A STUDY ON IMPACT OF US FED RATE HIKE ON INDIAN & GLOBAL ECONOMY

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ABSTRACT

The US Federal Reserve on December 16, 2015 hiked its Federal Funds Interest Rate by 25 basis points from 0.25% to 0.50% as widely expected. This is the first time in 9 years that the US central bank has raised rates. The Fed's move was being closely watched globally because it impacts financial markets and commodities. The present study aims to study the reasons of this hike in Fed rates and also to analyse the effect of this hike on the Indian Market.

Keywords: Federal Funds Interest Rate, Reserve requirements, Inflation, wage growth ,GDP

I INTRODUCTION

A Federal Reserve Bank is a regional bank of the Federal Reserve System, the central banking system of the United States. There are twelve in total, one for each of the twelve Federal Reserve Districts that were created by the Federal Reserve Act of 1913. The banks are jointly responsible for implementing the monetary policy set forth by the Federal Open Market Committee.

The Federal Open Market Committee (FOMC) is firmly committed to fulfilling its statutory mandate from the Congress of promoting maximum employment, stable prices, and moderate long-term interest rates. The Committee seeks to explain its monetary policy decisions to the public as clearly as possible. Such clarity facilitates well-informed Decision making by households and businesses, reduces economic and financial uncertainty, increases the effectiveness of monetary policy, and enhances transparency and accountability, which are essential in a democratic society.

Inflation, employment, and long-term interest rates fluctuate over time in response to economic and financial disturbances. Moreover, monetary policy actions tend to influence economic activity and prices with a lag. Therefore, the Committee's policy decisions reflect its longer-run goals, its medium-term outlook, and its assessments of the balance of risks, including risks to the financial system that could impede the attainment of the Committee's goals.

The term monetary policy refers to the actions that the Federal Reserve undertakes to influence the amount of money and credit in the U.S. economy. Changes to the amount of money and credit affect interest rates (the cost of credit) and the performance of the U.S. economy. To state this concept simply, if the cost of credit is reduced, more people and firms will borrow money and the economy will heat up.

II OBJECTIVES OF THE STUDY

To study the reasons of hike in Fed rates .

To analyse the effect of this hike on the Indian Market.

The Fed's main tools to influence monetary policy

Open-Market Operations

The Fed constantly buys and sells U.S. government securities in the financial markets, which in turn influences the level of reserves in the banking system. These decisions also affect the volume and the price of credit (interest rates). The term open market means that the Fed doesn't independently decide which securities dealers it will do business with on a particular day. Rather, the choice emerges from an open market where the various primary securities dealers compete. Open market operations are the most frequently employed tool of monetary policy.

Discount Rate

This is the interest rate that banks pay on short-term loans from a Federal Reserve Bank. The discount rate is usually lower than the federal funds rate, although they are closely related. The discount rate is important because it is a visible announcement of change in the Fed's monetary policy and it gives the rest of the market insight into the Fed's plans.

Reserve Requirements

This is the amount of physical funds that depository institutions are required to hold in reserve against deposits in bank accounts. It determines how much money banks can create through loans and investments. Set by the Board of Governors, the reserve requirement is usually around 10%. This means that although a bank might hold $10 billion in deposits for all of its customers, the bank lends most of this money out and, therefore, doesn't have that $10 billion on hand. Furthermore, it would be too costly to hold $10 billion in coin and bills within the bank. Excess reserves are, therefore, held either as vault cash or in accounts with the district Federal Reserve Bank Therefore, the reserve requirements ensure that depository institutions maintain a minimum amount of physical funds in their reserves.

The Federal Funds Rate

The use of open-market operations is the most important tool that used to manipulate monetary policy. The Fed's goal in trading the securities is to affect the federal funds rate - the rate at which banks borrow reserves from each other. The Federal Open Market Committee (FOMC) sets a target for this rate, but not the actual rate itself (because it is determined by the open market). This is what news reports are referring to when they talk about the Fed lowering or raising interest rates.

All banks are subject to reserve requirements, but they frequently fall below requirements in carrying out of day-to-day business. To meet requirements they have to borrow from each other's reserves. This creates a market in reserve funds, with banks borrowing and lending as needed at the federal funds rate. Therefore, the

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federal funds rate is important because by increasing or decreasing it, over time, the Fed can impact practically every other interest rate charged by U.S. banks.

Remember, the end goals of monetary policy are sustainable economic growth, full employment and stable prices. Through monetary policy, therefore, the Fed attempts to tweak the economy to the right levels.

