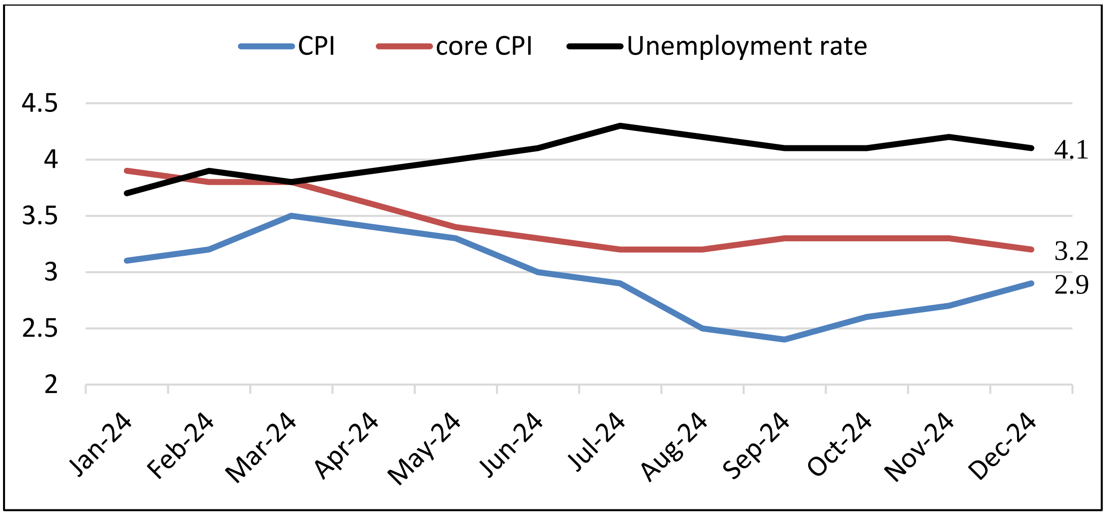
30 January 2025

US Federal Open Market Committee (FOMC) announcement

The US Federal Open Market Committee (FOMC) in the January 29, 2025 meeting decided to keep the key policy rates unchanged in the range of 4.25-4.50% and renewed its commitment to decide the future course of action based on emerging data. In its commentary, the FOMC stated that

1. It intends to achieve maximum employment while for inflation the target rate is 2 percent over the longer run.
2. The risks to achieving its employment and inflation goals are roughly in balance.
3. The economic outlook is uncertain, and the FOMC is attentive to the risks to both sides of its dual mandate of inflation and unemployment rate.

Fig 1- US CPI, Core CPI and Unemployment rate from January 2024 to December 2024



Source: Bureau of Labour Statistics, US

As the chart shows, core CPI inflation (excluding food and energy) and headline inflation rate have been above the Federal Reserve target (2%) though unemployment rate has been steady. This explains the hesitation by the Federal Reserve to cut the Fed Funds rate. The FOMC has made it amply clear that future actions on the rate front would be purely data dependent.

Hence, the frequency of rate cuts for the rest of 2025 would be lower than initially expected. Even if energy prices fall due to relase of more US crude inventories, a rate cut might not happen unless enrgy prices create a downward impact of 100 bps to headline inflation.

Fig 2- How financial markets reacted post FOMC announcement?

Particulars	29.1.2025	30.1.2025	Variance
S&P 500 Index	6067	6039	-0.47%
US 10 Yr yield	4.53	4.53	0.0
Dollar Index	107.84	107.96	-0.09%
GOI 10 Yr benchmark	6.69	6.68	-1(bps)
BSE Sensex	76533	76760	0.30%
Nifty	23163	23250	0.37%
Gold ($/ounce)	2797	2795	0.01%

Source: Cogencis

US equity indices declined post the FOMC decisison to hold the rates. However, other key market indices showed status quo as the decision was discounted. In the domestic market, both Nifty and Sensex ended higher though the gains were not substantial ahead of the Union Budget.

Overall implications

- The Rupee is expected to be under pressure as US yields remain high, retaining its attraction as a safe heaven investment destination. Domestic equity indices are expected to remain subdued unless the Union Budget has some major stimulus measures to augment consumption and investment.
- It has become amply clear that the future actions by FOMC would be data dependent and unless CPI inflation sustainably settles at 2%, future rate cuts would be highly uncertain. This implies continuing pressure on domestic equity and forex market.
- As Rupee remains under pressure due to a strong Dollar, commodities could benefit and domestic gold prices could stay elevated even as dollar price of gold remains stable, boosting assets under management of gold financiers.
- As yield differentials between domestic and US bonds remain unchanged, future bond yield movements would hinge on borrowing programme announcements and MPC measures.

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