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Event Update

US Fed raises interest rates by 25 bps

Research Analysts

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Key Highlights

- The US Federal Reserve decided to raise interest rate by 25 bps to a range between 4.50% and 4.75% and signalled its intention to keep raising them possibly in smaller increments. Hence, the US Fed may go for one more hike by 25 bps in the March meeting taking it up to 5%
- Federal Open Market Committee also decided to continue with its balance sheet reduction as announced in May 2022
- US Federal Reserve Chair Jerome Powell acknowledged that the pace of inflation has cooled but the central bank needs more evidence to be confident that inflation is on a sustained downward path

View on Dollar Index and rupee

- The Dollar Index started losing its strength since November 2022 after the US Fed signalled its intention to reduce the pace of rate hikes. With ease in inflation, the Fed has finally acted and hiked the policy rates by just 25 bps after increasing it by 425 bps in the last six policy meets
- Moreover, yields are tumbling in anticipation that the Fed will take a back seat soon and pause on tightening plans as inflation continued to ease. The cumulative effect of last year's aggressive rate hike has been slowing the economy as most economic parameters like housing, Manufacturing and Consumer spending have started showing weakness. However, the jobs data remains strong despite economic slowdown. We believe that weakening of jobs data may act as final deterrent for the Fed to pause its rate hike cycle. Growth in wages and salaries has started slowing down comforting central bank that it will not fuel higher inflation
- Dollar Index after making a high of 114.77 in September 2022 started losing its steam and slipped back to 10 month low near 101 levels. Dollar Index is facing strong resistance near 103. As long as it sustains below this level, the downtrend may remain intact. We expect the Dollar index to eventually moved below psychological levels of 100 and move towards 99.50 levels
- US\$INR, after making a life-time high of 83.28 levels in October 2022 corrected back towards 82.00 levels. US\$INR is facing strong resistance near 83.00 and failed to breach these levels in the past three months. As long as it sustains below it, the rupee is likely to slip back till 80.25 in the coming month considering ongoing weakness in the dollar and softening of crude oil prices

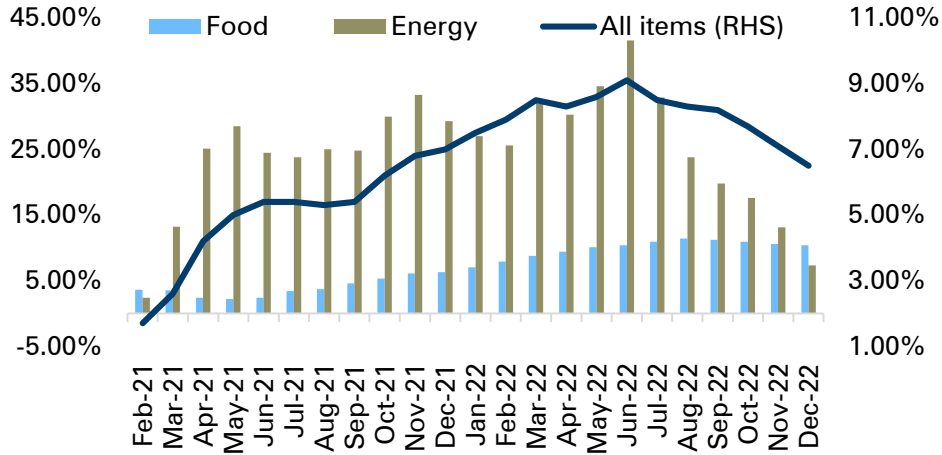
Guidance on inflation and economic activity

- US Federal Reserve Chairman Jerome Powell said the economy has slowed significantly last year. Fresh data reflects modest growth of spending and production this quarter. Tighter financial conditions have impacted growth in consumer spending. Additionally, activity in the housing sector continued to weaken due to higher mortgage rates. Furthermore, higher interest rates and slower output growth is weighing on business fixed investments
- Despite the economic slowdown, the labour market continued to strengthen and is extremely tight. Unemployment rate is near 50 year low and job vacancies are still high. However, the pace of job gains has slowed down over the course of past year and nominal wage growth is showing some signs of easing
- Inflation remained well above longer run goal of 2% but has moderated in the last few months

