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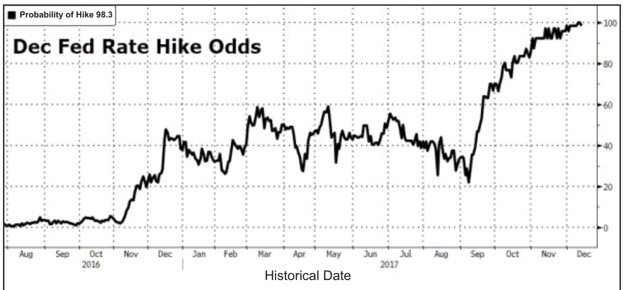
US FOMC has raised the rate by 25 bps:

As Expected: Expects 3 Hikes, Faster Growth

In line with market expectations and Fed Fund Implied Probability showing more than 95% probability of rate hike in December, the FED hiked the rate by 25 bps (1.25-1.5%) with a 7-2 vote.



Source: Bloomberg/zero hedge

As far as forward statement is concerned,

- Three rate hikes in year 2018
- Inflation outlook has been kept unchanged
- Growth outlook: Faster growth outlook
- Lowered unemployment outlook to below 4%
- Monthly balance sheet shrinking at $20 billion in Jan

The Fed Chair Janet Yellen said in the post policy press conference mentioned that the persistent low inflation in 2017 is largely due to the transitory factors and the FOMC maintained that inflation will reach 2% over the medium term.

Impact :

Dollar index dropped and 10 year yield declined as the policy was in line with expectations and not many new surprises were thrown open.

Going Ahead:

Going ahead US rates will react based on incoming data. We expect rates to inch upwards based on projections of rate hikes, rising inflation and balance sheet shrinking. New Fed chairman elected in November 2017 Jerome Powell will proceed with balance sheet normalization and rate hikes. He was involved in quantitative easing implementation.

Impact on Indian market:

As the rate hike of December 13, 2017 was already built into the markets, global market reacted mildly to the Fed's policy review including the Indian fixed income market and equity market, Asian markets were trading mixed in morning trade of December 14, 2017.

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