

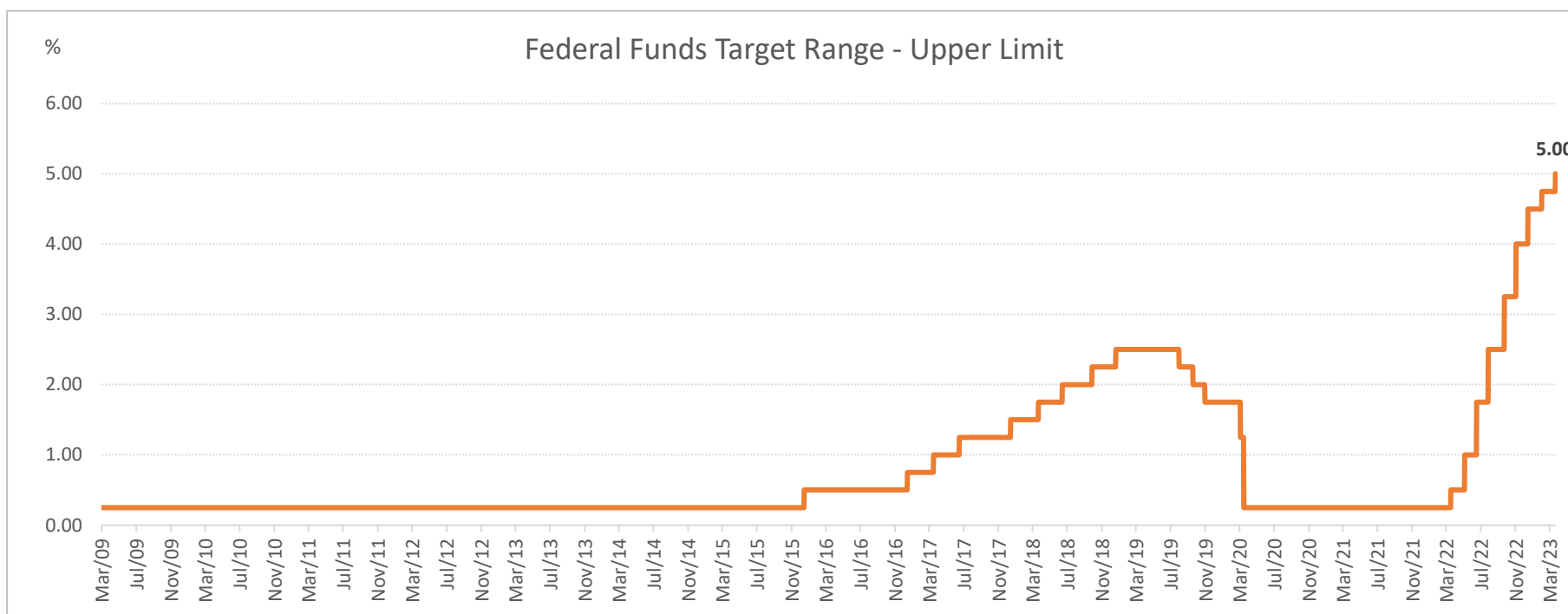
US Fed hikes by 25bps, softens its stance

Amidst the banking crisis unfolding in the US and Europe, the Fed FOMC hiked the target range of Fed funds rate by 25bps to 4.75%-5%. This was in line with our, and broad market expectations, given the Fed's focus on inflation and labor markets. The Fed in its statement pointed out strengths in the economy – job gains, low unemployment and high inflation. While the Fed acknowledged that recent developments in banking have led to tighter credit conditions, it reiterated its focus on inflation.

The Fed also revised its projections. Median projections suggest the Federal Funds rate peaking at 5.1% in 2023 before falling to 4.3% in 2024. Projections for GDP growth stood at 0.4% for 2023 and 1.2% for 2024, lower than December 2022 projections. Inflation projections (Core PCE) at 3.6% for 2023 and 2.6% for 2024 are higher than December 2022 projections. PCE Inflation projections for 2023 and 2024 remain way above the long-term projections.