Prime Rate

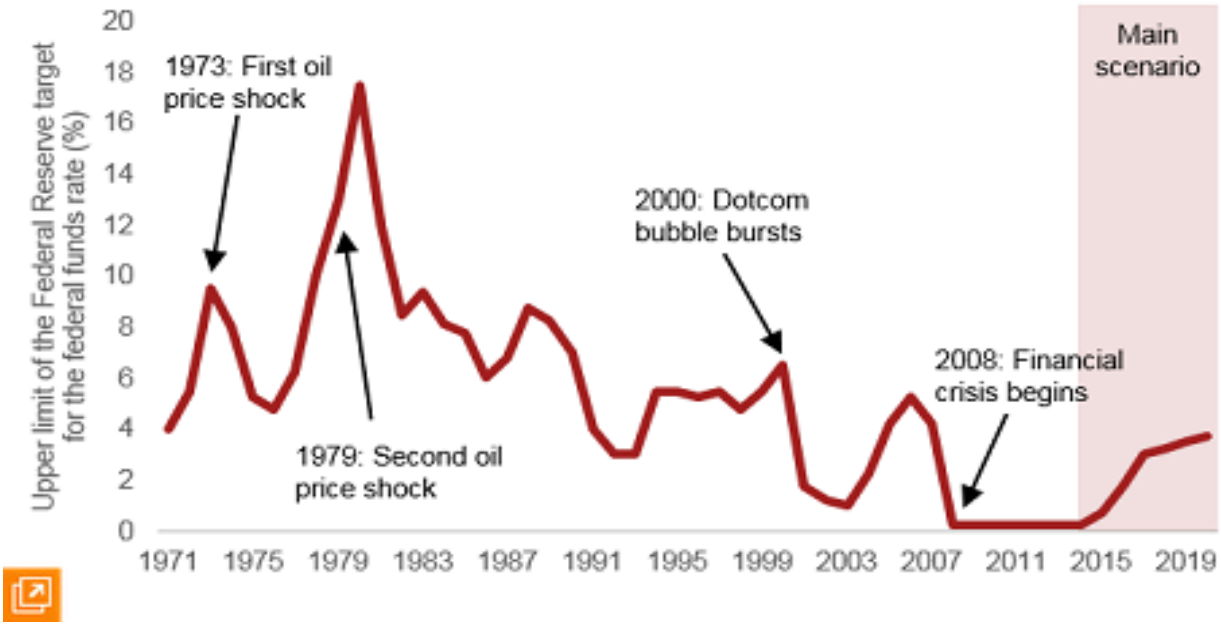
The interest rate banks give their best customers and has a direct effect on other rates for mortgages and car loans. When the Fed raises or lowers the interest rate, most banks follow by changing their prime rate. Some respond by raising their prime rates only minutes after the announcement.

Inflation

Inflation takes place when you have to spend more money to buy services or goods -- than you used to. Inflation takes place when you have too much money chasing after too few goods! The Fed raises and lowers interest rates to help keep inflation under control. Restricting the amount of money available to people is one tool the Fed uses to keep inflation under control.

Recent Monetary Policy Review

The US Federal Reserve on December 16,2015 hiked its Federal Funds Interest Rate by 25 basis points from 0.25% to 0.50% as widely expected. This is the first time in 9 years that the US central bank has raised rates. The Fed's move was being closely watched globally because it impacts financial markets and commodities.



Why does the Fed lower or raise rates?

The Fed is trying to maintain a healthy economy. If the economy is "very slow" the Fed might decide to lower interest rates that will in turn make money more available to businesses, home buyers, and consumers. If the economy is "heating up" and in the opinion of the Fed -- growing too quickly, they will raise interest rates to "slow things down".

When the Federal Reserve (Fed) raises or lowers interest rates a chain reaction is set into motion. It's like the domino effect. The Fed is the first domino and whatever they do -- creates the chain reaction. If the fed raises interest rates, banks raise their prime rate, which in turn affects mortgage rates, car loans, business loans, and other consumer loans.

Lower interest rates usually spur the economy by making corporate and consumer borrowing easier. Higher interest rates are intended to slow down the economy by making borrowing harder.

If low interest rates are so great, why not keep them low forever?

III HISTORY ANALYSIS

If low interest rates are so good for the economy, you might be wondering why they should ever be increased. The reason is that pumping more money into the economy only works up to a certain point.

During a recession, there are a lot of idle resources. People are unemployed, factories are producing below their maximum capacity, trucks and ships sit empty a lot of the time, and so forth. In that situation — the kind of situation we had in 2001 and 2009 - getting people to spend more will mobilize idle resources and boost the real output of the economy.

