

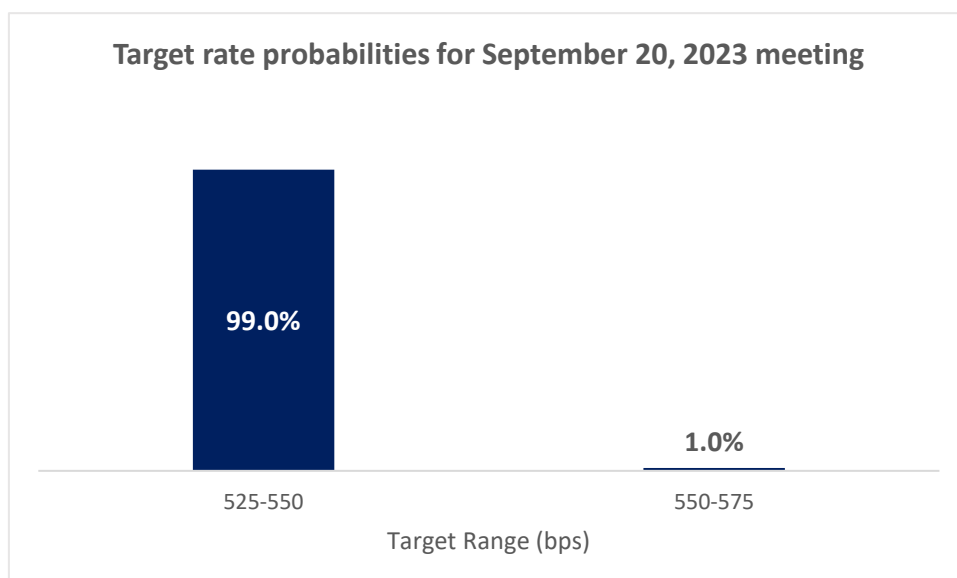
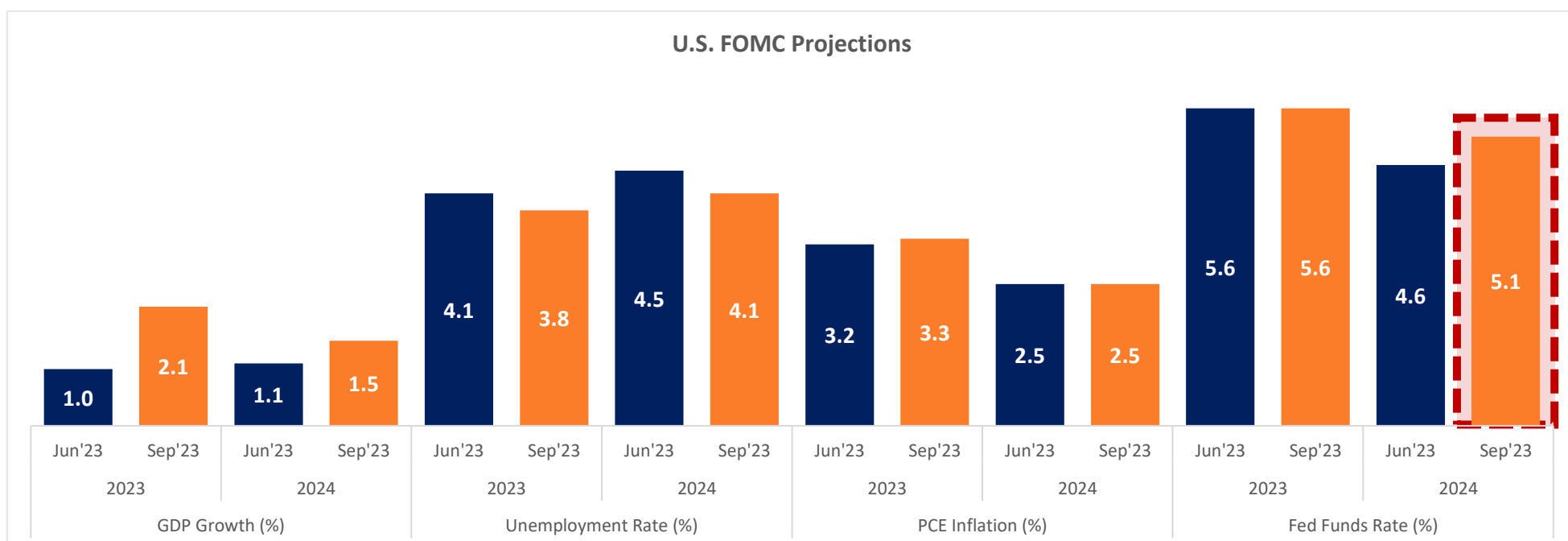
US Federal Funds Rate – Steady But Higher For Longer

