RBI a steady hand in a VUCA phase amid switch on, switch off stance on Tariffs

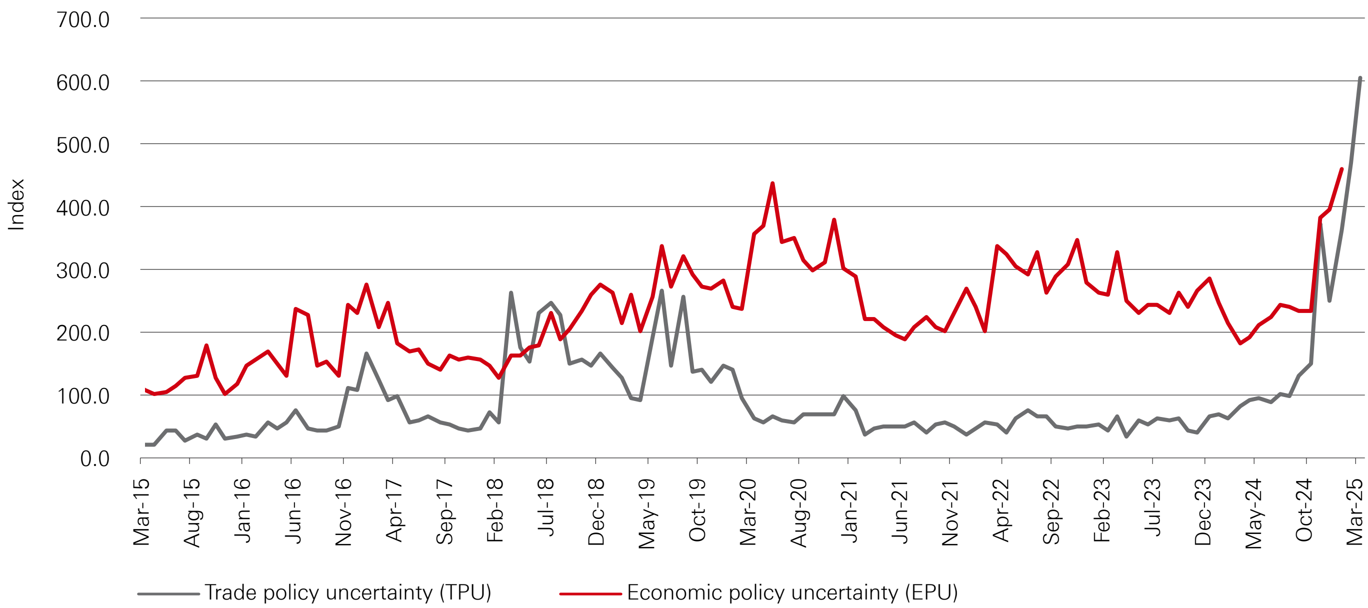
April, 2025

To summarize the month of April in one befitting acronym is VUCA - volatility, uncertainty, complexity and ambiguity - as US administration imposed a 10% tariff on all countries and individualized reciprocal tariffs on nations with which the US has the largest trade deficits. In about a week's time the US administration announced a 90-day pause on reciprocal tariffs. However, China was not spared with a tariff levy of 145% to which China retaliated too with 125% tariffs on US goods.

In these 90-days the active engagement between US-India on bilateral trade agreement and the latest news flow suggests that Japan, South Korea and China too are engaging in talks to strike a bilateral trade deal with the USA. So far, it is only India that has officially signed a 'terms of reference' deal with the USA. In April, all the major global institutions namely, the IMF, WTO, the UN Trade and Development, OECD have downgraded their economic growth forecasts in the lieu of tariffs and trade tensions. While there is a 90-day reprieve on reciprocal tariffs that the US admin announced nearly a month ago, the baseline tariffs of 10% on all countries are already in place.

The IMF estimates trade barriers to shave-off global growth by ~US$ 2 tn in CY26. For most economies, the IMF has revised lower its growth estimates which is a result of greater policy uncertainty, trade tensions, and a softer demand outlook. Lately, one of the most tracked indicators is global trade and policy uncertainty (chart below) and the consequences of this are in some way getting reflected in some of the survey based indicators; for the consumers and business sentiment has taken a hit and the recent US trade data (till Feb'25) continued to show front-loading of imports with the US trade deficit at US$ 123 bn widening by an additional ~US$ 45 bn since Nov'24.

Global policy & trade uncertainty major risks to global growth



Source: IMF WEO issue dated April 2025, Economic Policy Uncertainty

The PMI Manufacturing has slipped into contractionary for most nations, India is a bright spot. Manufacturing PMIs tumbled across most of Asia in April, led by a decline in new orders & output and can be attributed to the global trade uncertainty – esp. new export orders in China, Korea and Taiwan have slipped into contractionary territory. This is the first PMI reading since US administration levied baseline tariffs and more on a few; already, six out of eight economies have seen PMIs in contractionary territory in Apr'25. Clearly, the Mfg. PMIs for export-oriented economies have fallen sharply.