The traumatic inflation of the 1970s looms large in the minds of senior Fed policymakers. But during an economic boom, things look different. With few idle resources sitting around, there's no way for more consumer spending to translate to more output. If the Fed cuts rates during a boom, the result is likely to just be that prices go up — inflation — without generating much economic growth.

That's what happened in the late 1970s. The Fed kept interest rates too low for too long because it feared that higher interest rates would be economically harmful. That produced double-digit inflation that created chaos for many Americans.The traumatic inflation of the 1970s looms large in the minds of senior Fed policy. They're determined not to repeat the mistakes of their predecessors and let inflation get out of control.

IV TECHNICAL ANALYSIS

The Fed's interest rate decisions might seem pretty remote, but they can actually have a big impact on every American. When the Fed keeps interest rates low, it means there will be more money flowing through the economy, which is likely to mean more economic activity and more jobs.

By itself, this 0.25 percent rate hike isn't going to have a big impact on the US economy. But it's significant because it could signal the start of a sequence of interest rate hikes that could have significant effects on the

economy. The Fed has tried to mollify those fears with a statement signaling that it won't raise rates too quickly in the future.

Of course, if the Fed keeps rates low for too long, the economy could overheat, producing inflation. But right now there just isn't much evidence that the economy is overheating. The inflation rate is well below the Fed's 2 percent target, and the economy has been adding jobs more slowly than in previous economic expansions.

V CAUSES TO INCREASE FEDERAL FUND RATES.

The Fed's main mandate is to ensure, through the implementation of monetary policy, that employment is at maximum levels while maintaining a healthy inflation rate. The main indicators that the Fed's Federal Open Market Committee (FOMC) will look at will be ones relating to GDP, employment growth and the CPI.

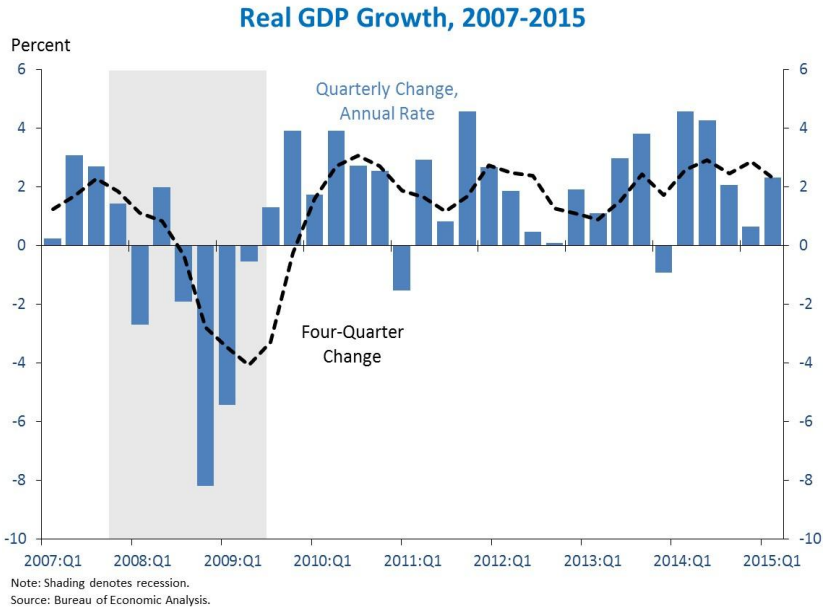
The Fed views unemployment to be at around 5.2-5.5% and an acceptable inflation rate to be around 2-3% (The Federal Reserve, 2015). Prior to 2012, the Fed did not set a target for inflation but had set an acceptable unemployment rate of between 4-6%.

Higher rates mostly focus on bubbles. A good example is U.S Senator. Rand Paul co-authoredfor the Wall Street Journal in September blaming low interest rate policies over the past 20 years for the stock market bubble of the late 1990s and the real estate bubble that popped in 2007.

In Paul's view, prolonged periods of low interest rates encourage people to make risky, unsustainable investments. Recessions, in his view, are a painful but necessary process that purges the economy of bad investments. When the Fed keeps rates "artificially" low, it merely prolongs the day of reckoning and allows these bubbles to get bigger than they otherwise would have gotten. Hence, because the Fed tried to cushion the 2000 stock market crash with low interest rates, we got an even bigger crash in 2008. Paul predicts we'll have a third crash perhaps even bigger than the previous two as a result of current Fed policies.

