

U.S. Federal Reserve signals a pivot

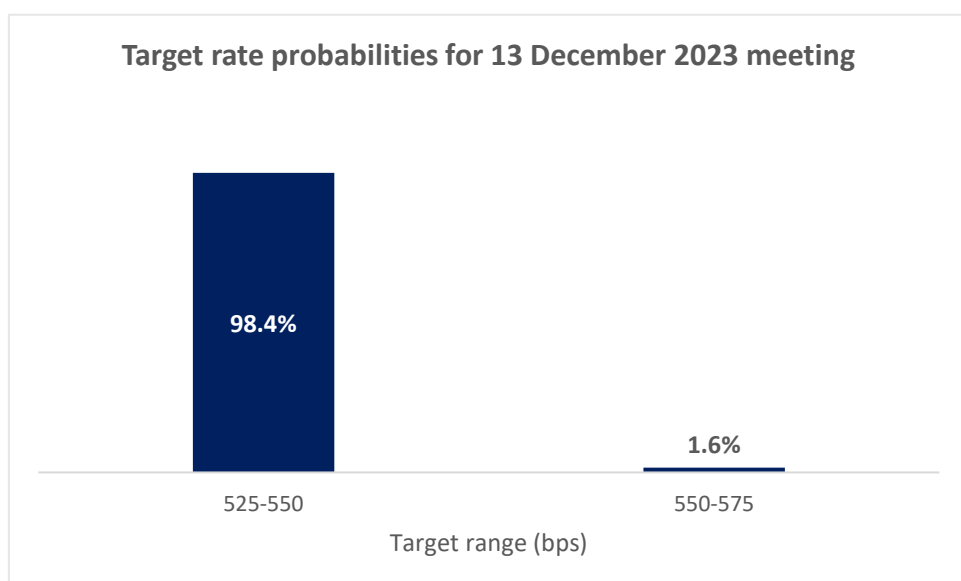
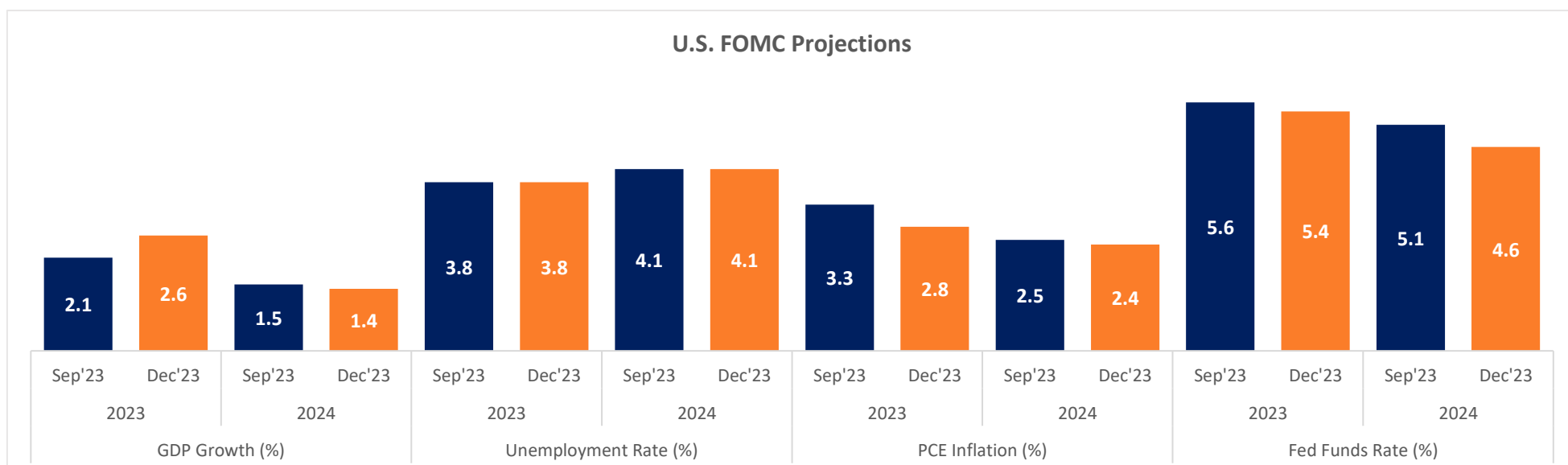
While holding the target federal funds rate steady, the U.S. Fed Chair Jay Powell signaled a clear end to the rate hike cycle. Powell mentioned that the benchmark rate was now likely at or near its peak for this tightening cycle. Powell's comments also suggested that the Fed is willing to cut rates before inflation drops to 2% and not make the mistake of over restricting the economy.

