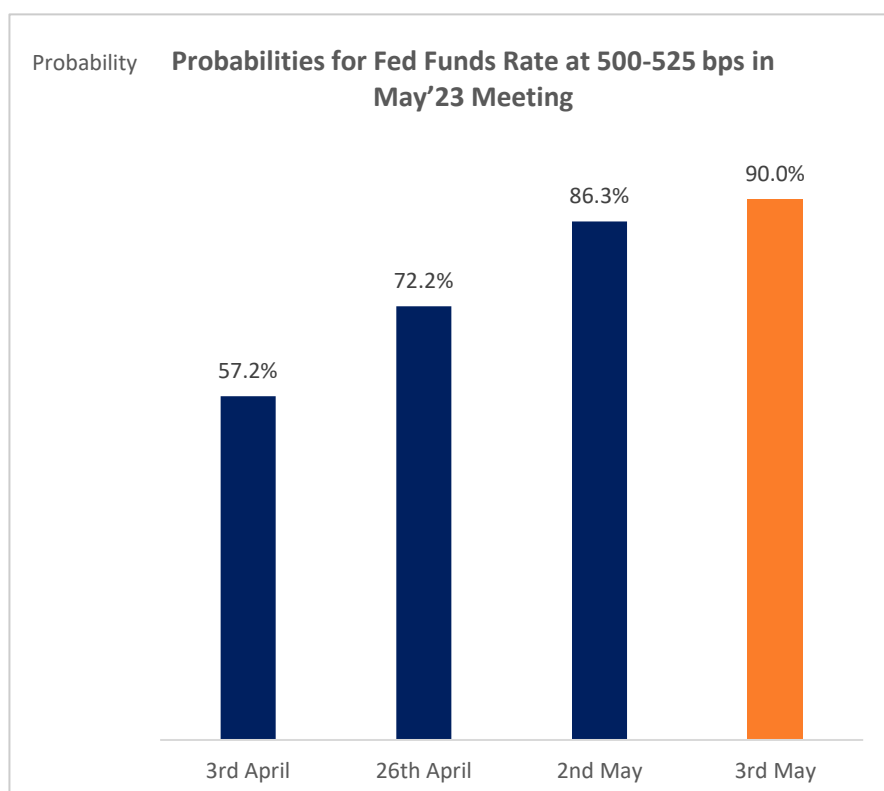


US Fed hikes by 25bps, signals a pause

The FOMC hiked the target range of Fed funds rate by 25bps to 5%-5.25%. This was in line with our expectations after the March statement. The backdrop to yesterday's policy decision was same as the previous one – a failed bank and healthy economic data. After the March 2023 meeting, a significant share of market participants had anticipated a pause in the May 2023 meeting in the light of collapse of SVB and Signature Bank. However, subsequent healthy economic data and contained US banking system stress led the market to factor in a 25bps hike for this meeting. The Fed has now increased its policy rate by 500bps in little over a year.

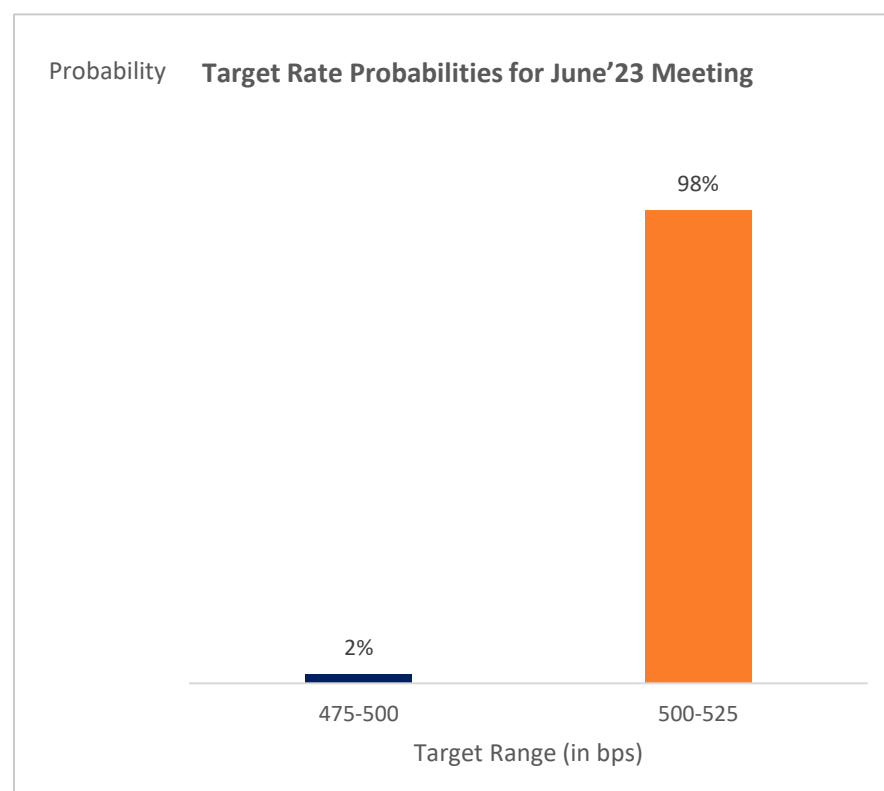
The key change from the March statement was removal of “some additional policy firming may be appropriate”. This was replaced with “In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.” This change, as Fed Chair Powell pointed out is meaningful, and essentially signals a pause. Recently, US Treasury Secretary Janet L. Yellen has warned lawmakers that the United States could run out of cash by June 1 if the borrowing cap isn't raised or suspended. The Fed Chair in his press conference mentioned that while hitting the debt ceiling could have unexpected and adverse consequences on the US economy, it was not an important factor in the Fed's monetary policy decision and outlook.