Some factors are

5.1. Augment Economy and increase in GDP numbers

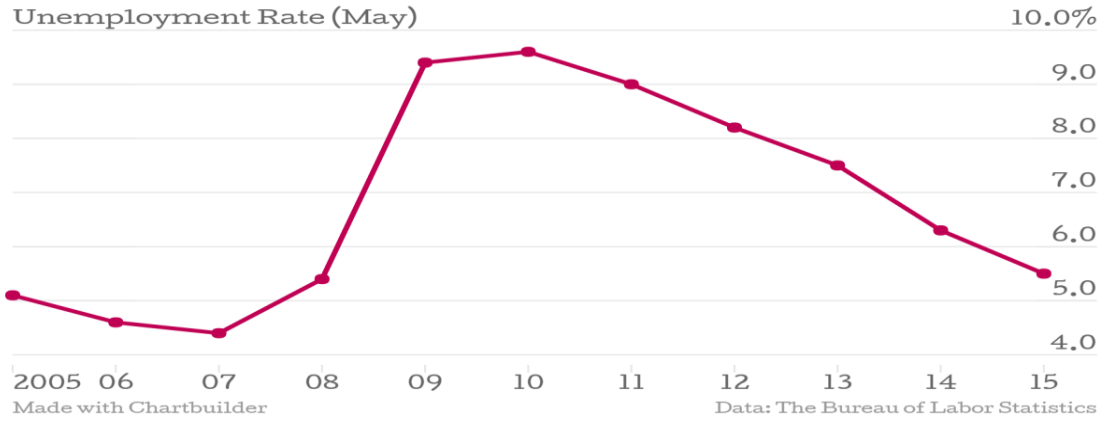


The U.S. economy grew faster than initially thought on solid domestic demand, showing fairly strong momentum that could allow the Federal Reserve to hike interest rates this year.

Gross domestic product expanded at a 3.7 percent annual pace instead of the 2.3 percent rate reported by the Commerce Department.

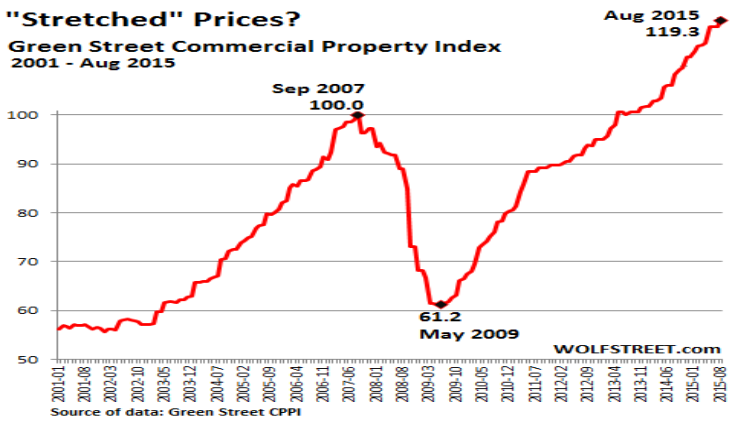
The GDP report, which was released in the wake of a global stock market sell-off, should assure investors and cautious Fed officials that the United States is in good shape to weather the growing strains in the world economy.

5.2. Better Employment data.



The addition of at least 200,000 jobs in the U.S. in February 2015 which put pressure on central bankers to increase interest rates**.** Unemployment rate in the US was recorded at 5 percent in November 2015, the same as in the previous month and the lowest in more than seven years, while total nonfarm payroll employment increased by a higher-than-expected 211,000. Job gains occurred in construction, professional and technical services, and health care. Mining and information lost jobs. Unemployment Rate in the United States averaged 5.83 percent from 1948 until 2015, reaching an all time high of 10.80 percent in November of 1982 and a record low of 2.50 percent in May of 1953. Unemployment Rate in the United States is reported by the U.S. Bureau of Labor Statistics.

5.3 Commercial real estate prices are going through the roof.



"There is nothing inherently dangerous about a real estate cycle," ratings agency Fitch explained in its latest report. "It only becomes dangerous when market participants forget there is one."

Fitch rates Commercial Mortgage Backed Securities. So it warned: "CMBS cannot afford a repeat of the 2008-2009 experience."

Commercial property prices in the US rose 1.1% in August from July, and 10.2% from a year ago, according to the Green Street Commercial Property Price Index (CPPI). They have soared 95% from May 2009 and are now 19.3% higher than they'd been in September 2007, the peak of the crazy commercial property bubble that collapsed spectacularly during the Financial Crisis.