Headline CPI in the U.S. has been moderating over the last two months (3.1% in Nov'23 vs 3.2% in Oct'23) compared to previous year's peak of 8.9% in Jun'22. Core inflation though falling, is still ~4%. As per the latest FOMC projections, PCE inflation is projected to return to its 2% acceptance level by 2026. Economic activity has been showing resilience amidst two years of tightening, with real GDP registering a growth at 5.2% in Q3 2023 compared to 4.9% in Q2 2023. Fed chair acknowledged the progress on easing inflation over the last few months, with limited impact on economic growth.

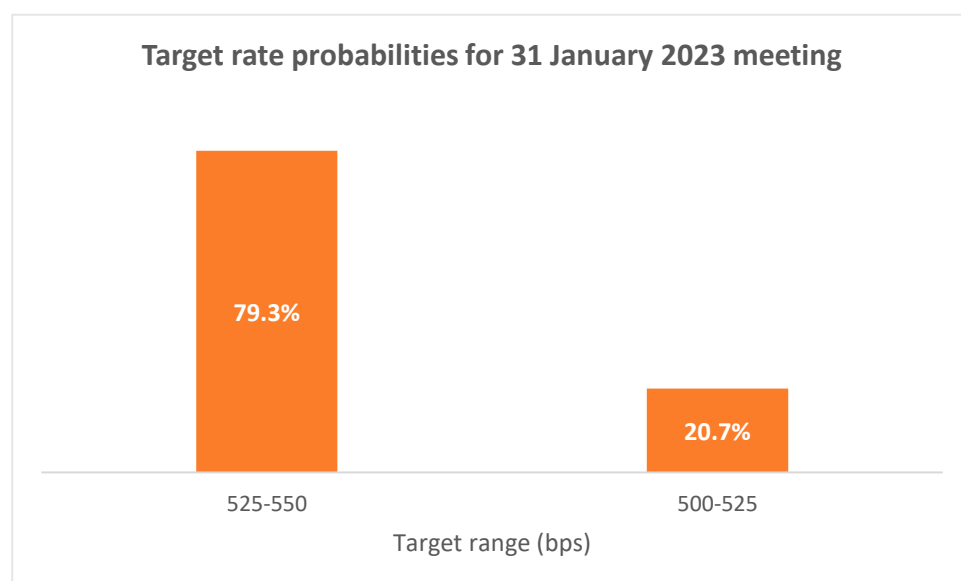
Global and domestic markets have reacted positively to the latest comments by the Fed Chairman. Benchmark U.S. 10-year treasury yields moderated by 3.8% closing at 4.04%, while the 10-year G-Sec in India moderated by 0.5% opening at 7.22%.

Speculations around likely rate cuts started last month when FOMC member Christopher Waller, signaled the possibility of rate cuts in 2024, provided the U.S. CPI inflation lowered for few more months. After yesterday's policy announcement, the CME Fed Watch tool indicates close to 70% probability of 25bps rate cut in March and May next year. The revised dot plot suggests a 75 bps cut in 2024 and a 100 bps cut in 2025. Cuts also extend into 2026, with long term rate maintained at 2.5%. A 3-year long rate cut cycle seems too long and unlikely. While we don't expect a rate cut before May 2024, Fed's entire rate cut cycle is likely to be shorter.

