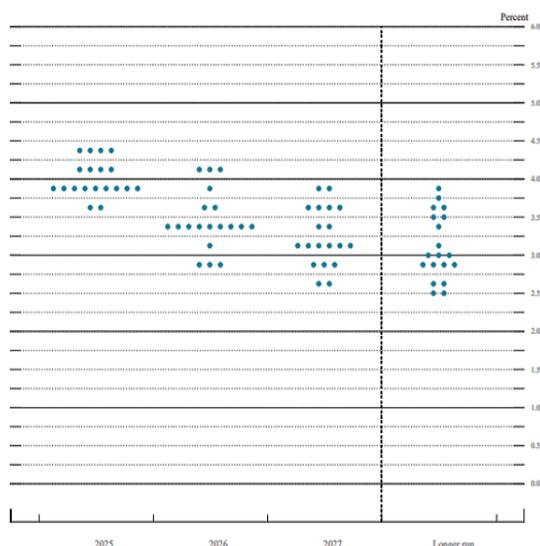


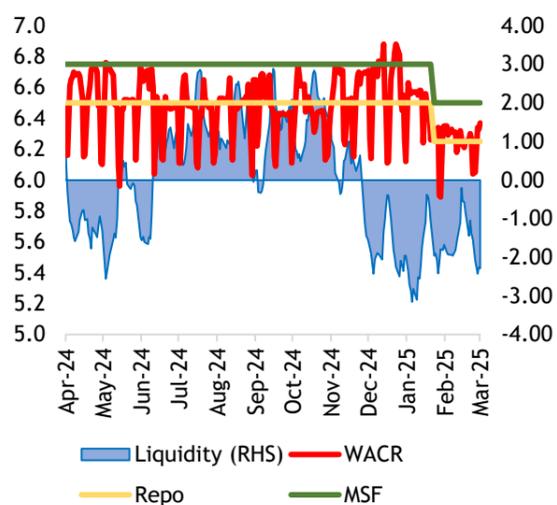
Fig.1: FED Dot plot shows 2 rate cuts in 2025

Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate



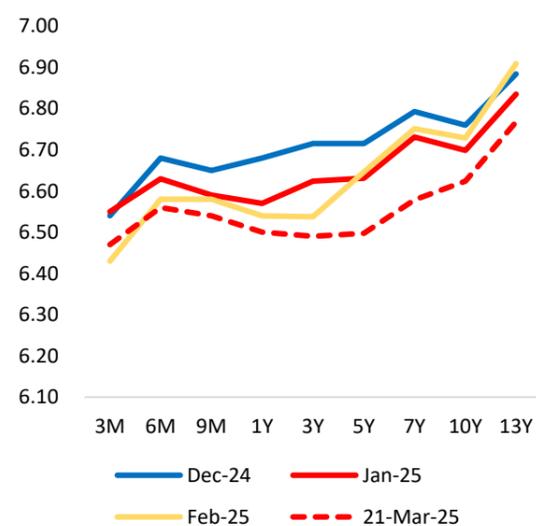
Source: Federal Reserve, UBI Research

Fig.2: WACR majorly remained within policy corridor



Source: Bloomberg, UBI Research

Fig.3: Yield curve shifting downwards in anticipation of rate cuts



Source: Bloomberg, UBI Research

Fed has made its path way clear with 2 rate cuts in 2025, while markets were expecting 3 in the same period. Still the UST 10 year yields soften by 4-5bps after FOMC meeting outcome. The inflation forecast has been revised upwards as tariffs likely to have meaningful effects, whereas the Growth forecasts has been revised downwards but not enough for further accommodation. As per Fed Chair Jarome Powell adopted a “wait and watch” stance amid heightened uncertainty. He reinforced that the Central Bank is in no hurry to cut interest rates and are well positioned to wait for greater clarity. Domestically, RBI’s announcement of OMOs of Rs.50,000 Crore has again reinforced its confidence to provide sufficient system liquidity. The benchmark yield has moved lower to 6.62% from 6.69% post global spillover effect of yield easing post FOMC effect.

FOMC: No need to hurry

- The FOMC announced its decision not to change its key interest rate and to keep it between 4.25% and 4.50% for the second consecutive meeting. Fed dot plot continued to show 2 rate cuts in 2025 while market expectations had moved towards 3 in recent weeks.
- The US Feds latest economic projection indicates that policymakers expect to cut interest rates by 50 bps in 2025, bringing the federal funds rate to a range of 3.75% to 4%. Estimates for 2026 envisage the rate at the range of 3.25% to 3.5%. Meanwhile, inflation remains a concern, with personal consumption expenditures (PCE) inflation projected at 2.7% for 2025 and declining to 2.2% in 2026.
- US Federal Reserve Chair Jerome Powell stated that inflation expectations have risen recently, with tariffs playing a significant role. He addressed inflation expectations, noting a rise in short-term projections primarily driven by tariffs. Despite this uptick, Powell emphasized that long-term inflation expectations remain stable. He said that while forecasters have slightly raised the probability of a recession, the risk remains low.
- US President responded that the Fed would be much better off cutting rates as US Tariffs start to transition (ease!) their way into the economy.
- As per CME FEDWatch Tool, probability of 2 rate cuts during 2025 is 71%. Amidst the current economic instability, investors have sought refuge in this precious metal as a safe-haven asset with price of gold hitting new high.