The US FOMC held rates steady on expected lines. The Fed's September statement was on similar lines as June – strong economic activity, resilient banking system, tighter credit conditions with an uncertain impact, focus on bringing down inflation, and data dependent future actions. The committee left the door open for another hike this year. In the press conference, Fed Chair Powell said, "If the economy evolves as projected, the median participant projects that the appropriate level of the federal-funds rate will be 5.6% at the end of this year, 5.1% at the end of 2024, and 3.9% at the end of 2025."

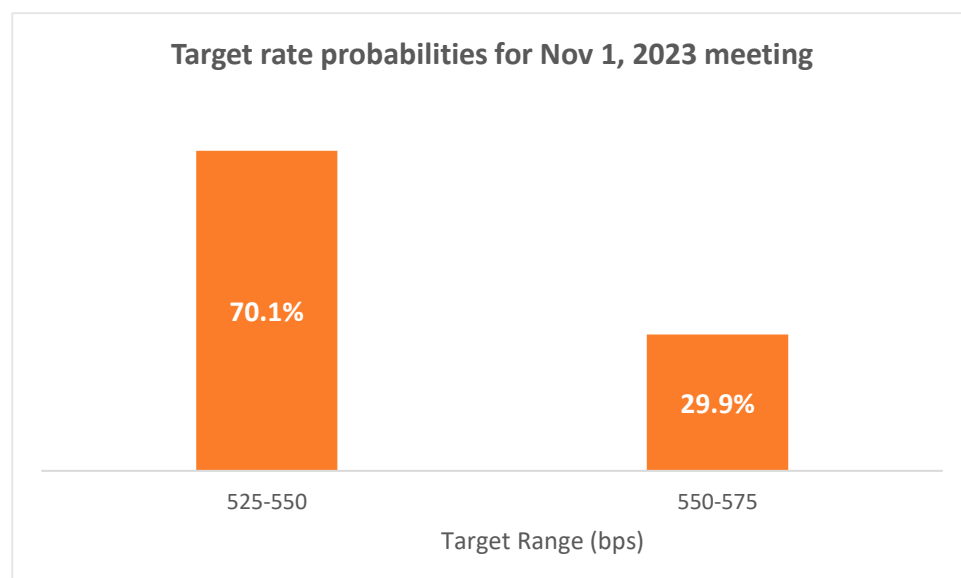
Revised projections by the Fed suggest that rates are likely to remain higher for longer. Federal funds rate projections for 2023 are unchanged from June at 5.6%. However, projections for 2024 are higher at 5.1% Vs 4.6% in June. 12 of 19 officials favor raising rates one more time in 2023. For 2026, while GDP growth, unemployment rate, and inflation are projected to reach long-run levels, Fed funds rate is projected at 2.9% which is higher than the long run rate of 2.5%. This suggests that FOMC members think that the neutral rate (which keeps inflation and unemployment stable over time) has risen.

The US economy has beaten expectations of a slowdown despite the consecutive rate hikes by the Fed. Projections by the Fed and performance of the US economy suggests that a soft-landing is very much achievable. Core PCE inflation has started showing signs of moderation, so have earnings growth. However, both unemployment and inflation remain above the Fed's target. Brent crude oil prices are up 30% over the last two months crossing \$95 a barrel, posing a renewed threat to inflation. From a future guidance point of view, it is easier for officials to project one more increase and then opt against it than to signal no more increases and then hike again. Fed officials are cautiously optimistic, with an emphasis on cautiously. We are of the opinion that the US FOMC will hold rates steady in November.

