

May 5, 2022

---

# Event Update

## US Fed raises interest rate by 0.5%

---

### Research Analysts

**Raj Deepak Singh**  
rajdeepak.singh@icicisecurities.com

**Saif Mukadam**  
saif.mukadam@icicisecurities.com

## Key Highlights:

- The US Federal Reserve decided to raise interest rates by 50 bps to a range between 0.75% and 1.0%
- Federal Open Market Committee (FOMC) decided to begin reducing the size of the balance sheet starting June
- Fed Chairman Jerome Powell said more 50 bps increases were on the table for the next couple of meetings
- Mr Powell said the central bank officials are not considering a 75 bps increase

## Plans to reduce size of balance sheet:

- The committee decided to begin reducing its holdings of treasury securities, agency debt and agency mortgage-backed securities on June 1
- For treasury securities, the cap will initially be set at \$30 billion per month and after three months will increase to \$60 billion per month
- For agency debt and agency mortgage-backed securities, the cap will initially be set at \$17.5 billion per month and after three months will increase to \$35 billion per month

## Impact on Dollar Index, Rupee:

The Dollar Index may continue its positive bias as the US Fed decided to raise interest rate by 50 bps to a range between 0.75% and 1.00%, largest since 2000 to combat high inflation. Additionally, the US Federal Reserve announced a plan to shrink its \$9-trillion asset portfolio. Balance sheet would be allowed to shrink by \$47.5 billion/month in June, July, August and by up to \$95 billion per month starting in September.

Additionally, the Fed Chair said the central bank officials are not considering a 75 bps increase but more half a point increases were on the table in the next couple of meetings. In this year, five policy meets are pending. We may see at least two more 50 bps rate hikes and three 25 bps hike taking it to 2.75% as the central bank is worried over soaring inflation. Additionally, other major central banks across globe are likely to lag behind in tightening monetary policy as policymakers are facing a dilemma with inflation hitting a record high and economic growth weakening. As long as the Dollar Index sustains above 100 level it may continue to rally till 105.

US\$INR is likely to respect the resistance of 77.50 and appreciate back till 75.00 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, the RBI surprised markets by raising rates to tighten liquidity and counter high inflation.

# US Fed raises interest rate by 0.5%, announces plan to shrink balance sheet

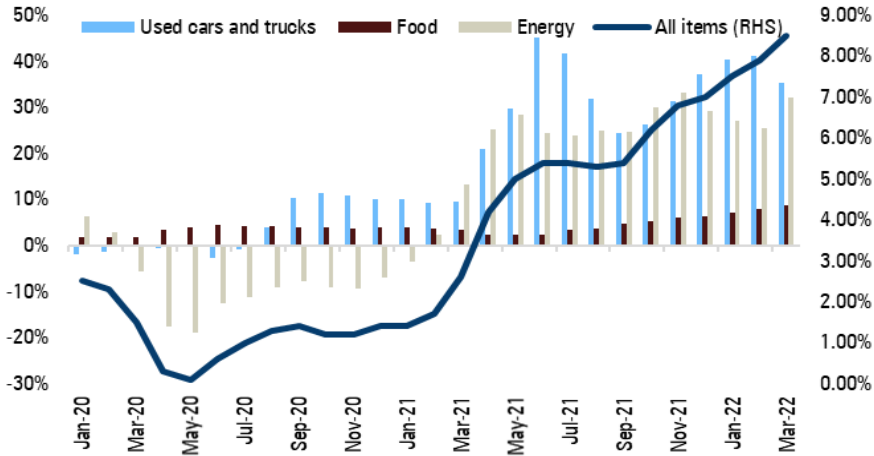
## Guidance on inflation and economic activity:

- US Federal Reserve Chairman Jerome Powell said economic activity edged down in the first quarter but underlying momentum remains strong. The decline largely reflected swings in inventories and net exports. Household spending and business fixed investment continued to expand
- The labour market continued to strengthen and is extremely tight. Over the first three months of the year, employment rose by nearly 1.7 million jobs. In March, the unemployment rate hit a new post-pandemic low and is near a five-decade low of 3.6%
- US Federal Reserve Chairman Jerome Powell said inflation remained well above goal of 2%. Aggregate demand is strong while bottlenecks and supply constraints are limiting how quickly production can respond. Further, supply disruptions have been larger and longer lasting than anticipated. Additionally, surge in prices of crude oil and other commodities that resulted from Russia's invasion of Ukraine is creating additional upward pressure on inflation along with lockdown in China that is likely to further exacerbate supply chain disruptions