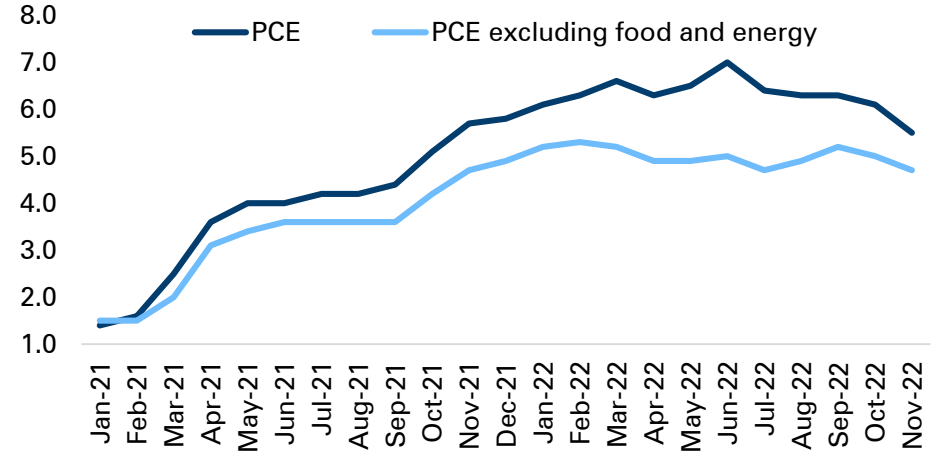
Monetary Policy statements

- The invasion of Ukraine by Russia is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is highly attentive to inflation risks
- The Committee seeks to achieve maximum employment and inflation rate of 2% over the longer run. In support of these goals committee decided to raise target range for the federal funds rate to 4.50% to 4.75% and anticipates that ongoing increases in the target range will be appropriate
- In determining the pace of future increases, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments
- In addition, the Committee will continue reducing its holdings of Treasury securities along with agency debt and agency mortgage-backed securities, as described in the plans for reducing the size of the Federal Reserve's balance sheet that were issued in May
- In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the Committee's goals

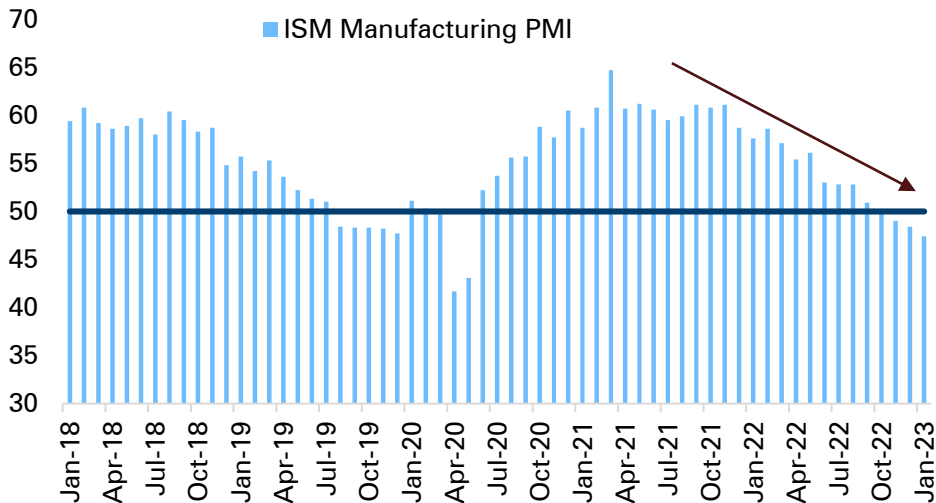
Inflation CPI



Personal Consumption Expenditures (PCE)



ISM Manufacturing PMI



Macroeconomic projections

	2022	2023	2024	2025
Real GDP	0.2	1.2	1.7	1.8
June Projection	1.7	1.7	1.9	
Unemployment Rate	3.8	4.4	4.4	4.3
June Projection	3.7	3.9	4.1	
PCE Inflation	5.4	2.8	2.3	2.0
June Projection	5.2	2.6	2.2	
Core PCE Inflation	4.5	3.1	2.3	2.1
June Projection	4.3	2.7	2.3	
Federal Fund Rates	4.4	4.6	3.9	2.9
June Projection	3.4	3.8	3.4	

Calendar-Major Central bank monetary policy meeting schedule 2023

Date	US Federal Reserve	European Central Bank	Bank of England	Bank of Japan
18-Jan-23	-	-	-	✓
02-Feb-23	✓	-	-	-
02-Feb-23	-	✓	✓	-
10-Mar-23	-	-	-	✓
16-Mar-23	-	✓	-	-
22-Mar-23	✓	-	-	-
23-Mar-23	-	-	✓	-
28-Apr-23	-	-	-	✓
03-May-23	✓	-	-	-
04-May-23	-	✓	-	-
11-May-23	-	-	✓	-
14-Jun-23	✓	-	-	-
15-Jun-23	-	✓	-	-
16-Jun-23	-	-	-	✓
22-Jun-23	-	-	✓	-
26-Jul-23	✓	-	-	-
27-Jul-23	-	✓	-	-
28-Jul-23	-	-	-	✓
03-Aug-23	-	-	✓	-
14-Sep-23	-	✓	-	-
20-Sep-23	✓	-	-	-
21-Sep-23	-	-	✓	-
22-Sep-23	-	-	-	✓
26-Oct-23	-	✓	-	-
31-Oct-23	-	-	-	✓
01-Nov-23	✓	-	-	-
02-Nov-23	-	-	✓	-
14-Dec-23	✓	✓	✓	-
19-Dec-23	-	-	-	✓



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