FOMC projections signal rate cuts in 2024

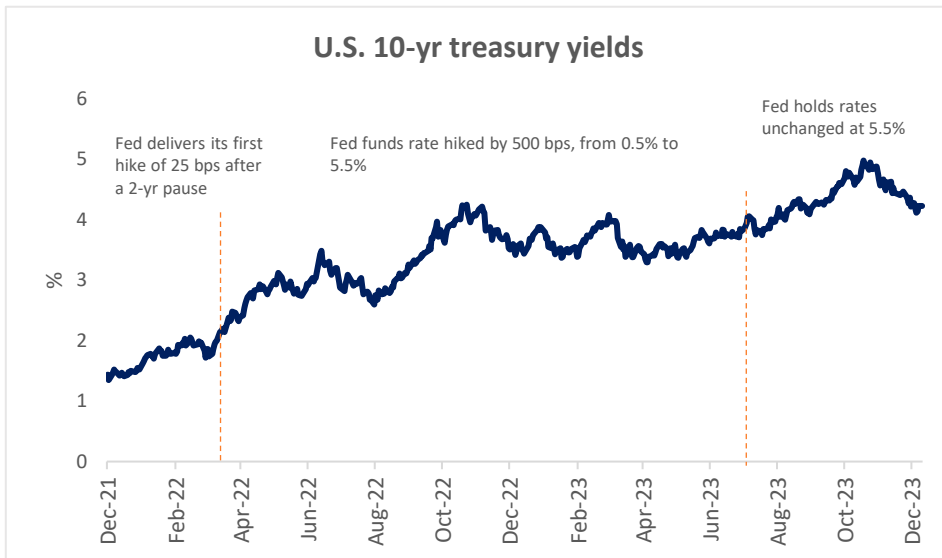


Probabilities as on Dec 13

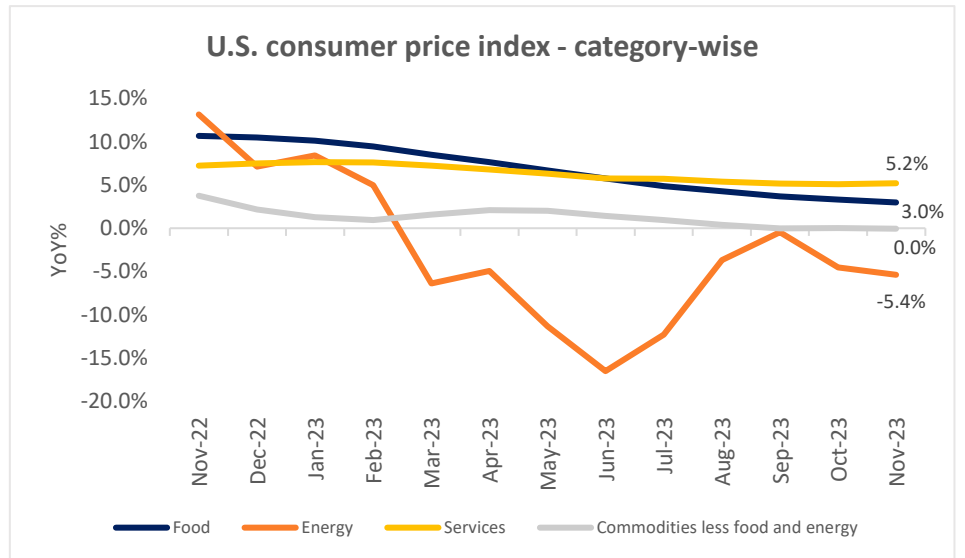


Probabilities as on Dec 14

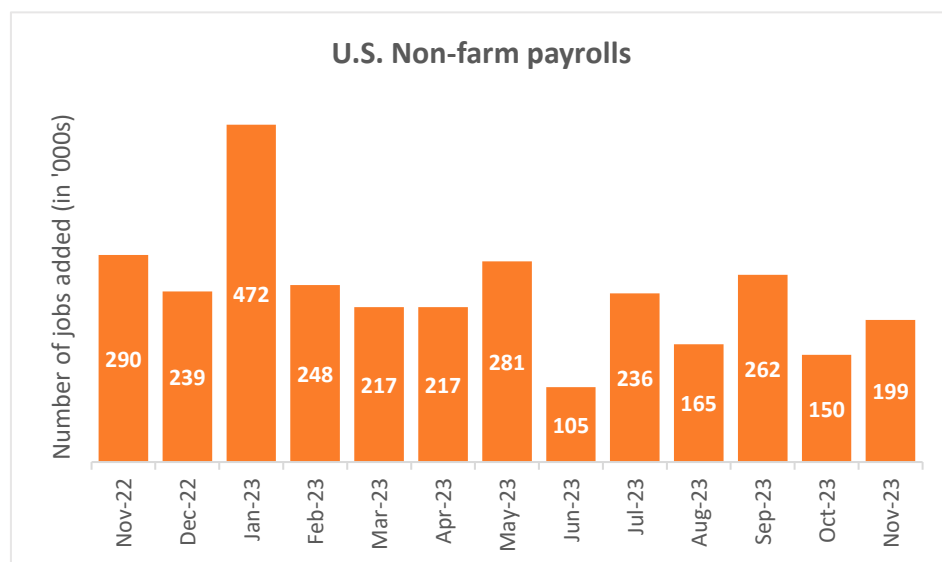
Yields peaked in Nov'23 amidst strong Q3 2023 GDP data



