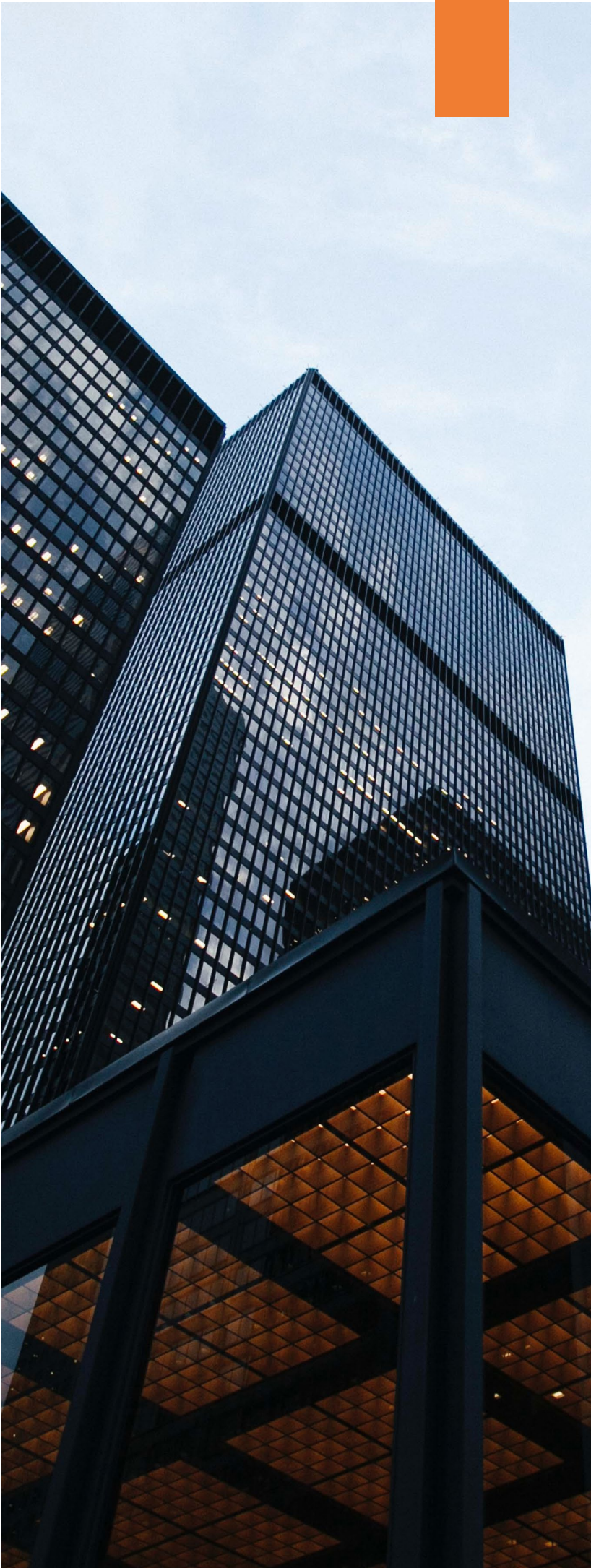


FED Note

July 2023



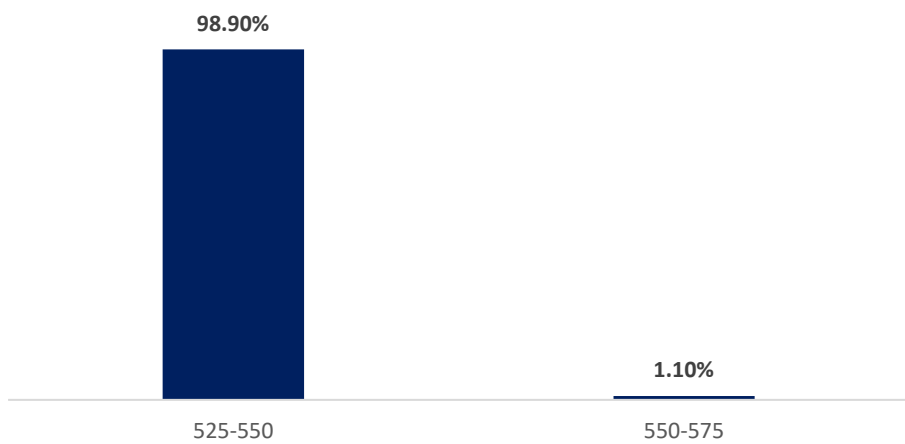
US Fed delivers a hawkish pause

The U.S. FOMC held its policy rate steady at the June 14 meeting. However, Fed Chair Jay Powell in his press conference gave a strong signal that there will be hikes over the course of this year. The FOMC statement reflected a somewhat benign assessment of the economy, pointing out that economic activity has continued to expand at a modest pace. Fed’s revised dot plots project a higher inflation, higher growth, and a lower unemployment rate in 2023 compared to the March projections.

