August 06, 2021

PGIM
India Mutual Fund

RBI's third bi-monthly policy

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At the 3rd bi-monthly policy today, RBI through an unanimous vote decided to hold all the key rates unchanged. Through a less than unanimous vote (5-1), the MPC as in the previous meetings agreed on a "accommodative stance" for as long as necessary to help revive and sustain durable growth. One dissenting vote on the stance was notable and a deviation from the unanimous vote in June.

The MPC dwelt on both demand and supply being lower than pre-covid trendlines, with greater focus on demand which it spelt out as being weak and fragile and hence needing longer nurturing to help it turn sustainable. The commentary repeatedly referred to demand being weak needing unmitigated policy support for the foreseeable future. Given this, RBI sees the need for a carefully orchestrated return to pre-policy as pre-emptive normalization could throttle nascent growth.

RBI acknowledged price pressures and sustained higher CPI prints starting May though was quick to point out that these were "transitory" as in most other countries being caused by exogenous supply shocks and led by supply side factors. Also while CPI prints were higher than 6%, the monthly momentum seemed to be slowing. To be sure most of the price rises have been in commodities such as crude, metals, ores besides rising shortages in semi-conductor chips deeply impacting the auto industry. Rising logistics added to supply woes.

Even as RBI agreed to see through temporarily higher inflation, it upped its full year CPI forecast from 5.1% earlier to 5.7%, acknowledging the higher prints that are likely to continue given the longer time towards full normalization. After having lowered growth forecast by 100 bps in June, RBI left growth forecast unchanged at 9.5%. It was more optimistic of exports given the strong external demand and the need to leverage this through appropriate policy to counter weaker private domestic consumption. Given the normal monsoon, prospects for agri output and rural demand also remained favourable.

Much awaited move on liquidity normalization was led by a higher drain out proposed under the Variable Rate Reverse Repo (VRRR) route. The fortnightly drain out of INR 2 trillion will double to INR 4 trillion between August and September. Quick to add that this was not a "reversal of the accommodative stance" RBI stated that VRRR was part of system liquidity and residual liquidity after VRRR would remain in excess of INR 4 trillion and financial conditions would continue to remain easy.

The front end of the curve upto 12 months which has seen an extremely strong rally should react the most to the liquidity measures and should flatten a little. The longer end will face some pressure from the non unanimous vote, which will be construed as less supportive.

Post today's policy, we continue to prefer the Short / mid products such as the Corporate bond (PGIM India Premier Bond Fund) and PGIM India Banking & PSU Debt Fund together with the PGIM India Dynamic Bond Fund (for investors with ability to handle some yield volatility).

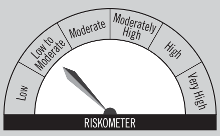
For investors with a shorter and less than 1 year horizon, we recommend the PGIM India Ultra Short Term Fund and PGIM India Low Duration Fund.

Riskometer

This product is suitable for investors who are seeking*:

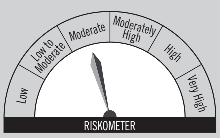
PGIM India Low Duration Fund (An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months to 12 months)
- Income over the short term
- Investment in low duration debt and money market instruments
- Degree of risk – LOW TO MODERATE

PGIM India Premier Bond Fund (An open ended debt scheme predominantly investing in AA+ and above rated corporate bonds)
- Income over the medium term
- Investments predominantly in AA+ and above rated corporate bonds including bonds
- Degree of risk – MODERATE



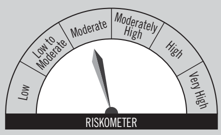
Investors understand that their principal will be at low to moderate risk

PGIM India Dynamic Bond Fund (An open ended dynamic debt scheme investing across duration)
- Regular income for short term
- To generate returns through active management of a portfolio of debt and money market instruments
- Degree of risk – MODERATE



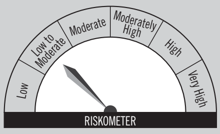
Investors understand that their principal will be at moderate risk

PGIM India Banking and PSU Debt Fund (An open ended debt scheme predominantly investing in Debt instruments of banks, Public Sector Undertakings, Public Financial Institutions and Municipal Bonds)
- Income over the short term
- Investment in debt instruments issued by Banks and Public Sector Undertakings, Public Financial institutions and Municipal Bonds
- Degree of risk – MODERATE



Investors understand that their principal will be at moderate risk

PGIM India Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months to 6 months)
- Income over the short term
- Investment in short term debt and money market instruments
- Degree of risk – LOW TO MODERATE



Investors understand that their principal will be at low to moderate risk

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