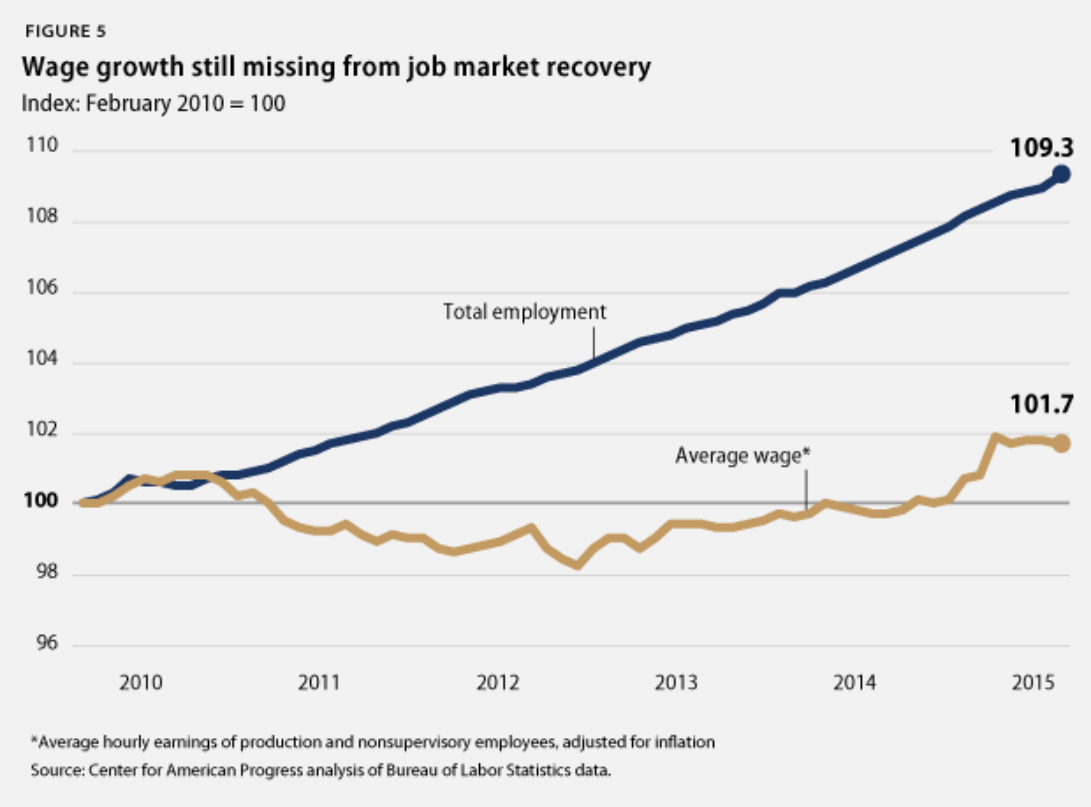
The chart shows how much smaller the prior bubble was than today's monster. And it wasn't a bubble either until after it had imploded, collapsing to 2004 levels and taking down CMBS bonds with it. Then the Fed reflated the whole thing to its current glorious state.

CMBS bonds made it possible then, before they blew up.

5.4 Wage Growth Remains Slow

Despite some encouraging recent job numbers — unemployment is falling, and an average of 198,000 jobs per month were added to payrolls over the last year — wage growth in the United States is still sluggish, according to experts analyzing Labor Department statistics released Friday.

The September 2015 Employment Cost Index shows labor costs — meaning the total cost to employers of wages, salaries and benefits — rose 2 percent over the past 12 months.



"It's the trend that's disappointing, more than anything else," said Chad Stone, chief economist for the Center on Budget and Policy Priorities think tank. Stone said that wage growth has been consistently anemic throughout the economic recovery.Unemployment held steady at 5.1 percent in September, compared to 5.9 percent the previous year. That represents a steep drop from the recession-era high of 10 percent in 2009 and 2010. But even that substantial drop in unemployment has not translated to higher pay.

"It's still the case that employers have the bargaining power," Stone said.

In theory, business owners need to try harder to attract employees as unemployment falls, which should translate into more generous salaries and wages. But because of the large pool of people who are out of work but not actively seeking jobs — as well as those who are working part-time but would prefer full-time work — those who do have jobs have little leverage to ask for higher pay.

There are about 6 million people in the U.S. who are "involuntary part-time workers," meaning they would have full-time jobs given the choice, according to the Bureau of Labor Statistics. There are also about 95 million who are not in the labor force, meaning they neither gainfully employed nor seeking employment. The proportion of Americans still participating in the labor force is at its lowest point in nearly four decades.