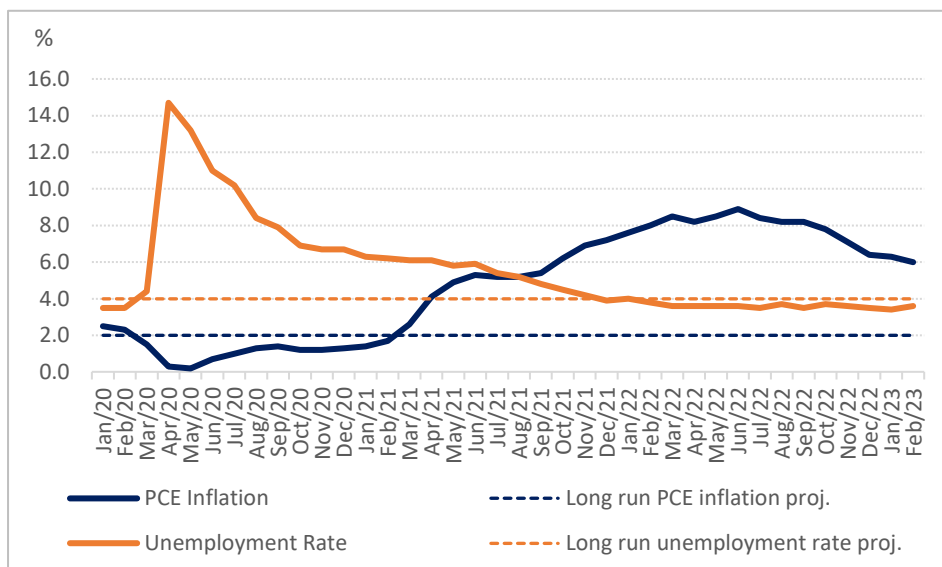
In its Semiannual Monetary Policy Report to the Congress on 7th March 2023, Fed Chair Powell mentioned that inflationary pressures are running higher than expected. Powell also mentioned that “historical record cautions strongly against prematurely loosening policy. We will stay the course until the job is done.” Additionally, he stressed on continued significant reduction of the Fed's balance sheet. However, after the collapse of SVB on 10th March and subsequent stress in the US banking system, the market had started to expect a softening in Fed's hawkish stance. Some analysts were even eying a rate cut in this policy meeting. The market is also equating tight liquidity conditions and rising spreads due to the to the banking crisis to an effective rate hike of 50-150 bps. Fed's balance sheet has swelled by \$297 billion for the week ending 16th March 2023, reversing the trend of last year.

From yesterday's statement, it seems that the Fed has softened its stance. Fed Chair Powell also mentioned that FOMC members did feel that the tight credit conditions as a result of the recent banking stress had effectively delivered a rate hike, though the exact extent can not be determined with certainty. A tighter monetary policy doesn't have to come from higher rates alone. This is what led the Fed to deliver a rate hike lower than what was warranted basis their assessment of the US economy at the beginning of March 2023. We are of the view that Fed will hike by 25bps rates in its May 2023 policy and then hold steady. The Fed will likely wait for the current banking crisis to fully unfold and assess its impact. The Fed will also wait for more economic data to guide its future actions. However, there is some possibility of rates being steady in May, if the current banking crisis intensifies. Following Fed's footsteps, we expect the RBI to hike the repo rate by 25bps in its next policy in April.

