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Event Update

US Fed to withdraw stimulus faster to bring down stubbornly high inflation

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Dollar index may rally till 97.70/98.40 levels

Key Highlights:

- US Federal Reserve maintained its target range for federal funds rate at 0-0.25%
- The central bank decided to begin reducing monthly pace of its net asset purchases by $20 billion for treasury securities and $10 billion for mortgage backed securities each month
- The Fed said similar reductions in the pace of net asset purchases will likely be appropriate each month but is prepared to adjust the pace of purchases if warranted by changes in economic outlook
- The central bank signalled interest rate increase in 2022 at a pace faster than expected
- Out of 18 policymakers, 12 expect at least three rate hikes in 2022 while five expect at least two rate hikes next year
- The Fed expects its inflation to remain elevated above its 2% target for four consecutive years

Economic Projections:

- US Federal Reserve in its economic projections revised lower its GDP growth outlook for 2021 to 5.5% compared to September estimate of 5.9% while it upgraded its growth forecast for 2022 to 4% from September projection of 3.8%
- The bank expects unemployment rate dropping to 4.3% in 2021 and falling further to 3.5% till 2024
- The bank raised it inflation forecast to 5.3% for 2021 compared to September projection of 4.2%. Fed hiked its PCE inflation estimate for 2022 to 2.6% from 2.2%
- The bank's interest rate projections, the so-called dot-plot, showed that officials expect three quarter point increases in federal fund rate will be appropriate next year

Impact on Dollar Index:

The Dollar Index may continue with its positive bias as the US Fed decided to double its pace of winding up of asset purchases. With this pace it will end asset purchases by March and pave the way for three quarter percentage point interest rate hike by end of 2022. Out of 18 policymakers, 12 expect at least three rate hikes in 2022 while five expect at least two rate hikes next year. Further, the bank raised its inflation forecast to 5.3% for 2021 compared to September projection of 4.2% and hiked its PCE inflation estimate for 2022 to 2.6% from 2.2%. Investors will remain vigilant ahead of major economic data from the US to evaluate the strength in economy. As long as the dollar index sustains above 94.50 it will open the doors for 97.70/98.40 levels.

Source: Bureau of Economic Analysis, US Federal Reserve, Ticker

US Fed doubles pace of reduction in its asset purchases

Guidance on Inflation and Economic activity:

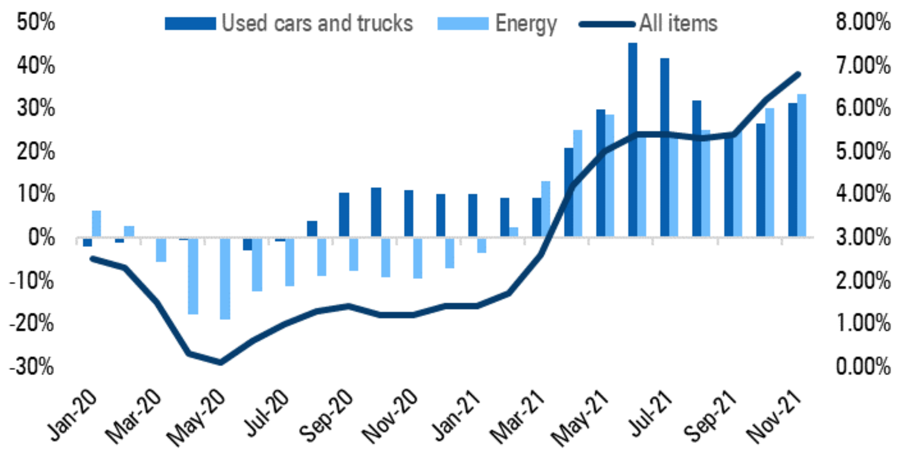
- US Federal Reserve Chairman Jerome Powell said economic activity is on track to expand at a robust pace this year, reflecting progress on vaccination and reopening of the economy. The rise in Covid cases in recent weeks, along with the emergence of the Omicron variant, pose risks to the outlook
- Condition in labour market continued to improve. Demand for labour is very strong and job gains averaged 378,000 per month over the past three months
- US Federal Reserve Chairman Jerome Powell said supply and demand imbalances related to the pandemic and the reopening of the economy have continued to contribute to elevated levels of inflation. In particular, bottlenecks and supply constraints are limiting how quickly production can respond to higher demand in the near term. These problems have been larger and longer lasting than anticipated, exacerbated by waves of the virus

