U.S. Fed Rate Hike

What is the issue?

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- The U.S. Federal Reserve policy statement and fresh economic projections are due to be released soon – amid expectations of a hike.
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- US Federal Reserve rate hike could impact Indian interest rates and analysts expect a quarter-point hike in the next sitting.
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What are the implications?

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- The projected US Fed rate hike comes in the backdrop of a sharp uptick in hiring alongside a rising inflationary trend in the US economy.
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- A Fed rate hike could potentially impact the macroeconomic outlook in other emerging Policy economies, including India.
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- RBI hiked the repo rate by 25 basis points in its recent meet, effectively signalling a reversal of the easy money policies of the last three years.
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- The RBI rate hike was to enable foreign investors retain their arbitrage advantage and thereby stem outflow of hot capital.
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- If not for the rate hike by RBI, it would’ve led to weakening of the rupee and an estimated capital outflow of over Rs 40,000 crores is likely in 4 months.
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How have the markets reacted?

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- Equity market performance has varied across regions, with the Advanced Economies (AEs) clocking modest gains on strong first quarter earnings.
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- In major Emerging Market Economies (EMEs), there have been selloffs on a rising dollar and expectations of further rate hikes by the Fed.
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- The US 10-year sovereign yield crossed 3% in mid-May on strong economic data and expectations of tighter monetary policy and fiscal expansion.
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- Across most EMEs, however, bond yields have risen on lower foreign appetite for their debt due to growing dollar shortage in the global market.
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- In the currency markets, the US dollar touched its highest level in May since December 2017, while Euro slid significantly against the dollar.
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- EME currencies have also by and large, depreciated against the US dollar.
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Source: Indian Express

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