The Fed has justified the need for further rate hikes on the grounds that the progress on inflation coming down has not been satisfactory. Further rate hikes will be needed to bring down inflation to its 2% target level. However, the Fed is pausing now to get more data, make a better assessment of the economic conditions and past rate hikes, and gauge the impact of regional banking crisis. The Fed has stressed that future moves will be data dependent.

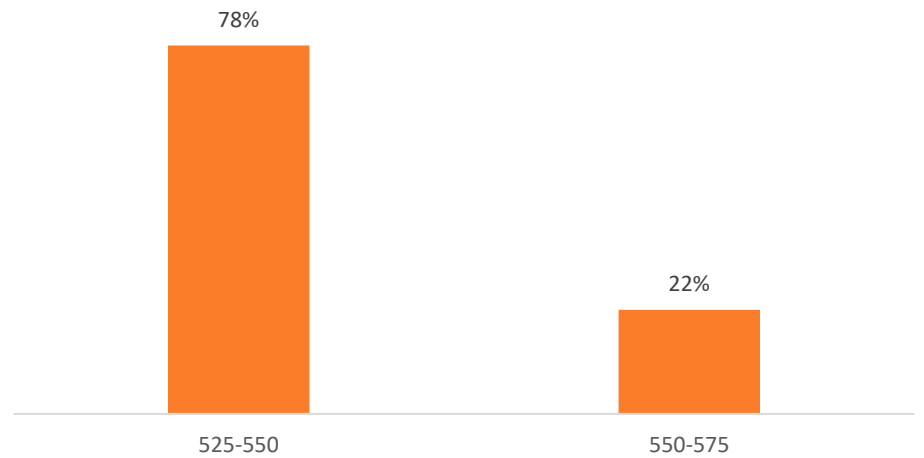
The projections signal that Fed officials are increasingly worried about inflation’s persistence and that more will need to be done to cool growth and bring price pressures under control. *A clear takeaway is the fact there is at least one rate hike due in 2023, which could increase to two if the labor market conditions remain tight and inflation remains sticky. Odds for the next hike in July meeting are high.* While rates might increase further in 2023, they are unlikely to stay there for long. The median policy rate forecasts for 2024 and 2025 have been increased to 4.6% and 3.4% respectively — signaling 100bps rate cut next year. Given the domestic economic scenario, the RBI is likely to stay put and hold rates, even if the US Fed hikes.