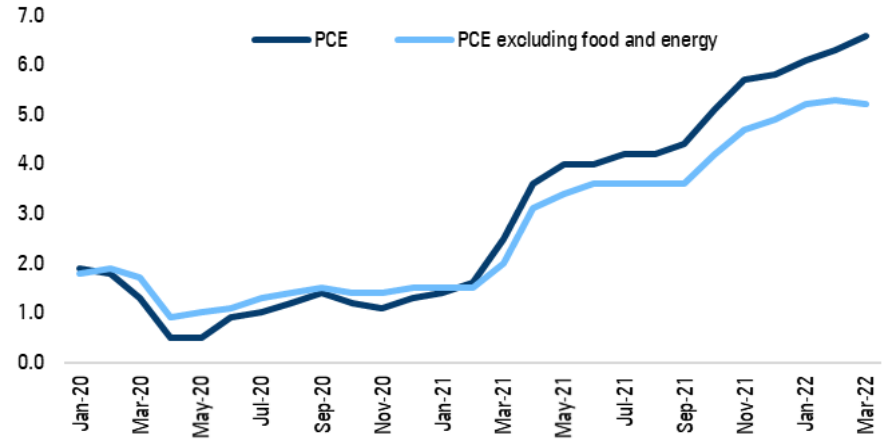
## Monetary Policy statements:

- Job gains have been robust in recent months and the unemployment rate has declined substantially
- 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. The invasion and related events are creating additional upward pressure on inflation and are likely to weigh on economic activity. In addition, Covid-related lockdowns in China are likely to exacerbate supply chain disruptions
- The committee seeks to achieve maximum employment and inflation rate of 2% over longer run. In support of these goals, it decided to raise target range for the federal funds rate to 0.75% to 1.00% and anticipates that ongoing increases in the target range will be appropriate
- In addition, the committee decided to begin reducing its holdings of treasury securities, agency debt and agency mortgage-backed securities on June 1
- In assessing the appropriate stance of monetary policy, the committee will continue to monitor the implications of incoming information for the economic outlook. It would be prepared to adjust the stance of monetary policy as appropriate if risks emerge that could impede the attainment of its goals

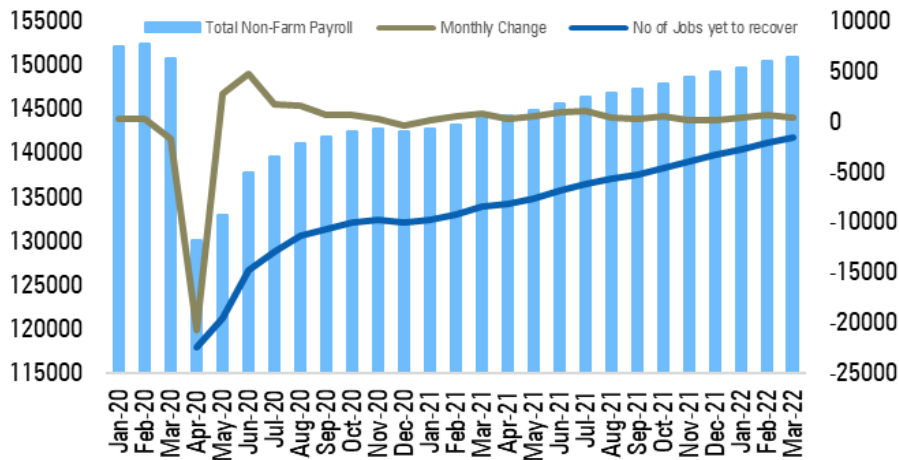
## Inflation CPI



## Personal Consumption Expenditures (PCE)



## Non-Farm Payrolls



## Macroeconomic projections

	2022	2023	2024
<b>Real GDP</b>	2.8	2.2	2.0
December Projection	4.0	2.2	2.0
<b>Unemployment Rate</b>	3.5	3.5	3.6
December Projection	3.5	3.5	3.5
<b>PCE Inflation</b>	4.3	2.7	2.3
December Projection	2.6	2.3	2.1
<b>Core PCE Inflation</b>	4.1	2.6	2.3
December Projection	2.7	2.3	2.1
<b>Federal Fund Rates</b>	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	-	-	-	✓



---

Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

---

## ANALYST CERTIFICATION

I/We, Raj Deepak Singh BE, MBA (Finance), Saif Mukadam Bsc, MMS (Finance) authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities Limited. The author may be holding a position in currency derivatives as on date of release of this report. ICICI Securities Limited may be holding a proprietary position in currency derivatives as on the date of release of this report." This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. ICICI Securities Ltd and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities Ltd and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).