PMI Manufacturing	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Apr-25
USA	47.3	48.5	49.7	49.4	51.2	52.7	50.2	50.2
Eurozone	45.0	46.0	45.2	45.1	46.6	47.6	48.6	48.7
Japan	49.7	49.2	49.0	49.6	48.7	49.0	48.4	48.7
Canada	50.4	51.1	52.0	52.2	51.6	47.8	46.3	45.3
UK	51.5	49.9	48.0	47.0	48.3	46.9	44.9	45.4
China	49.3	50.3	51.5	50.5	50.1	50.8	51.2	50.4
India	56.5	57.5	56.5	56.4	57.7	56.3	58.1	58.2
South Korea	48.3	48.3	50.6	49.0	50.3	49.9	49.1	47.5
Taiwan	50.8	50.2	51.5	52.7	51.1	51.5	49.8	47.8
Indonesia	49.2	49.2	49.6	51.2	51.9	53.6	52.4	46.7

Source: Bloomberg, data up to date is as of 2-May for available countries

April 2025 has been a rollercoaster ride across asset classes, with one clear winner being gold. Crude oil prices, on the other hand, falling sharply due to risks of lower global demand as well as recent decision by the OPEC+ to increase production has pushed prices further lower.

Amid all the global nervousness, India has demonstrated resilience owing to its domestic orientation, trade talks with US and lower reciprocal tariffs risks compared to peers. Moreover, the RBI's proactiveness in injecting substantial liquidity and decisive monetary policy easing to support growth has boosted sentiments. Amongst the key EM markets, foreign investors have been net buyers in April. At the 9th April 2025 monetary policy meet, the RBI MPC delivered a 25 bps Repo rate cut and also changed the monetary policy stance to accommodative from neutral earlier. The stance change has raised the expectations of a deeper rate cut cycle with the MPC panel shifting focus to growth as inflation outlook is looking more favorable for FY26. This coupled with OMO purchases to the tune of INR 1.2 trn in April and Variable Rate Repo auctions have softened rates, esp. short-term rates. Furthermore, the additional OMO purchases of INR 1.25 trn for May'25 have been announced which has positively impacted the yield curve across debt assets. The additional demand by the RBI, via OMO Purchases has more than offset the FII debt outflows of USD 2.8 bn in Apr. The banking system liquidity has moved into a surplus of INR 1 trn and is expected to stay sufficiently in the positive following the Governors' remark that the idea would be to have system liquidity in the positive at least to the tune of 1% of net deposits.

	Liquidity here to stay		Ad-hoc/Fine-tuning Ops	
INR Crore	**CRR cut Impact**	**OMO Purchases**	**FX USD Swap***	**Term Repo > 14-Days**
Dec'24	120,000	0	0	0
Jan'25	0	58,835	44,000	182,964
Feb'25	0	80,000	88,000	0
Mar'25	0	144,551	88,000	0
Apr'25	0	120,000	0	25,731
May (announced OMOs)	0	125,000	0	0
Total, so far:	**120,000**	**528,386**	**220,000**	**208,695**
Total Liquidity Injection		**894,117**		
Assuming April 2025 reversal of Term Repo (in May)		**868,386**		

Our Take:

Amid all the tariff uncertainty, India's macros remain on a strong foothold. Due to the tariff war and global outlook, demand for safe-haven assets has led to capital outflows and weighed on EM currencies, incl. India. With a 90-day pause in reciprocal tariffs, scope of reaching bilateral agreements and the dollar softening, the EM currencies by end-April pared losses while some pairs like the USDINR have appreciated. India's exposure to the US, its trade diplomacy and the RBI's steady hand & its policy approach have put India on the leaderboard amid the tariff concerns that has eclipsed business and growth outlook, globally.

India's cooling inflation has provided the RBI-MPC to focus on supporting growth by way of policy easing and adopting an accommodative stance. The RBI's proactive steps to inject liquidity into the system have buoyed market sentiments, especially for bond investors, and market participants are pricing in a deeper rate cut cycle by the RBI-MPC with 50 bps done and at least another 50 bps in CY25. We expect a 25 bps rate cut at the June policy underpinned by system liquidity surplus which in turn is expected to keep interest rates soft. Given this backdrop, we continue to maintain a positive duration bias across the funds.

Abbreviations:

OMO: Open Market Operations
GDP: Gross Domestic Product
CPI: Consumer Price Index
MPC: Monetary Policy Committee
RBI: Reserve Bank of India
OMO: Open Market Operations
FII: Foreign Institutional Investors
EM: Emerging Markets
OECD: The Organisation for Economic Co-operation and Development
UN: United Nations
IMF: International Monetary Fund
WTO: World Trade Organisation

Note: Views provided above are based on information in public domain and subject to change. Investors are requested to consult their financial advisor for any investment decisions.

Source: Bloomberg & HSBC MF Research estimates as on April 30, 2025 or as latest available

HSBC Mutual Fund, 9-11th Floor, NESCO - IT Park Bldg. 3, Nesco Complex, Western Express Highway, Goregaon East, Mumbai 400063. Maharashtra.

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