

Fund House Viewpoint



RBI Cuts Reverse Repo and Repo Rate by 25 bps, leaves CRR unchanged

The rate cut of 25 bps each in the repo and reverse repo rate was unexpected. We see this as a token move to keep the sentiments of the market positive. RBI remains concerned about the global economic scenario even though it remains hopeful on the domestic economic resilience.

GDP growth for the FY10 has been placed at around 6%. WPI inflation has been projected at around 4% by March 2010. Money supply, deposit and credit growth has been projected at 17%, 18% and 20% respectively.

RBI continues to maintain that it will ensure "non-disruptive" government borrowing and take necessary actions as and when required to achieve this purpose.

Inflation is no longer a concern but at the same time inflationary expectations remain high. RBI is particularly concerned on the transmission of lower policy rates to the end-users as the banking system is yet to reduce rates to levels that correspond with the reduction in policy rates.

With the cut and easy liquidity in the system, the yield curve will steepen further. The short end of the curve is expected to ease further by 25 to 50 bps and we continue to maintain that the long end would remain volatile and the markets would closely watch RBI moves to support the unprecedented large borrowing.

The returns on Liquid Funds are expected to drop further after the rate cut and with investment restrictions mandated by SEBI coming into force from 1st May.

Short Term Funds are expected to perform better than Ultra Short Term Funds (erstwhile Liquid Plus Funds) due to the higher mark - to - market component.

Income and Gilt Funds are expected to deliver 10-12% returns over 6 to 12 months horizon and should be advised to investors with a long term investment horizon and who are willing to take higher risk. The returns for these funds would continue to be volatile.

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