to varying degrees. Certain instruments we classify as sustainable may be in the process of changing to deliver sustainability outcomes. There is no guarantee that ESG and Sustainable investing products will produce returns similar to those which don't consider these factors. ESG and Sustainable investing products may diverge from traditional market benchmarks. In addition, there is no standard definition of, or measurement criteria for, ESG and Sustainable investing or the impact of ESG and Sustainable investing products. ESG and Sustainable investing and related impact measurement criteria are (a) highly subjective and (b) may vary significantly across and within sectors.

HSBC may rely on measurement criteria devised and reported by third party providers or issuers. HSBC does not always conduct its own specific due diligence in relation to measurement criteria. There is no guarantee: (a) that the nature of the ESG / sustainability impact or measurement criteria of an investment will be aligned with any particular investor's sustainability goals; or (b) that the stated level or target level of ESG / sustainability impact will be achieved. ESG and Sustainable investing is an evolving area and new regulations are being developed which will affect how investments can be categorised or labelled. An investment which is considered to fulfil sustainable criteria today may not meet those criteria at some point in the future.

THE CONTENTS OF THIS DOCUMENT OR VIDEO HAVE NOT BEEN REVIEWED BY ANY REGULATORY AUTHORITY IN HONG KONG OR ANY OTHER JURISDICTION.

YOU ARE ADVISED TO EXERCISE CAUTION IN RELATION TO THE INVESTMENT AND THIS DOCUMENT OR VIDEO. IF YOU ARE IN DOUBT ABOUT ANY OF THE CONTENTS OF THIS DOCUMENT OR VIDEO, YOU SHOULD OBTAIN INDEPENDENT PROFESSIONAL ADVICE.

© Copyright 2024. The Hongkong and Shanghai Banking Corporation Limited, ALL RIGHTS RESERVED.

No part of this document or video may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written permission of The Hongkong and Shanghai Banking Corporation Limited.