Yesterday's statement suggests that going ahead Fed will not hike unless data and market developments force it to do so. It is taking a pause to gauge the impact of the past rate hikes and strains in the banking system (Fed has said that the extent of banking system strains remain uncertain). The Fed has resumed its path to shrink its balance sheet. Fed's balance sheet contracted by \$143 billion in April after growing by \$324 billion in March. The U.S. banking sector turmoil is leading to tighter credit conditions, effectively doing what the Fed wants. The U.S. Fed and the RBI are likely to be in a wait and watch mode for some time now.



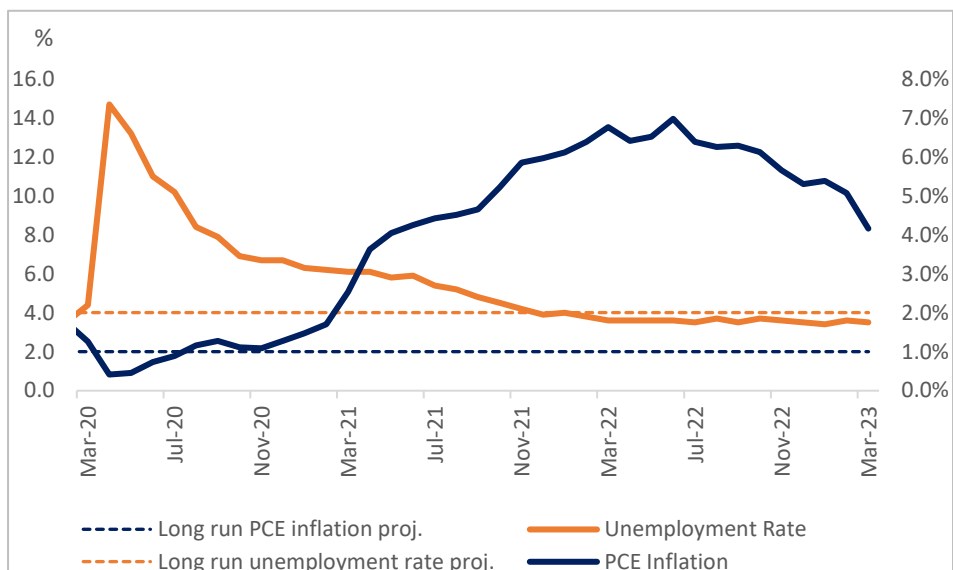
Probabilities as on 15:30 hrs IST, 3rd May 2023