RBI announcing OMOs another step in easing liquidity

- RBI last week made an announcement for OMO purchases worth Rs.50,000 Crore to inject further durable liquidity in addition to measures taken during Q4FY25. In total RBI has injected Rs.6.04 lakh crore (Incl. OMOs announced for 25th Mar’25) of durable liquidity into the banking system through various combinations of OMO purchases, long tenor VRRs and forex Swaps.

Measure	Mode	Date	Amount in Lakh Crore
OMO Purchases	NDS OM	Jan-25	0.39
OMO Purchases	Auction	30-Jan-25	0.20
		13-Feb-25	0.40
		20-Feb-25	0.40
		12-Mar-25	0.50
		18-Mar-25	0.50
		25-Mar-25*	0.50
Term Repo Auction	56-Day VRR	07-Feb-25	0.50
	49-Day VRR	14-Feb-25	0.75
	45-Day VRR	21-Feb-25	0.58
USD/INR Buy/Sell SWAP	6 Month	31-Jan-25	0.44
	3 Years	28-Feb-25	0.88
Total			6.04

*To be conducted

Source: RBI, UBI Research

- System liquidity as on 20th Mar’25 is in deficit of Rs.2.32 lakh crore, however, we expect the same to return sharply to surplus in Apr’25. (Read our Report: [RBI liquidity measures may potentially switch system into surplus unless Fx outflows spoil the party](#))
- The Indian benchmark yields softened from 6.69% to 6.63% on account of liquidity support by RBI in addition to softening of US yields post FOMC decision.
- In the money market segment, the WACR has majorly remained within the policy corridor. Banks continue to rely on CDs to meet their funding requirements on account of persisting gap in credit and deposit growth. The funding pressure further got elevated due to fiasco in well known bank due to accounting discrepancies, as they enter the market in financial year end subscribing to CDs. This drove march cross over 1 Month CD rates to elevated levels of 7.70%-7.80% with other Banks bearing the brunt of the same.

Certificate of Deposits (Rs. In Cr.)	Upto 91 Day	91-180 Day	180-365 Day	1 year	Total
Due for maturity in Mar-25	36,480	54,125	47,510	26,350	164,465
Issued in Mar-25	26,580	73,765	38,145	42,135	177,625

Source: CCIL F-Trac, UBI Research

CPI Cooling to 3.6% may lead to continuation of rate cuts

- India CPI for Feb’25 has given a pleasant surprise clocking 3.6% registering a sharp decline from 4.26% in Jan’25 and away from market consensus estimate of 3.98%. Moderation in food CPI helped by a sharp downward correction in vegetables prices is a key driver behind the easing headline inflation for the month of Feb.
- Core inflation continued to pick up from 3.67% in Jan’25 to 3.95% in Feb as the rally in gold prices persisted on safe haven demand amid Trump’s tariff related uncertainties. However, core ex-gold continues to be almost flat at around 3.1% with services CPI maintaining the lead over goods CPI.
- Our projection for the CPI in March 2025 is currently below 4%, with expectations for Q4-FY25 hovering around the 4% threshold, which is less than the MPC’s estimate of 4.4%. The more pronounced decline in food prices has effectively counterbalanced the increases in gold and edible oil prices. As a result, we reaffirm our recommendation for a 25 basis points cut in the repo rate in April. Furthermore, we recognize that weather-related issues, global tariff conflicts are risk to our view.

By:
Kanika Pasricha
kanika.pasricha@unionbankofindia.bank

Dhiraj Kumar
dhirajkumar@unionbankofindia.bank

Banking Research Team	
Kanika Pasricha Chief Economic Advisor	kanika.pasricha@unionbankofindia.bank
Suneesh K	suneeshk@unionbankofindia.bank
R Gunaseelan	gunaseelan@unionbankofindia.bank
Nidhi Arora	nidhiarora@unionbankofindia.bank
Rajesh Ranjan	rajeshranjan@unionbankofindia.bank
Jovana Luke George	jovana.george@unionbankofindia.bank
Amit Srivastava	asrivastava@unionbankofindia.bank
Rohit Yarmal	rohitdigambar@unionbankofindia.bank
S. Jaya Laxmi	s.jayalakshmi@unionbankofindia.bank
Dhiraj Kumar	dhirajkumar@unionbankofindia.bank
Akash Deb	akash510@unionbankofindia.bank
Shreyas Bidarkar	shreyas.bidarkar@unionbankofindia.bank

Disclaimer:

The views expressed in this report are personal views of the author(s) and do not necessarily reflect the views of Union Bank of India. Nothing contained in this publication shall constitute or be deemed to constitute an offer to sell/ purchase or as an invitation or solicitation to do so for any securities of any entity. Union Bank of India and/ or its Affiliates and its subsidiaries make no representation as to the accuracy; completeness or reliability of any information contained herein or otherwise provided and hereby disclaim any liability regarding the same.