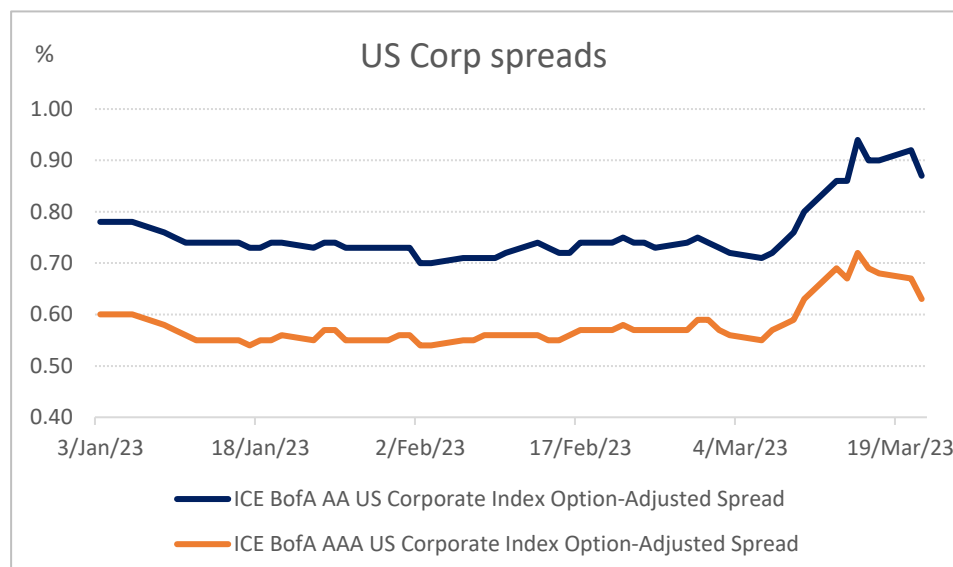


Source: FRED, TruBoard

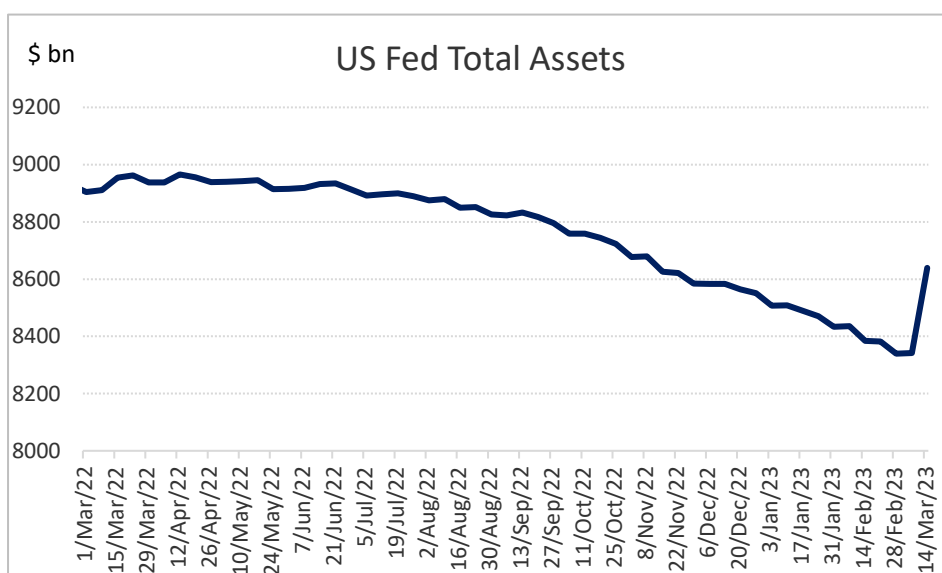
Inflation and labor market beating Fed's target



