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Event Update

US Fed raises interest rate by 0.25%

Research Analysts

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Dollar index may rally till 100.50 levels

Key Highlights:

- The US Federal Reserve decided to raise interest rates by 25 bps to a range between 0.25% and 0.5%
- The median projection for the appropriate level of the federal funds rate is 1.9% at the end of this year, a full percentage point higher than projected in December. Over the following two years, the median projection is 2.8%
- Federal Open Market Committee expects to begin reducing its holdings of treasury securities, agency debt and agency mortgage-backed securities in a coming meeting

Economic Projections:

- The US Federal Reserve in its economic projections revised lower its GDP growth outlook for 2022 to 2.8% compared to December estimate of 4.0% while it kept its growth forecast unchanged for 2023 to 2.2% compared to December projection
- The bank expects unemployment rate to drop to 3.5% in 2022 and remain near that level thereafter
- The bank raised its inflation forecast to 4.3% for 2022 compared to December projection of 2.6%. Fed hiked its core PCE inflation estimate for 2022 to 4.1% from 2.7%
- Seven officials projected the Fed would need to raise rates above 2% this year

Impact on Dollar Index, rupee:

The Dollar Index may continue its positive bias as the US Fed decided to raise interest rate by 25 bps to a range between 0.25% and 0.5%, the first rate increase in three years. Most policymakers are expecting the federal funds rate to range between 1.75% and 2% by the end of 2022. To achieve this, central bank has to raise interest rate by 0.25% in the remaining six policy meetings. In 2004-06, the Fed raised rates 17 times whereas, in 2015-18, nine rate hikes were witnessed. Additionally, Fed Chair Jerome Powell said the Fed could finalise a plan to shrink its \$9 trillion asset portfolio at its next meeting. As long as the Dollar Index sustains above 96 level it may rally till 100.5. US\$INR likely to respect the resistance of 77.5 and appreciate back till 74.5 level in coming months despite expectation of a strong dollar as India is in a better position compared to other emerging markets and has significant foreign exchange reserves. Further, market sentiments improved on hopes of progress in peace talks between Russia and Ukraine along with a decline in crude oil prices.

US Fed raises interest rate by 0.25%, signals six more increases by year end

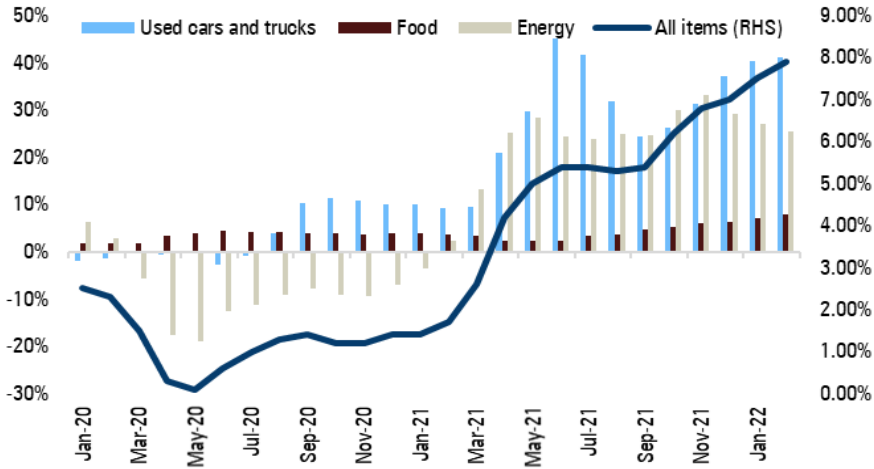
Guidance on inflation and economic activity:

- US Federal Reserve Chair Jerome Powell said economic activity expanded at a robust pace last year, reflecting progress on vaccinations and the reopening of the economy, fiscal and monetary policy support and the healthy financial positions of households and businesses. However, the invasion of Ukraine and related events represent a downward risk to the outlook for economic activity
- Conditions in the labour market continued to strengthen and were extremely tight. Over the first two months of the year, employment rose by more than one million jobs
- US Federal Reserve Chairman Jerome Powell said inflation remained well above goal of 2%. Supply disruptions have been larger and longer lasting than anticipated. Additionally, higher energy prices are driving up overall inflation. The surge in prices of crude oil and other commodities that resulted from Russia's invasion of Ukraine will put additional upward pressure on near-term inflation