Projections signal a rate hike in 2023 and higher than earlier anticipated rates in 2024



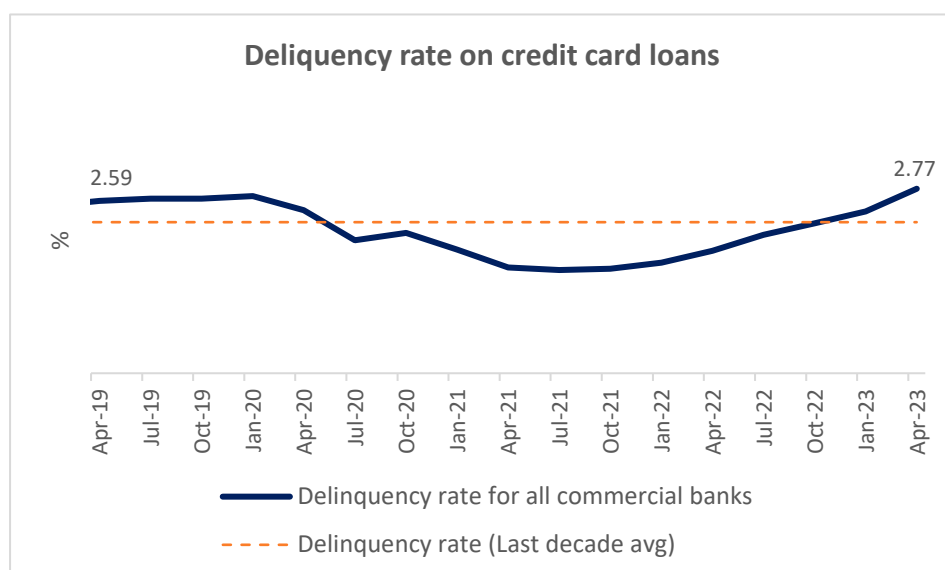
Probabilities as on Sep 20



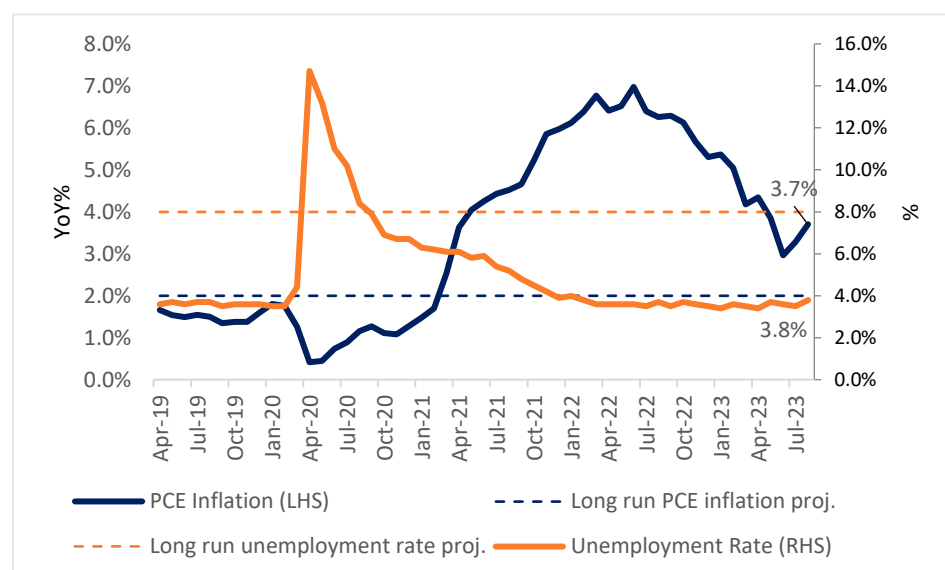
Probabilities as on Sep 21

Source : CME Fed Watch Tool, FRED, Fed, TruBoard

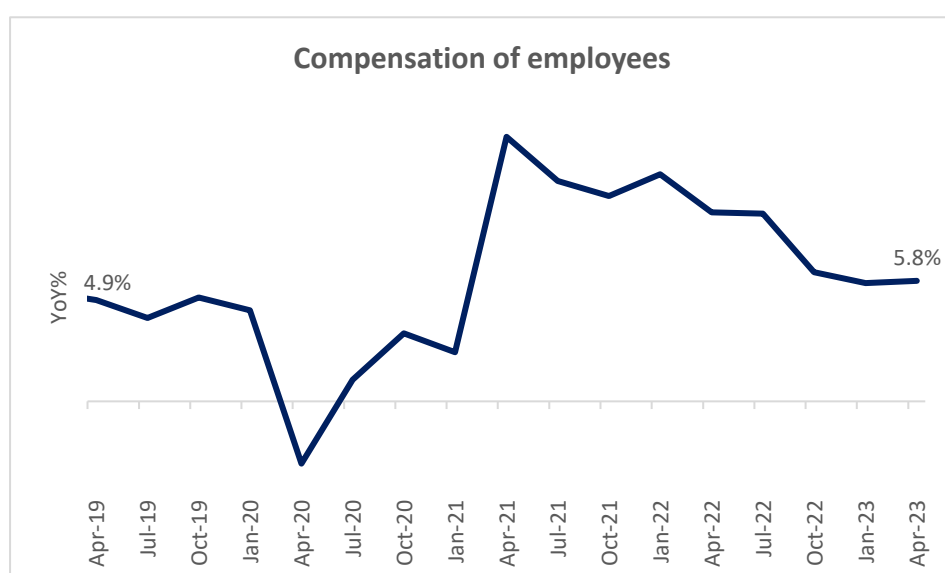
Average credit card interest rate at a record high at 20.6%



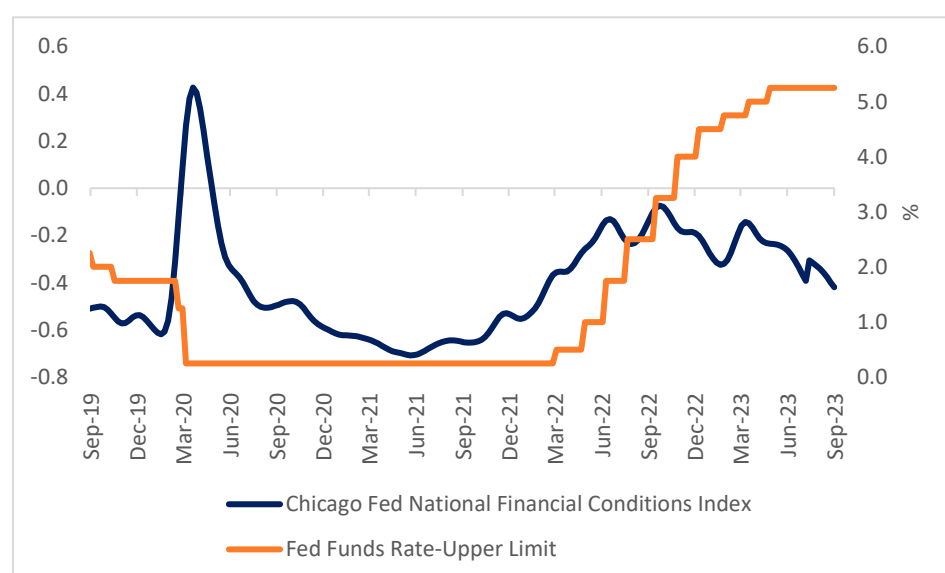
Inflation and labor market beating Fed's target



Wage cost showing signs of easing



Financial conditions not too tight yet



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	20-09-2023	34575.5	20-09-2023	34440.88	-0.39%
DXY	20-09-2023	105.12	20-09-2023	105.46	0.32%
S&P 500	20-09-2023	4452.81	20-09-2023	4402.2	-1.14%
U.S. 10 Year G-sec	20-09-2023	4.36%	20-09-2023	4.35%	-0.23%
	Closing date	Closing value	Opening date	Opening value	% Change
Nikkei 225	20-09-2023	32505.5	21-09-2023	32882	-0.43%
Sensex	20-09-2023	66707.2	21-09-2023	66608.67	-0.29%
INR/USD	20-09-2023	81.99	21-09-2023	83.15	-0.13%
India 10 Year G-Sec	20-09-2023	7.09%	21-09-2023	7.2%	0.28%
India Call Money Rate (Wtd. Avg.)	20-09-2023	6.44%	21-09-2023	6.86%	1.48%

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Author:

Anuj Agarwal, Chief Economist

Ria Rattanpal, Research Associate

Website:

www.truboardpartners.com

Email Id:

research@truboardpartners.com



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