

## U.S. Fed lowers rates but sees fewer cuts next year due to high inflation

### Key Highlights:

- The U.S. Federal Reserve (Fed) lowered **interest rates by 25 bps to 4.25%-4.50% range in Dec-24 policy meet marking the third consecutive rate cut.**
- Projections point to only two rate cuts in 2025.
- Uncertainty around inflation has increased.
- Cumulative 100 bps rate cuts by US Fed in the current cycle so far.

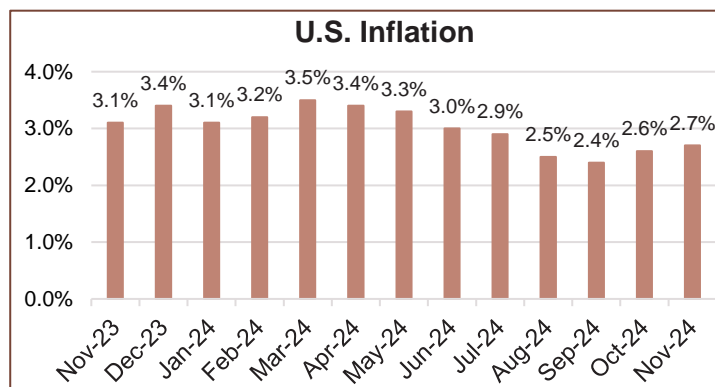
### Impact on Markets and Commodities:

Markets	Impact
<b>U.S markets</b>	The S&P 500, Nasdaq Composite & Dow Jones Industrial Average fell 2.95%, 3.56% & 2.58% each, hitting intraday and closing record lows.
<b>Indian markets</b>	The Indian market saw a widespread decline following a global sell-off driven by the US Fed's hawkish stance on interest rates.
<b>Asian markets</b>	Japan's Nikkei 225 index, South Korea's Kospi and Hong Kong's Hang Seng all fell close to 1%, while the yen dipped after the Bank of Japan holds rates steady.
<b>US Treasury Bond</b>	The yield on the US 10-year Treasury touched its highest level since May at 4.52%. The 2-year yield, which more closely tracks expectations for Fed action, climbed to 4.35%.
<b>Indian Government Bond</b>	The benchmark 10-year government bond yield spiked after latest guidance given by the Fed, marking highest levels since November at 6.90%.
<b>US Dollar</b>	The US dollar nears the 2- year high due to Fed's rate cut.
<b>Indian Rupee</b>	The rupee went deeper into red and breached 85 in trade with greenback for the first time in history, after Fed signaled fewer rate cuts in 2025, pushing the dollar index to a 2- year high.
<b>Gold</b>	Gold slipped more than 2% to a 1- month low owing to the Federal Reserve's hawkish tone.
<b>Crude Oil</b>	Brent crude fell to near \$73 a barrel while West Texas Intermediate traded at \$70.

Source: Media articles. Data updated as on Dec 19, 2024.

### U.S. Inflation:

- ❖ **In November, inflation rose to 2.7%, slightly higher than 2.6% in October.**
- ❖ **Total Personal Consumption expenditure (PCE) rose 2.5% over the 12 months ending November; excluding volatile food and energy categories, core PCE prices rose to 2.8%.**



### Fed Rate Hikes 2022-2024: Taming Inflation

After raising the policy rate by 5.25% since March 2022 in one of the swiftest Fed reactions to combat the worst outbreak of inflation in 40 years, the central bank held the rate on hold since July 2023 to anchor in high inflation and consistently bring it down toward the 2% target range.

FOMC Meeting Date	Rate Change (bps)	Interest Rate
19-Dec-24	-25	4.25% to 4.50%
07-Nov-24	-25	4.50% to 4.75%
19-Sept-24	-50	4.75% to 5.00%
31-July-24		5.25% to 5.50%
12-June-24		
01-May-24		
20-Mar-24	-	
31-Jan-24		
13-Dec-23		
01-Nov-23		
20-Sep-23		
26-Jul-23	+25	5.25% to 5.50%
14-Jun-23	-	5.00% to 5.25%
03-May-23	+25	5.00% to 5.25%
22-Mar-23	+25	4.75% to 5.00%
01-Feb-23	+25	4.50% to 4.75%
14-Dec-22	+50	4.25% to 4.50%
02-Nov-22	+75	3.75% to 4.00%
21-Sep-22	+75	3.00% to 3.25%
27-Jul-22	+75	2.25% to 2.50%
16-Jun-22	+75	1.50% to 1.75%
05-May-22	+50	0.75% to 1.00%
17-Mar-22	+25	0.25% to 0.50%

Source: US Federal Reserve Website

### To Conclude:

Economic activities have continued to expand at a faster pace. The GDP rose at an annual rate of 2.8% in the third quarter, similar to that of the second quarter. In contrast, housing sector has been weak. The unemployment rate stands at 4.2% in Nov' 2024, up from 4.10% last month. The Fed's actions are guided by dual mandate to promote price stability and maximum employment. In considering the extent and timing of additional adjustments to the target range for the federal funds rate, the Committee will assess incoming data, the evolving outlook, and the balance of risks.

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