Target Rate Probabilities for July 26, 2023 Meeting



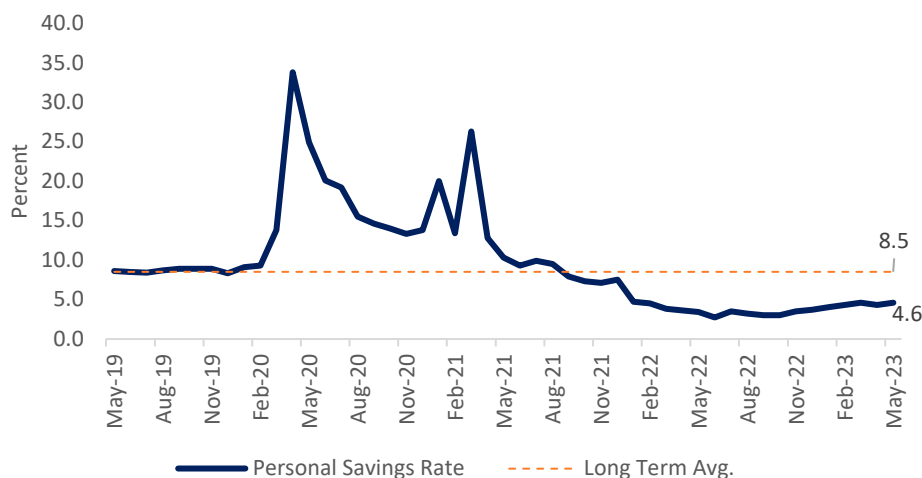
Probabilities as on Jul 26

Target Rate Probabilities for September 20, 2023 Meeting

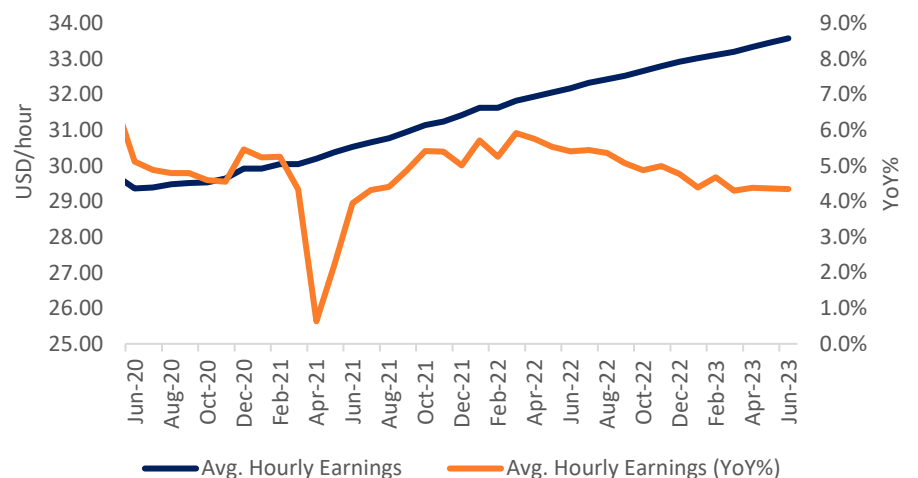


Probabilities as on Jul 27

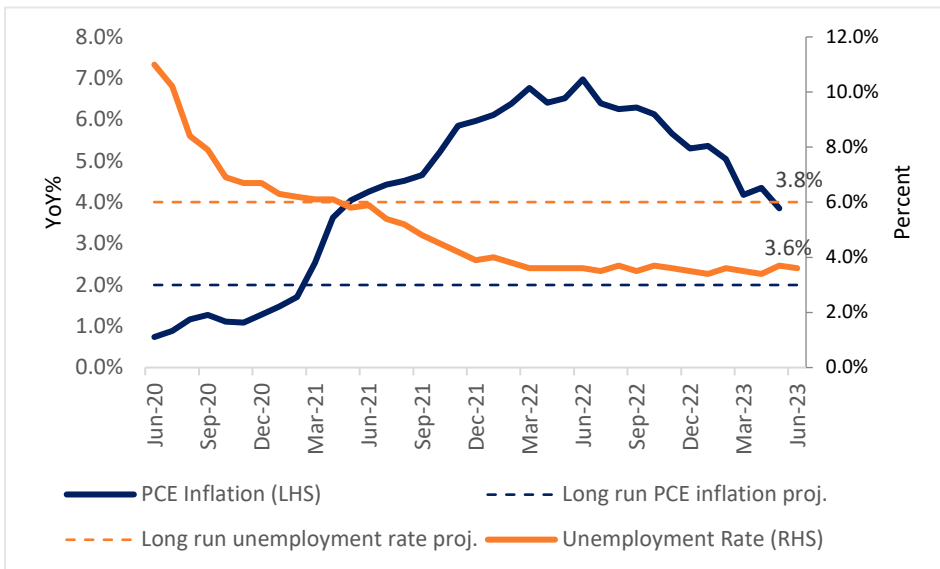
Personal Savings Rate



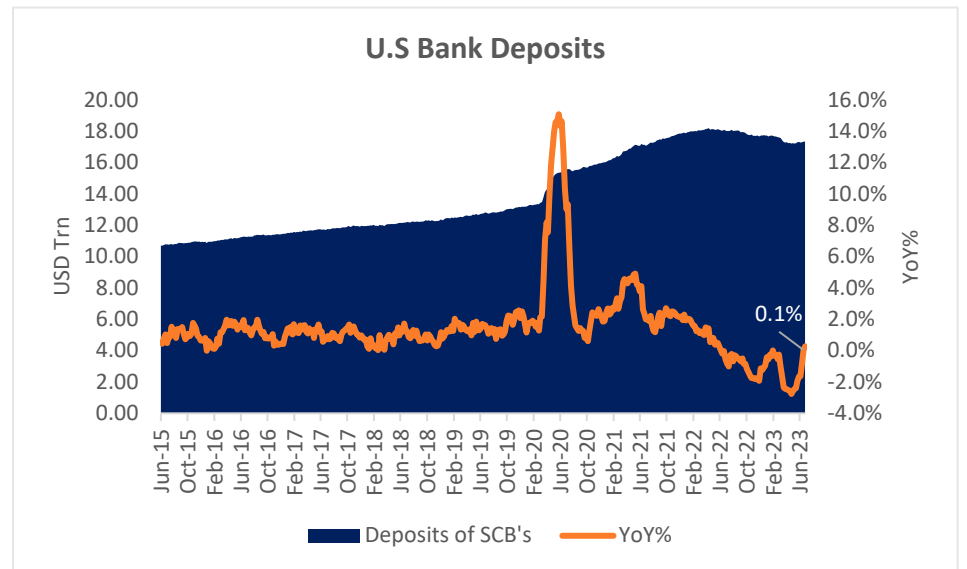
Average Hourly Earnings (Private sector employees)



