Inflation should head below RBI target of 5% by Q4: Anil Bamboli, HDFC AM

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In a chat with ET Now, Anil Bamboli, Senior Fund Manager- Fixed Income Group, HDFC AM, says a sharp increase in yields or monetary tightening anywhere globally looks unlikely. Edited excerpts

ET Now: Before I get into specifics of what Reserve Bank of India is doing and we talk about which way liquidity is headed, what is going on in the world? We got a situation where Brexit is round the corner, yields are at a record high, some yields are not offering any return everybody is concerned about growth and markets are not falling apart?

Anil Bamboli: Post Brexit verdict, the market has reacted very maturely. Probably near term, there does not seem to be much impact but bond market is basically reflecting that the uncertainty around the Brexit will definitely affect GDP growth for the next year or two and central bank should definitely be more accommodative and ready to act and that is what is getting reflected in the bond yields and hence global bond yields are down. In India also, bond yields are down, 10-year is around 5 bps long end is down by another 10 to 15 bps, so though the reaction is not as much I think, Indian bond yields have also reacted positively to the whole thing.

ET Now: Assuming that in the short term central bankers are likely to follow loose monetary policy, do you think the scope for global interest rates will go higher in the short term? It is going to be very limited and restricted because Fed is not going to increase rates now given that there is a looming fear from China and from Britain?

Anil Bamboli: Yes, that is true. It does not look like Fed is going to hike anytime in near future. The futures market is not pricing in a hike even till December. So that not being the case, I think a sharp increase in yields or monetary tightening anywhere globally looks unlikely.

ET Now: What is your view on the domestic liquidity situation?

Anil Bamboli: The domestic liquidity situation has improved quite drastically. If you look at March end, banks were borrowing at least Rs 3 lakh crore from RBI through various modes. As of yesterday, that number is down to Rs 4000 crore. So apart from this seasonal cash inflow and the OMO of nearly Rs 80,000 crore that RBI has done, liquidity has definitely improved and we expect that RBI will proactively continue managing liquidity going forward.

ET Now: Do you think 10-year paper will move in the next six months?

Anil Bamboli: It is difficult to give a number but we maintain our view that RBI will cut rates and yields and will be headed lower. Whether it is 20 bps or 40 bps, we will have to wait and see how it reacts but definitely we maintain our bullish bias that rates will come off from here also.

ET Now: But do you think it makes very little sense to buy the short end of the market right now considering that everybody is waiting on a rate cut? I mean if we at all have to bet on the long end?

Anil Bamboli: Yes we think long end has a lot of value. But again, each investor has to take into account the risk appetite that they have and then decide accordingly. Even the five-year, ten-year bonds are also looking good, extreme short end G-Sec may not look that good. So depending on the volatility that they can handle, I think they should be long the whole curve.

ET Now: We may get one or two rate cuts, let us be real here. It is not that we will get rate cuts to the quantum and to the extent that we have got in the last 12-18 months where rates have come down by about 125bps to about 150bps. I do not recall the exact quantum but I think it is somewhere there. So considering that rate cut now is going to be very minimal and would be one or two, will funds now struggle to give a return of even 10%?

Anil Bamboli: Return specific, it is very difficult to answer but as you are rightly saying maybe 25-50bps rate cut is possible still. I think before Brexit, market was not even pricing any rate cuts and now with Brexit happening, the market is now factoring in maybe 25bps cut. But we feel that more rate cuts are possible, at least 50bps by March, 2017. Considering that is the situation, I think investors should make decent returns in the next 12-18 months.

ET Now: What is your understanding of the macro? Do you think the best of the macro print could be behind us because let us be clear, vegetable prices have gone up, crude is not where it was six months ago, natural risk of inflation is coming back and the fact that we are linked to CPI and CIP is not linked to vegetable prices and if the prices of onion and tomatoes are moving higher, that is a challenge?

Anil Bamboli: I think you have to look at it from a medium term point of view. Last one or two prints, if you look at the whole inflation change, that has happened from March to May. The two prints that we have had from 4.8-4.9 for March to nearly 5.8 for May, the whole increase has basically come from vegetables and fruit price increase. Most of it has come from the food prices. But with better monsoon, I think those prices should subside going forward. We had a very high inflation in pulses segment which saw a nearly 30-40 per cent Y-o-Y. Since pulses are a lot dependent on rains, production should be higher this year and that should also bring down prices. So I think we should not read too much into the last two prints and we continue to believe that inflation should head below the RBI target of around 5 per cent by fourth quarter of FY17.