Source: CME Fed Watch, TruBoard

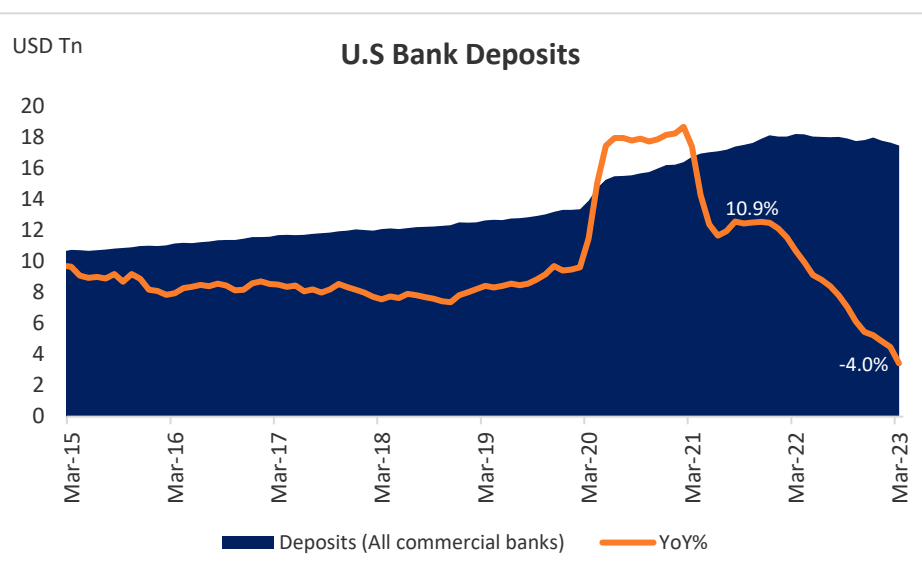


Probabilities as on 12:30 hrs IST, 4th May 2023

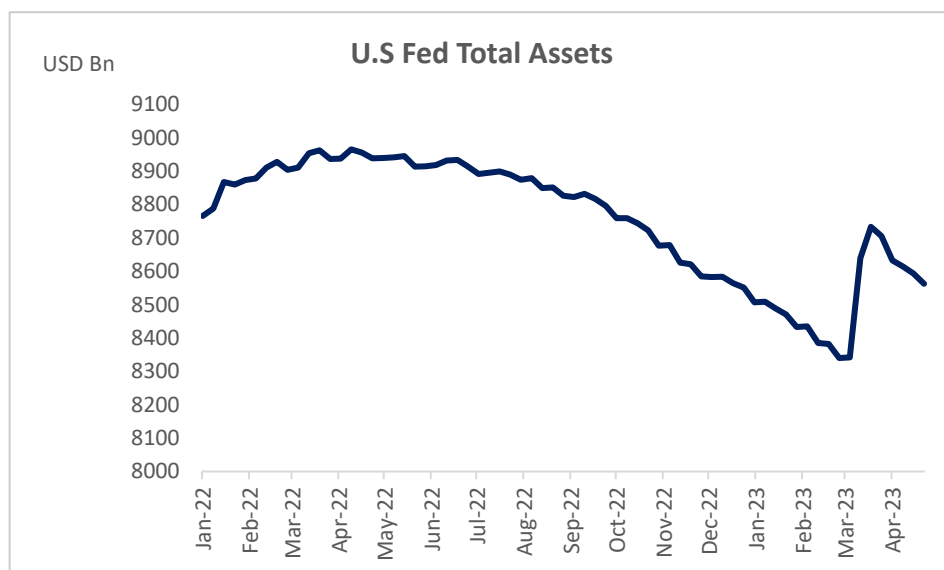
Inflation and labor market beating Fed's target



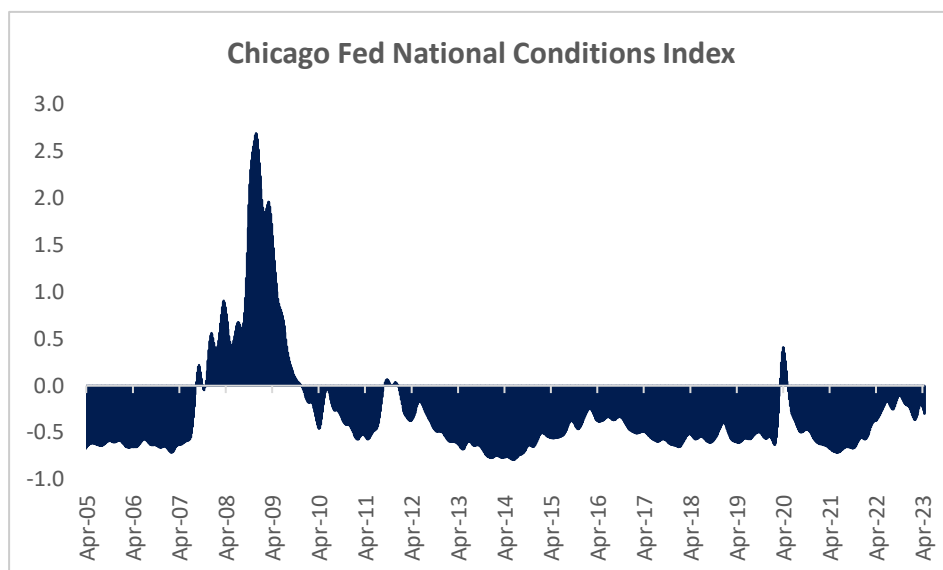
U.S Bank deposits have fallen by 2% from Jan-Mar'23



Fed back on its path of balance sheet reduction



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	3 rd May	33,726.64	3 rd May	33,414.24	-0.93%
DXY	3 rd May	101.69	3 rd May	101.34	-0.34%
S&P 500	3 rd May	4122.24	3 rd May	4090.75	-0.76%
U.S. 10 Year G-sec	3 rd May	3.34%	3 rd May	3.38%	1.20%
	Closing date	Closing value	Opening date	Opening value	% Change
Nikkei 225	3 rd May	Closed	4 th May	Closed	--
Sensex	3 rd May	61193.30	4 th May	61258.13	0.11%
INR/USD	3 rd May	81.81	4 th May	81.78	-0.04%
India 10 Year G-Sec	3 rd May	7.03%	4 th May	7.01%	-0.28%
India Call Money Rate (Wtd. Avg.)	3 rd May	6.67%	4 th May	6.84%	2.55%



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.