

30th September 2022

Global Market – Third Storm (Tight monetary policy)

Last week, we have discussed US Fed monetary policy as hawkish and precise. US Fed has raised median target for 2023 @ 4.6%. Global market witnessed sell-off across the asset class reacting to tight monetary policy.

Today we will discuss third storm in last two and half years. RBI Governor Shashikant Das in an opening statement while announcing RBI MPC decision today referred to the term third storm. First being COVID-19 pandemic and second being Russia-Ukraine crisis and now the 3rd storm which is tight monetary policy by US Fed.

RBI Governor very well-articulated this crisis which will not only impact emerging market equity and emerging market currency, but also other developed countries from Europe which is currently facing high inflation problem.

In our column, we have many times discussed subject like “Double Whammy” equals to high inflation + high interest rate and another subject like “Europe – Epicenter of next financial crisis?”. The way we understand third storm as a mixture of “Double Whammy” & “Europe – Epicenter of next financial crisis”.

Third Storm – Tight monetary policy

US Fed tight monetary policy will compel other central banks to increase rate in order to retain and attract the fund flow or rather to stop the exodus of fund from domestic market equity and bonds for their respective country.

To understand it in simple language, we would focus on Dollar Index and US bond yield of different time frame. US Fed has an objective to keep long term inflation target at 2% and support growth and keep jobs market robust.

USA Government Bonds »

Name	Yield	Prev.	High	Low	Chg.	Chg. %	Time
 U.S. 30Y	3.723	3.693	3.731	3.630	+0.030	+0.81%	12:09:44 
 U.S. 10Y	3.738	3.747	3.800	3.682	-0.009	-0.24%	12:09:45 
 U.S. 5Y	3.9596	3.9790	4.0400	3.9250	-0.0190	-0.49%	12:09:45 
 U.S. 2Y	4.1364	4.1700	4.2250	4.1340	-0.0340	-0.81%	12:10:00 

US Fed 's focus and objective is pure domestic, concerning to US economy, but its impact on global market is very much real and which causing pain in other economies.

Dollar Index 112.355 **+0.153 (+0.14%)**



Dollar Index is a reference point of Risk-On / Risk-Off indicator.

In case of economic turmoil, inflation concern or US Fed increase rate to historic high will trigger plight of currency to safe assets that is US bond market.

In case of economic stability and expansionist monetary policy, money will flow to high beta currency, bonds and equity market where there strong possibility of high return.

Equichain Wealth Advisors: Market View & Opinion

We believe, when RBI governor highlight something and that too in the opening statement of RBI MPC policy meeting outcome and draws the reference of its impact on our monetary policy. In simple terms, it says how the world is connected to US Fed policy.

When US Fed guides for interest rate hike cycle has peaked, that would be the end of this "Third Storm", till then it will time and again pose challenge to other central bankers of the world.