

INTERVIEW: ASHISH PARTHASARTHY
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We see rupee depreciating at 3-4% per annum

Ahead of the Reserve Bank of India's bi-monthly monetary policy review, Ashish Parthasarthy, treasurer, HDFC Bank, spoke to Pranay Lakshminarasimhan and Amrutha Penumudi about falling inflation rates and rising expectations of two rate cuts before March.

What kind of a rate cut has the market already factored in?

While a number of surveys show there will not be any rate cut in near term, the market reasonably expects a cut of 25 basis points (bps) – especially given that the inflation numbers have come down considerably. Overall, there is expectation of two rate cuts before March because inflation could fall sharply. Some also say it will go below 4% either in September or in October. Everybody is forecasting higher inflation during January to March, but they are forecasting it below 5% – which is within the RBI estimate.

How have the monsoons been this year and are commodity prices expected to rise any time soon?

Monsoon seems to be good despite erratic patterns. General sowing and food production have been good. Output is likely to be better than last year. The storage capacity in reservoirs has gone up. Commodity wise, metal prices will continue to take a hit as the manufacturing sector still remains in slowdown. Production in agricultural commodities has been good, so prices will be stable.

What is your forecast on liquidity?

Liquidity has been very comfortable. In April, the RBI changed the liquidity paradigm saying it will move towards neutral liquidity. The first half of the year has seen significant amount of government spending. They have undertaken some heavy-lifting in this area which has helped.

However, in the second half, the spending is usually



muted, because the government will focus on meeting fiscal numbers and targets. According to us, the RBI has worked towards neutral liquidity, and we will see more OMOs (open market operations) in the second half if it wants to continue this push. We have seen about Rs 1 lakh

crore worth OMOs so far, and expect about the same or slightly less in the second half.

Where do you expect bond yields going forward?

This is the first time we will see the new RBI governor and the Monetary Policy

Committee (MPC) in action – we will have to wait and see what happens. If OMOs continue and liquidity injection continues along with subdued credit growth – then yields have greater chance of moving down than moving up.

Where is the currency heading? What kind of a change can the new governor bring?

Our outlook on the currency for a long time has been that the rupee, over a period of time, will continue to depreciate, at a rate of 3% or 4% per annum. We have been working with ranges like Rs 66-68 or Rs 69. We hold the view that the RBI would be comfortable with such a scenario. The only change with a new governor would be how does he or the MPC views intervention. Will they intervene only in large volatility situations? Or do they believe in regular intervention? If you see the last three governors, Dr YV Reddy was quite hands on, Dr D Subbarao didn't believe

in intervention. Dr Raghuram Rajan was an even bigger interventionist than Dr Reddy. Investors are happier if there is lesser volatility in our currency, so we will have to see how things go from here. There is no right or wrong. Both approaches work.

Do you see value in masala banks going forward, especially with concerns over disparity between domestic fund raising and masala bond issues?

For the issuer, masala bonds allow for a new set of investors which is helpful because having the same set of investors can get saturating, you need to diversify. It is a great instrument, specifically for non-banking financial companies, as their whole business depends on raising funds from markets.

Costs have become very reasonable both in masala bonds and in general. The differential is the withholding tax, which is about 5% – which I don't think will

make an investor hesitant. However, the market is nascent, and the number of investors are few. That needs to expand, the experience of initial buyers is good – you will see the market grow.

From an RBI perspective, it will be happy to see this market develop – it is another step towards internationalising the rupee.

What kind of events could affect the market going forward, which could have a huge impact in your opinion?

There are two major concerns. Firstly, the new set of investors are mutual funds, and most of them are open-ended funds. If they were to reap redemption, they will have to sell. And once someone starts selling, it is a cycle. The second risk is the US elections. If Hillary Clinton wins, markets will not be affected. However, if Trump wins, I think every asset market, not just in India, will correct as you don't know what to expect.