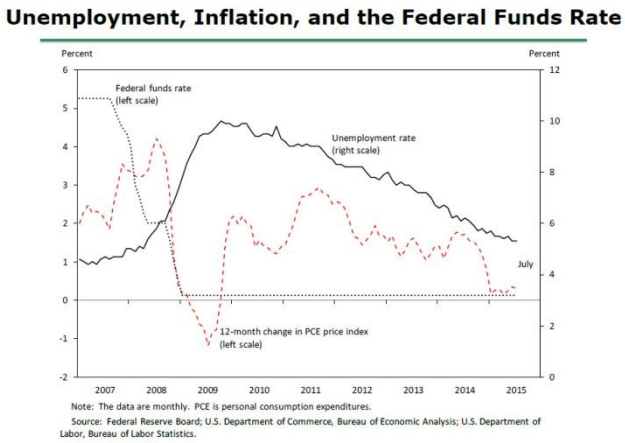
Those numbers point to "considerable slack in the labor market," said Elise Gould, economist for the liberal-leaning Economic Policy Institute think tank, "and workers just don't have the ability to bid up their wages."

Slow compensation growth indicates that employers have most of the power when it comes to setting terms, and therefore have little incentive to raise pay substantially, Gould said.

She noted that the percentage of workers who quit each month has not reached pre-recession levels, an indicator that some workers feel no choice but to remain in their jobs despite unsatisfactory terms. The "quits" rate has held at 1.9 percent since April, compared to 2.3 percent in November 2006, shortly before the beginning of the recession.

"People just don't feel like they can quit their jobs," Gould said, and that lack of exit power means business owners, not employees, are calling the shots on wages.

5.6 Relation between Fed Fund rates, Inflation and Unemployment



The relationships among federal funds rates, inflation and unemployment are a little complicated, Federal funds rate is a subset of monetary policy, so is distinct from inflation and unemployment. Briefly, monetary policy refers to the process by which the nation's central bank, the Federal Reserve, and its governing body, the Board of Governors, operating through its Federal Open Market Committee, dictates interest rates in an effort at minimizing the rate of inflation without adversely affecting the ability of businesses to borrow the financing necessary to expand operations and remain competitive. The Federal funds rate is a component of monetary policy that determines the rates at which banks can borrow money from the Federal Reserve System and determines the rate that banks charge each other when transferring cash among themselves.

As noted, a primary objective of monetary policy has historically been controlling rates of inflation. The more money poured into the financial system, the old theory went, the more buying power enjoyed by consumers, which pressured demand, causing prices to rise. Increasingly, however, many economists (an academic field of remarkably little consensus regarding virtually all economics) are refuting the connection between monetary policy, including federal funds rates, and inflation, arguing instead that inflation is principally caused by what they call "demand/pull," meaning prices rise as demand for goods outpaces the supply of those goods, to which one could logically respond. It is then, the relationship between "demand/pull" economics and inflation that would seem to be of interest. One could logically argue that, when the Fed eases up on money supplies, and businesses respond by reinvigorating their activities, that supply will grow to meet demand, which would put downward pressure on prices. Conversely, however, instances of hyperinflation have historically occurred precisely when supplies of cash grew excessively, devaluing the value of that currency and causing prices to rise astronomically. Lost somewhere in this discussion is the connection between money supply and inflation. The late free-market theoretician and Nobel laureate in Economics Milton Friedman noted the following:

"Inflation **is always and everywhere a monetary phenomenon in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output.** A steady rate of monetary growth at a moderate level can provide a framework under which a country can have little inflation and much growth. It will not produce perfect stability; it will not produce heaven on earth; but it can make an important contribution to a stable economic society."

Regarding unemployment levels, the challenge, again, has historically been to minimize both inflation and unemployment, as the two have frequently been perceived as inextricably linked. The role of monetary policy is to keep the economy growing every single year, and at relatively high rates – a daunting challenge. Employment improves, obviously, when new businesses start-up, and when existing businesses expand. In order for many businesses to expand – especially with publicly-traded companies, much of the profits of which are issued to stockholders rather than conserved and reinvested in the company – they need to borrow money. Borrowing money only becomes economically viable when interest rates are low enough to allow for the taking of loans and consequent assumption of debt. When the Fed raises the federal funds rate, it becomes more expensive to businesses to borrow, and growth slows, causing employment rates to stagnate or contract.

How the Fed's operations affect an individual in his or her daily life can occur at two levels. The first level can involve the owner of a small business, or even a large business. That owner wants to borrow money to expand operations to meet perceived demand. Whether he or she can borrow that money, however, is dependent upon the interest rates banks are charging. At the more individual level, an un- or underemployed worker who hopes

to be hired by this company after it expands loses that opportunity to increase his or her earning potential if the bank's borrowing rates exceed what the business owner can afford to pay.