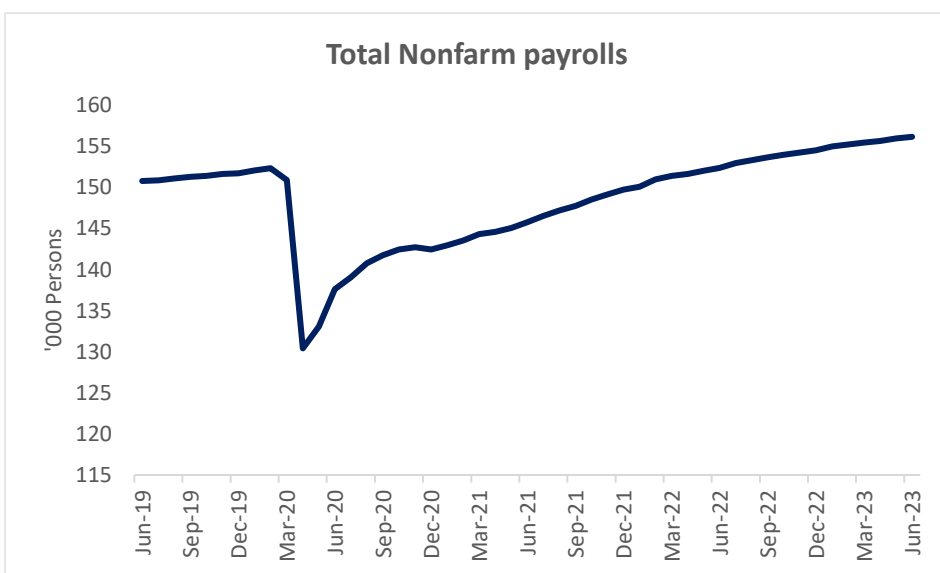
Inflation and labor market beating Fed's target



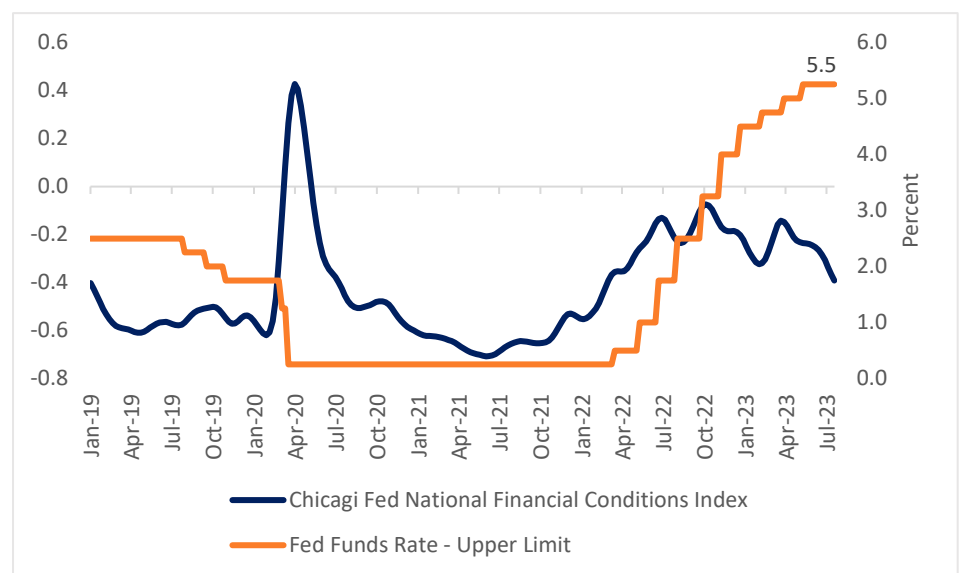
U.S. bank deposits have been recovering since Jun'23



U.S Nonfarm Payrolls exceeding pre-pandemic levels



Financial conditions easing amidst rising Fed Funds Rate



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	14 th June	34044.70	14 th June	33980.72	-0.19%
DXY	14 th June	103.31	14 th June	102.93	-0.37%
S&P 500	14 th June	4366.29	14 th June	4372.59	0.14%
U.S. 10 Year G-sec	14 th June	3.82%	14 th June	3.79%	-0.79%
	Closing date	Closing value	Opening date	Opening value	% Change
Nikkei 225	14 th June	33502.42	15 th June	33501.50	--
Sensex	14 th June	63228.51	15 th June	63158.43	-0.11%
INR/USD	14 th June	82.31	15 th June	82.04	-0.33%
India 10 Year G-Sec	14 th June	7.02%	15 th June	7.02%	--
India Call Money Rate (Wtd. Avg.)	14 th June	6.54%	15 th June	6.63%	1.38%

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