

RBI MPC Meeting

Bazooka on INR, but Status Quo on policy rates

June 2026

RBI MPC Jun'26 – Overview of Actions

	Earlier (Apr'26)	Latest (Jun'26)
Repo Rate	5.25%	5.25%
Growth Projections (FY26)	7.6%	7.7%
(FY27)	6.9%	6.6%
Q1	6.8%	6.6%
Q2	6.7%	6.3%
Q3	7.0%	6.5%
Q4	7.2%	6.8%
CPI Inflation Projections (FY27)	4.6%	5.1%
Q1	4.0%	4.2%
Q2	4.4%	5.1%
Q3	5.2%	5.9%
Q4	4.7%	5.4%
Core Inflation	4.4%	4.7%

- Rates + Stance unchanged ; Repo rate steady at 5.25%
- FY27 CPI inflation policy forecast now @ 5.1% vs 4.6% earlier - remains lower than street estimates (5.5%+)
- FY27 GDP growth estimate lowered by 30 bps to 6.6% - remains higher than street estimates (5.9 – 6.2%).
- Wide range of measures announced to support INR:

- 1. FCNR(B) Support:** RBI to bear full hedging costs for fresh 3-5 year FCNR(B) deposits till 30 Sep 2026.
- 2. ECB Incentives:** Concessional forex swap facility for PSU ECBs until 30 Sep 2026.
- 3. FAR Expansion:** All new issuances of 15Y, 30Y and 40Y G-Secs included under the Fully Accessible Route (FAR). Short-term investment, concentration and individual security limits under the General Route removed.
- 4. Broader Overseas Participation:** Investment limits in listed equities for NRIs/OCIs increased and extended to all PROIs without SEBI registration.
- 5. Export Proceeds:** Realization period for export proceeds proposed to be restored to 9 months vs 15 months currently

Most importantly, the Govt, in tandem with the above policy announcements has exempted Capital Gains and Withholding taxes for FIIs and BIS on G-secs

FAIR Framework

Facts

- Repo rate unchanged at 5.25%; stance remains neutral
- FY27 growth revised lower to 6.6% from 6.9%, remains higher than street estimates
- FY27 inflation projected upwards at 5.1%, remains lower than street estimates | Core inflation forecast increased by 30 bps
- Slew of measures introduced to support rupee

Assessment

- Today's policy's focus mainly on stemming INR depreciation ; 'wait and watch' approach (awaiting concrete data) on rates given the muddy outlook on both inflation and growth
- Street forecasts peg CPI inflation above 6% (upper band of policy inflation target) during Q2 – Q3FY27 led by higher energy prices & El-Nino – interest rate cycle likely to head higher into FY27 – speed and quantum of rate hikes remains uncertain.
- Policy measures seen supportive of near term INR outlook - market expectations for INR/USD have swiftly shifted from Rs 97-100 to Rs 93-97. That said, medium term outlook remains mixed (short USD book of RBI, weak FDI on one hand but with potential rate hikes on the other)

Implication

- Post the announcement, yields eased by a tad across the curve (5 – 15 bps) , while 12M OIS yields (indicating rate hike expectations) fell by just ~5 bps, even as the INR gained ~85 paise against USD. Markets currently expects flows worth \$45-50bn+ by Sep 2026 across the various avenues - the consequent likely stability in the INR may help improve equity market sentiment for FIIs at the margin.
- Improved USD inflows may imply reduced FX intervention by RBI ; increased FCNR(B) accretion could also lower Bank CD issuance – boding well for short term yields over the next 4 – 6 weeks. Removal of withholding tax and capital gains tax opens the door for Euroclear settlements and, in turn, supports the inclusion of Indian bonds in global bond indices – this however is largely dependent on the broader view on India rate cycle / fiscal deficit trajectory that remains fuzzy for now (unlikely to be a big trigger for now, although is a sentiment positive)
- With inflation expected to head higher into FY27 (~5.5%), markets widely expect the RBI to hike rates by ~100 bps although the timing of the onset of the cycle remains uncertain (post Sep'26 cut-off for FCNR(B) inflows in Oct'26 vs. likely spike in CPI inflation (>6%) in Aug'26)
- That said, growth concerns seem underappreciated and if these fears indeed materialize, it could partially offset rate hike expectations. Greater clarity w.r.t timing & quantum of rate hikes although the direction of the rate cycle here-on into FY28 seems clear

Risks (to our view)

- ✗ Given heightened global bond yields, dollar inflows into India fall short of policy expectations.
- ✗ Higher-than-expected inflation persistence and growth also slows.
- ✗ Adverse weather risks, including possible El Niño conditions, impacting food inflation.
- ✗ Disruptive sell-off in global bond yields

Portfolio Strategy

Focus on Near – Short Term, Accrual strategies ; Lighten up on Medium – Long Term portfolios on Rallies

- ▶▶ Short-term bond yields (3 – 12M) are likely to ease gradually - markets will await some evidence of today's Fx measures to translate into USD inflows. Yields in this segment had hardened by 100 – 150 bps pricing in INR/BoP deterioration led liquidity tightness and potential rate hikes (75 – 100 bps) – of which the former aspect seems to have been addressed – at least in the near term. Consequently, yields in this segment are likely to moderate accordingly while continuing to price in an increasing rate cycle in the coming 12M.
- ▶▶ At the margin, today's measures bode well for Low Duration / Ultra short term / Money market funds that have been adversely impacted by the spike in yields in Apr-May'26
- ▶▶ Medium - long-duration strategies to remain vulnerable to weakening fiscal health, rising inflation and unfavorable global yield cues. With clear signs of a turn in the local policy rate cycle, we suggest lightening up on the medium – long term duration strategies opportunistically over the next few weeks
- ▶▶ **With consensus expectation pegging a rate hike of 75-100 bps over the next 12M, prefer**
 - **Target maturity funds** – these combine visible yields at entry and progressively lower interest rate risk
 - **Tax efficient ideas across the curve** – AAA oriented SIFs (Arudha), Select high yield credit-oriented SIFs (Red HEX), Debt Plus strategies through market-neutral or derivative-led overlays
 - **Performing credit strategies** – Curated and tightly structured credit as well as hybrid structures with select, potential equity upsides
 - **Real Assets** – Income-oriented real assets (REITs / InvITs) targeting “debt-plus” returns

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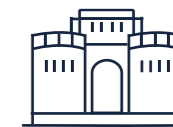
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