Impacts of Fed Rates

Why in news?

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USA’s Federal Open Market Committee announced there will be no increase in the fed rates.

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What is US fed rates about?

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- The Federal Open Market Committee (FOMC) is the monetary policymaking body of the Federal Reserve System in the U.S.
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- The fed funds rate is what banks charge each other for overnight loans to meet these reserve balances.
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- The amount loaned and borrowed is known as the federal funds.
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- If the FOMC wants the rate lower, the Fed purchases securities from its member banks.
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- It deposits credit onto the banks' balance sheets, giving them more reserves than they need.
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- It forces the banks to lower the fed funds rate so they can lend out the extra funds to each other. That's how the Fed lowers interest rates.
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- When the Fed wants rates higher, it does the opposite.
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- It sells its securities to banks and consequently removes funds from their balance sheet.
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- This gives banks fewer reserves which allow them to raise rates. Since 2015, the Fed has been raising interest rates, it does this to control inflation.
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What are recent decisions on fed rates?

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- Earlier FOMC voted unanimously to increase the short-term interest rate by a quarter of a percentage point, taking it from 2.25% to 2.5%.
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- Which was the fourth increase in 12 months, a sequence that had been projected a year ago.
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- The FOMC members also indicated that there would be two more quarter-point increases in 2019.
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- The announcement soon met with widespread disapproval and recently in was decided that there will no more increase in rates.
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- With the Fed no longer raising rates this year, a major overhang has been lifted for emerging markets' (EM's) dollar issues and stocks.
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What are emerging markets?

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- Emerging markets, also known as emerging economies or developing countries, are nations that are investing in more productive capacity.
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- They are moving away from their traditional economies that have relied on agriculture and the export of raw materials.
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- Leaders of developing countries want to create a better quality of life for their people.
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- They are rapidly industrializing and adopting a free market or mixed economy.
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- Emerging markets are important because they drive growth in the global economy.
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What is the performance of emerging markets?

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- After a bruising rout, emerging-market junk bonds are scaling a golden mountain, Credit seems like the right place to be these days.
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- Since a low in late November, Asia’s high-yield corporate bonds have already risen more than 4%, while emerging-market stocks have been trading sideways.
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- Since November, China’s real-estate developers have been racing to raise dollar bonds, at the expense of offering average interest payments of about 10%.
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- Meanwhile, because of their high-yield nature, these issuers tend to sell bonds with two-year maturities.
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What are china’s expectation in this regard?

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- China’s high-yield developers have raised close to $15 billion offshore since November, but they still can’t finance onshore.
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- More likely, banks and fund managers in China are too scared to dip in.
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- China’s property developers have a lot of dollar obligations to pay off, they have even more in yuan.
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- The sector needs to refinance 6 trillion yuan ($880 billion) worth of liabilities.
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- Because of tight financing in 2018, private enterprises will have a particularly hard time servicing this debt.
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- This real-estate developer operates in tier-two cities at best—in 2018, its average selling price was only 11,292 yuan per square meter—and can generate a return on assets of just 5.7%.
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Source: Financial Express

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