At another level, the Fed's actions routinely affect consumer decisions by determining the cost of many goods. When contemplating the purchase of a new car, for example, for which a loan is necessary, the decision will very often hinge on the rate of interest the loaning agency (the automotive manufacturer's financing division or a bank) offers. When rates are lower, it is less expensive to borrow, so the purchase occurs, which helps the people who provide the raw materials that go into the car's production, the people who assemble the car, and the people who sale and repair it. Because the Federal Reserve System dictates interest rates, it has tremendous influence over the entire economy.

VI. IMPACT ON INDIAN ECONOMY

6.1 Dollar flight

Higher interest rates will make the US markets more attractive for foreign investors. Funds will likely interpret the rate hike, albeit a small one, as a signal of the US central bank's willingness to raise rates further in the coming months. This could prompt funds to move funds quickly from emerging markets such as India to the US in expectation of higher returns in the months to follow.

6.2 Currency blues

Currency values, pretty much like other commodities, are determined by demand and supply. The rupee's value against the dollar will be determined primarily by whether dollars are coming in or going out of India. In case of a US rate hike, the demand for dollars to move away from India will rise weakening the rupee. Some analysts reckon that the rupee could fall to below 70 to a dollar. The rupee, closed at 66.73 to a dollar not very far from its record low of 68.85 it had touched on August 28, 2013

6.3 Shaky markets?

A copious outflow of foreign funds from India can adversely affect the equity markets as well. A sustained pull out by foreign institutional investors (FIIs) could temporarily bring down the benchmark indices the 30-share BSE Sensex and the 50-Share NSE Nifty. FIIs have withdrawn nearly $2.5 billion from domestic markets since November in anticipation of a hike. Retail investors, however, should avoid panic selling and take only well-researched and informed decisions not guided by short-term volatility.

In times of lower US Interest rates and favourable global markets, Foreign Portfolio Investors flock to emerging countries, including India, for better returns. However, as the US Fed Interest rates are increased, there are high chances of Foreign Portfolio Investors (FPIs) pulling money from the Emerging markets leaving emerging stock markets vulnerable to volatility. Even historically, we have seen Capital Outflows on expectations of US interest rate already making large corrections in the stock markets. This time around though, Janet Yellen has been preparing financial markets for a interest rate liftoff, hence the 25bps hike has been factored in the global equity markets, any deviation from that may be caused in for volatility.

Also, many Emerging Market currencies have fallen to their record lows against the US Dollar, including the rupee which dragged to below 67-mark against the dollar.

The Indian equity market has been receiving a slew of funds from foreign investors since the beginning of 2009 (when the dollar carry trade began and the first round of stimulus began).

6.4 Costlier imports

A depreciating rupee will make imported goods costlier. So, expect computers, imported mobile phones, imported apples and chocolates among others to become costlier. It could also negate the gains from ultra-cheap crude oil. Cheap crude oil, currently at an 11-year low, has benefitted India that imports more than 75% of its oil needs. A weak rupee triggered by a dollar outflow, however, could offset this as it could increase the landed cost of oil shipments in local currency terms.

6.5 Costly education and travel

A weaker rupee implies students end up paying more to buy dollars to pay for fees, even though the fee in dollar terms remains unchanged. So, study loans might go up. Ditto for foreign travel. A weaker rupee implies vacationers end up paying more to buy dollars to pay for air tickets, hotel tariffs, shopping and other expenses. Even though the tariffs in dollar terms remain unchanged, a lower rupee could force people to buy more foreign exchange before they head out for the vacation.

6.6 No more EMI cuts?

The Reserve Bank of India (RBI) has cut its key lending rate—the repo rate-- by 1.25 percentage points since January 2015. A weaker currency, however, could dash hopes for more rate cuts. This is because, the RBI may be hesitant to cut interest rates to maintain India's attractiveness as favoured destination for foreign funds and bring in dollars to stem the rupee's fall.

6.7 No cheer for exports either

If you are exporter, a weaker rupee would mean your earnings in rupee terms will go up. But slowdown in EU, India's biggest export markets, has forced orders to dry out. India's merchandise exports shrank 24% in November, the 12th successive month of contraction, amid a global demand slowdown. India has to contend with rising competition from China, which is struggling to claw out of its worst slowdown in more than a decade hit by shrinking exports. China has devalued its currency--the yuan—to its lowest in nearly three years.

6.8 Costly debt

A dollar outflow and the resultant slide in the rupee's value could hurt profitability of many companies. Companies that borrowed dollars from overseas banks will be the worst hit as repaying loans will become costlier, hurting bottom-lines.