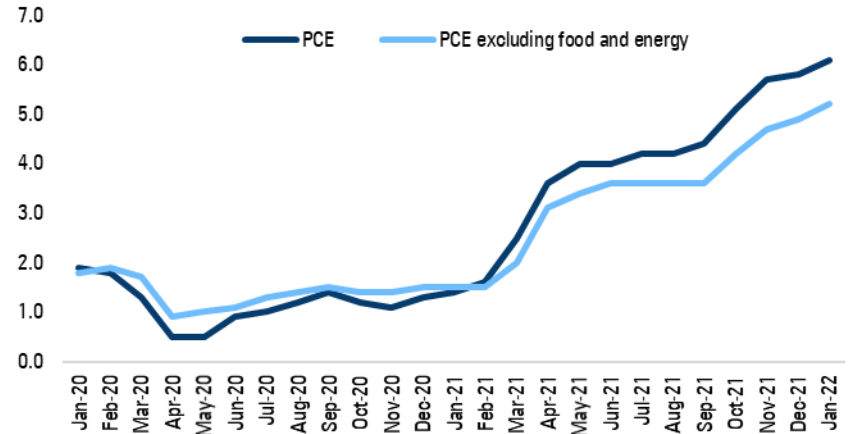
Monetary Policy statements:

- Indicators of economic activity and employment have continued to strengthen
- Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher energy prices and broader price pressures
- The invasion of Ukraine by Russia is causing tremendous human and economic hardship. The implications for the US economy are highly uncertain but in the near term the invasion and related events are likely to create additional upward pressure on inflation and weigh on economic activity
- The committee seeks to achieve maximum employment and inflation rate of 2% over longer run. In support of these goals, the committee decided to raise target range for federal funds rate to 0.25-0.50% and anticipates that ongoing increases in the target range will be appropriate
- The committee expects to begin reducing its holdings of treasury securities, agency debt and agency mortgage-backed securities in a coming meeting
- In assessing the appropriate stance of monetary policy, the committee will continue to monitor the implications of incoming information for the economic outlook. The committee would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of the committee's goals

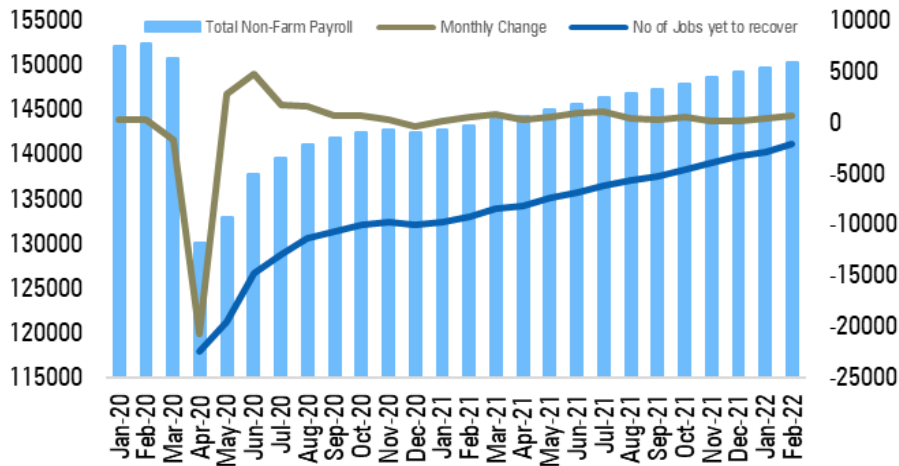
Inflation CPI



Personal Consumption Expenditures (PCE)



Non-Farm Payrolls



Macroeconomic projections

	2022	2023	2024
Real GDP	2.8	2.2	2.0
December Projection	4.0	2.2	2.0
Unemployment Rate	3.5	3.5	3.6
December Projection	3.5	3.5	3.5
PCE Inflation	4.3	2.7	2.3
December Projection	2.6	2.3	2.1
Core PCE Inflation	4.1	2.6	2.3
December Projection	2.7	2.3	2.1
Federal Fund Rates	1.9	2.8	2.8
December Projection	0.9	1.6	2.1

Calendar-Major Central bank monetary policy meeting schedule 2022

Date	US Federal Reserve	European Central Bank	Bank of England	Bank of Japan
18-Jan-22	-	-	-	✓
27-Jan-22	✓	-	-	-
03-Feb-22	-	✓	✓	-
10-Mar-22	-	✓	-	-
16-Mar-22	✓	-	-	-
17-Mar-22	-	-	✓	-
18-Mar-22	-	-	-	✓
14-Apr-22	-	✓	-	-
28-Apr-22	-	-	-	✓
04-May-22	✓	-	-	-
05-May-22	-	-	✓	-
09-Jun-22	-	✓	-	-
15-Jun-22	✓	-	-	-
16-Jun-22	-	-	✓	-
17-Jun-22	-	-	-	✓
21-Jul-22	-	✓	-	✓
27-Jul-22	✓	-	-	-
04-Aug-22	-	-	✓	-
08-Sep-22	-	✓	-	-
15-Sep-22	-	-	✓	-
21-Sep-22	✓	-	-	-
22-Sep-22	-	-	-	✓
27-Oct-22	-	✓	-	-
28-Oct-22	-	-	-	✓
02-Nov-22	✓	-	-	-
03-Nov-22	-	-	✓	-
15-Dec-22	✓	✓	✓	-
20-Dec-22	-	-	-	✓



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