Monetary Policy statements:

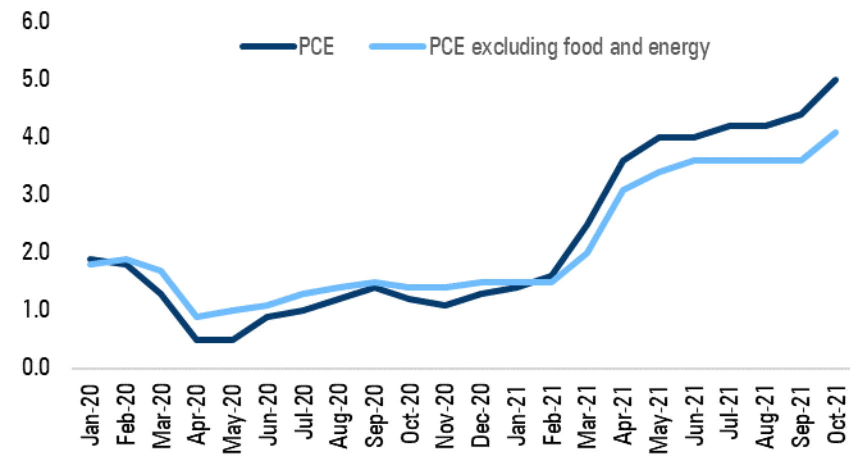
- The Federal Reserve is committed to using its full range of tools to support the US economy in this challenging time, thereby promoting its maximum employment and price stability goals
- With progress on vaccinations and strong policy support, indicators of economic activity and employment have continued to strengthen
- The committee decided to keep the target range for the federal funds rate at 0-0.25%. With inflation having exceeded 2% for some time, the committee expects it to be appropriate to maintain this target range until labour market conditions have reached levels consistent with the committee’s assessments of maximum employment
- In light of inflation developments and the further improvement in the labour market, the committee decided to reduce the monthly pace of its net asset purchases by $20 billion for Treasury securities and $10 billion for agency mortgage-backed securities
- Beginning in January, the committee will increase its holdings of treasury securities by at least $40 billion per month and of agency mortgage-backed securities by at least $20 billion per month

Macroeconomic data, FOMC economic projections

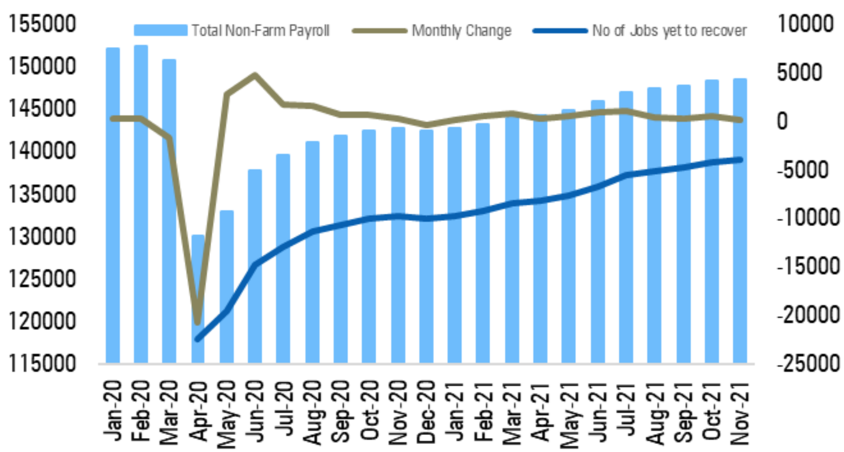
Inflation CPI



Personal Consumption Expenditures (PCE)



Non-Farm Payrolls



Macroeconomic projections

	2021	2022	2023	2024
Real GDP	5.5	4	2.2	2
September Projection	5.9	3.8	2.5	2
Unemployment Rate	4.3	3.5	3.5	3.5
September Projection	4.8	3.8	3.5	3.5
PCE Inflation	5.3	2.6	2.3	2.1
September Projection	4.2	2.2	2.2	2.1
Core PCE Inflation	4.4	2.7	2.3	2.1
September Projection	3.7	2.3	2.2	2.1
Federal Fund Rates	0.1	0.9	1.6	2.1
September Projection	0.1	0.3	1	1.8

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