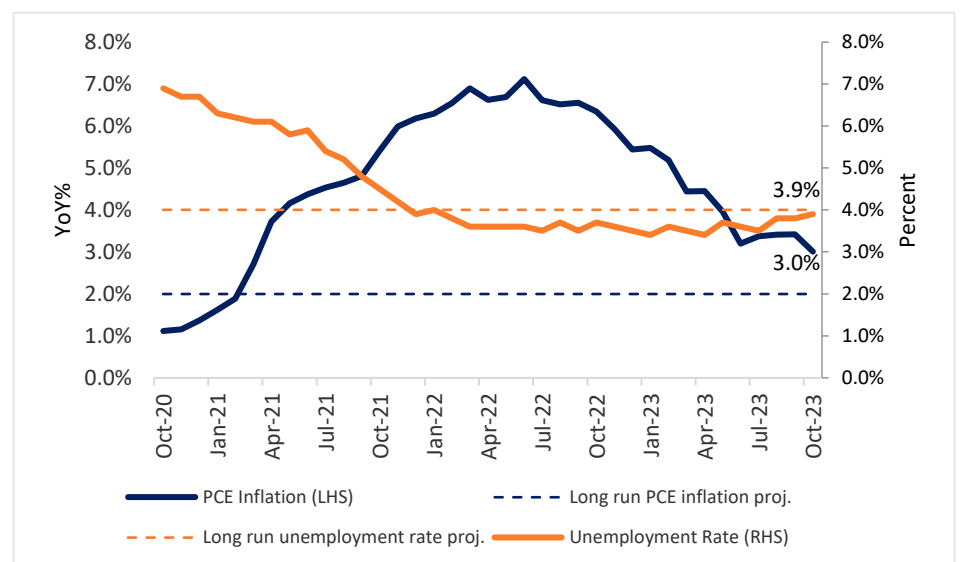
Services inflation remains elevated



Nonfarm payrolls suggests cooling of labor market



Inflation and unemployment inching closer to Fed's target



Source: FRED, TruBoard

Market Reactions

| | Opening date | Opening value | Closing date | Closing value | % Change |
|-----------------------------------|--------------|---------------|--------------|---------------|----------|
| Dow Jones Industrial | 13-12-2023 | 36,580.03 | 13-12-2023 | 37,090.24 | 1.39% |
| DXY | 13-12-2023 | 103.82 | 13-12-2023 | 102.87 | -0.92% |
| S&P 500 | 13-12-2023 | 4,646.20 | 13-12-2023 | 4,707.09 | 1.31% |
| U.S. 10 Year G-sec | 13-12-2023 | 4.20% | 13-12-2023 | 4.04% | -3.81% |
| | Closing date | Closing value | Opening date | Opening value | % Change |
| Nikkei 225 | 13-12-2023 | 32,926.35 | 14-12-2023 | 33,060.00 | 0.41% |
| Sensex | 13-12-2023 | 69,584.60 | 14-12-2023 | 70,145.00 | 0.81% |
| INR/USD | 13-12-2023 | 83.40 | 14-12-2023 | 83.28 | -0.14% |
| India 10 Year G-Sec | 13-12-2023 | 7.26% | 14-12-2023 | 7.22% | -0.55% |
| India Call Money Rate (Wtd. Avg.) | 13-12-2023 | 6.78% | 14-12-2023 | 6.84% | 0.88% |

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