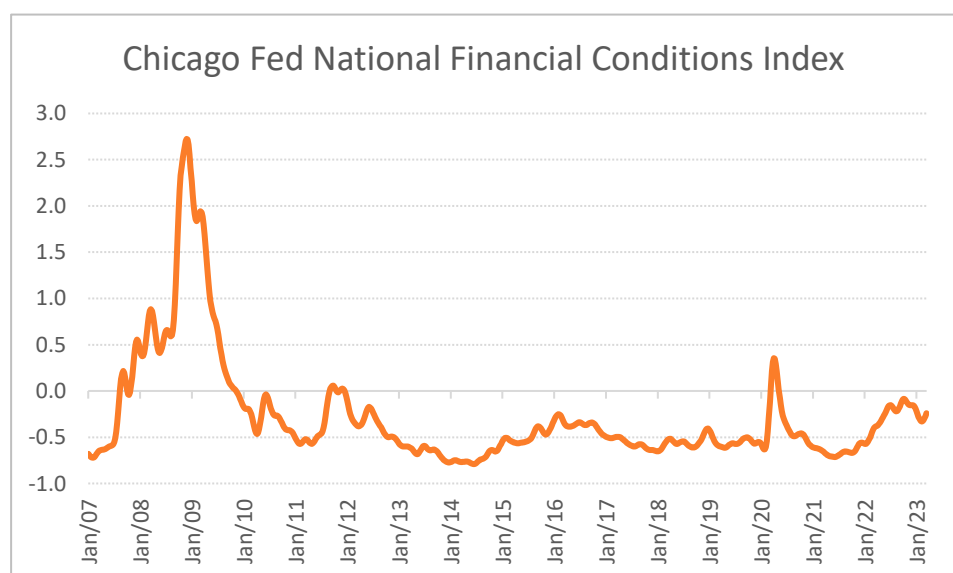
Spreads spiked in March 2023



Fed swells its balance sheet to support the banking crisis



Financial conditions not as tight as 2008 GFC or COVID



Positive values indicate tighter than average liquidity conditions, negative values indicate loose financial conditions

Source: FRED, TruBoard

Market Reactions

	Opening date	Opening value	Closing date	Closing value	% Change
Dow Jones Industrial	22nd March	32560.60	22nd March	32030.11	-1.63%
DXY	22nd March	102.35	22nd March	102.08	-0.26%
S&P 500	22nd March	4002.87	22nd March	3936.97	-1.65%
U.S. 10 Year G-sec	22nd March	3.50%	22nd March	3.44%	-1.71%
	Closing date	Closing value	Opening date	Opening value	% Change
Nikkei 225	22nd March	27466.61	23rd March	27400.37	-0.24%
Sensex	22nd March	58214.59	23rd March	58143.97	-0.12%
INR/USD	22nd March	82.52	23rd March	82.19	-0.38%
India 10 Year G-Sec	22nd March	7.35%	23rd March	7.33%	-0.27%
India Call Money Rate (Wtd. Avg.)	22nd March	6.65%	23rd March	6.71%	0.90%



TruQuest is a knowledge series launched by TruBoard Partners providing succinct updates and views on:

- Liquidity Outlook
- India's macro-economic view
- Trends within the Infrastructure, Real Estate and Renewable Energy sectors
- Impact analysis of new regulations and policies on lending and capital flow



TruBoard provides bespoke solutions for capital providers to better manage their investments and optimise returns. TruBoard brings in a combination of domain expertise and artificial intelligence to the mainstream of financial analysis, enabling speedy and effective decision making. TruBoard's core area of operations are Credit Monitoring, Real Asset Management, Retail Loan Servicing and Collection, and Dispute Resolution and Advisory.

Website:

www.truboardpartners.com

Email Id:

research@truboardpartners.com

Author:

Anuj Agarwal, Chief Economist

Ria Rattanpal, Research Associate

Komal Chavan, Marketing Associate

Disclaimer:

The data and analysis covered in this report of TruQuest has been compiled by TruBoard Pvt Ltd (TruBoard) based upon information available to the public and sources believed to be reliable. Though utmost care has been taken to ensure its accuracy, no representation or warranty, express or implied is made that it is accurate or complete. TruBoard has reviewed the data, so far as it includes current or historical information which is believed to be reliable, although its accuracy and completeness cannot be guaranteed. Information in certain instances consists of compilations and/or estimates representing TruBoard's opinion based on statistical procedures, as TruBoard deems appropriate. Sources of information are not always under the control of TruBoard. TruBoard accepts no liability and will not be liable for any loss of damage arising directly or indirectly (including special, incidental, consequential, punitive or exemplary) from use of this data, howsoever arising, and including any loss, damage or expense arising from, but not limited to any defect, error, imperfection, fault, mistake or inaccuracy with this document, its content.