Foreign investors have ploughed in close to $53 billion in debt since the beginning of 2009. While $13 billion was pulled out in 2013 when the Fed announced its intention to start tapering its quantitative easing, we have received $32 billion since the beginning of 2014.

There is a greater threat of destabilisation of the economy due to the foreign participation in debt since these investors are more short-term in their investment horizon and are very sensitive to yields and currency movements.

6.9 Higher inflation

India's retail inflation has crept up to a 14-month high of 5.41% in November driven by costlier food items. While retail inflation measured by the consumer price index (CPI) that captures changes in shop-end prices

inched up from 5% in October, wholesale prices also mirrored a similar rising trend. A weaker rupee could fan inflation further. Imported raw material such a copper, aluminum and machinery will turn costly and squeeze profit margins. This may prompt companies to raise prices of consumer goods such as cars and televisions.

6.10 Focus on reforms

India is competing with other emerging countries to keep the flow of dollars intact. The focus will shift towards foreign direct investment (FDI) given that FIIs or hot money is expected to flow out quickly. India's ability to remain at an attractive FDI destination will largely depend on the speed of reforms, removing red-tape and eliminating bureaucratic delays.

6.11 Beneficial for IT Sector

The Fed's rate hike is based on the belief that the US economy is doing well. Faster growth in US - the world's biggest economy - augurs well for India. Economic Affairs Secretary Shaktikanta Das said that the recovery in US economy will especially be beneficial for domestic IT companies. US Fed confidence on recovery is good news for our exports, especially from IT sector.

6.12 Impact on other asset classes

Gold bulls are rare these days and it is unlikely that global investors would have taken the trouble to use the dollar carry trade to buy gold. Investors have largely moved out of gold since September 2011 and this is reflected in the holding of SPDR, the US's largest gold ETF, the holdings of which have declined from 1,350 tonnes in December 2012 to 671 tonnes currently. Spike in dollar, once the rates start moving higher, can however push gold prices further down.

Other commodities, including crude, have also underperformed for some time now, reducing the likelihood of a sell-off in these assets. The TR CRB index is down 46 per cent from January 2008, reflecting the dire strait of commodity prices.

Real estate regulations within India do not allow foreign investors to invest directly in realty, thus insulating this segment from the Fed monetary tightening. Foreign investors have invested in real estate, start-ups and unlisted companies through private equity and venture capital funds but these are long-term investors who are unlikely to churn their assets or face redemption pressure following a US interest rate hike.

6.13 India's borrowing in dollars

Indian companies have been increasingly resorting to foreign borrowings to meet their financing needs. Of India's total external debt, the government accounts for less than one-fifth of the share, implying that Indian companies are exposed to greater risk from Fed interest rate hike. The proportion of non-government debt in the country's external debt has increased from 73.7 per cent towards the end of December 2007 to 80.5 per cent now.

Indian companies have been increasingly skirting the high cost of borrowing in India by borrowing overseas at half the interest, thanks to the near-zero rates of interest in many countries.

According to the Reserve Bank of India, external commercial borrowings towards end-March 2015 stood at $182 billion. This is up from $57 billion towards end-December 2007.

The proportion of debt denominated in dollars has risen from 54 per cent in December 2007 to 59 per cent by December 2014.

All this spells bad news for Indian companies as they will have higher outgo when they repay their loans or pay the interest, if dollar appreciates further. The higher cost of borrowings on future dollar loans will also impact operating margins.

If the European Central Bank and the Bank of Japan too begin raising rates in tandem, it will further exacerbate the growing cost of funding.

6.14 Foreign Direct Investment

Foreign Direct Investments are unlikely to be significantly impacted by the rate hike as they come in as long-term investments in the economy. Higher rates in the USA are unlikely to affect decision on this score and will depend more on the opportunities as well as policy framework available to them.

6.15 Interest rates

The key repo rate stands at 6.75% after a 75 bps cut since April'15. RBI will keep a focus on the inflation index which is seen to be tightening with November'15 retail inflation at 5.4%, while deciding its next steps in February'16 monetary policy review. The Fed rate will not have a bearing as of now.

6.16 Inflation

The inflation rate for the Indian economy has been in the comfortable range given the easing of commodity prices led in particular by falling oil import bill. Increasing food inflation has been the main concern with a second consecutive season of deficient monsoon having a bearing on the crop output. The weakening of rupee against the Greenback as a result of the U.S rate hike may reflect in the inflation numbers for subsequent months as imports become dearer. But in net terms the impact will be negligible as the rupee has also shown signs of strengthening after the announcement

VII CONCLUSION

The Fed has more power and influence on financial markets than any legislative entity. Its monetary decisions are intensely observed and often lead the way for other countries.

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