

## US Fed Rate Hike

### Why in news?

\n\n

The US central bank recently raised the benchmark interest rate for the third and final time this year.

\n\n

### What are the highlights?

\n\n

\n

- The Fed's policy-setting Federal Open Market Committee increased the key lending rate.

\n

- It made a quarter point increase on the cost of loans for everything from houses to cars.

\n

- The federal funds rate is now in a range of 1.25-1.50%.

\n

- Continued strong labour market and solid economy are cited as reasons for the hike.

\n

- The Federal Reserve has however left its rate outlook for the coming years unchanged, with a forecast of three rate increases in the following year.

\n

- This is despite the policymakers projecting a short-term acceleration in U.S. economic growth.

\n

- The central bank thus largely continues with its gradual tightening of monetary policy.

\n

- However, inflation is expected to remain below the Fed's target of 2% for another year.

\n

- Logically this remains a considerable concern, as policymakers saw no reason to accelerate the expected pace of rate increases.

\n

\n\n

## Why should India care?

\n\n

- \n
  - There was a surprise depreciation of the US dollar and it weakened a little against the euro.
- \n
  - The impact of these decisions on India and other emerging markets will depend on several factors.
- \n
  - World assets are doing well as evident from stock markets in the US, eurozone, and Japan being at multi-year highs.
- \n
  - The rate hike could lead to money flowing back into hard-currency assets.
- \n
  - The actual announcement lifted gold prices quite unexpectedly.
- \n
  - Demand for the precious metal from important consumers, China and India, is likely to be subdued in the months ahead.
- \n
  - If global liquidity is cut by rate hikes, traders will sell Emerging Market assets first.
- \n
  - An emerging market fund is a fund that invests the majority of its assets in securities from countries classified as emerging.
- \n
  - These countries including India are in an emerging growth phase and offer high potential return with higher risks than developed market countries.

\n\n

\n\n

**Source: Business Standard**

\n

