

Are global central banks turning hawkish?

- The FOMC kept rates unchanged at 3.50–3.75% for the third consecutive meeting, choosing to largely look through the recent spike in energy-driven inflation. A near-term rate cut appears unlikely, given the prevailing geopolitical uncertainties and oil prices holding above USD100 per barrel. Notably, the 8–4 voting split points to a growing divergence within the committee, with four members leaning more hawkish amid upside risks to inflation from energy, gas, and shipping costs. Updated dot plots are now expected only at the June meeting.
- Rising energy prices and the likelihood of firmer inflation suggest that US 10-year G-sec yields may struggle to ease below 4.3–4.4%, with risks tilted to the upside if current trends persist. Even so, the US economy remains resilient, allowing the Fed some room to wait until June for clearer policy guidance—particularly amid speculation around Kevin Warsh potentially taking over as Fed Governor. Regardless of leadership changes, the Fed is expected to remain data-dependent, with last year’s cumulative 75bp rate cuts seen as adequate for now, especially as the labor market continues to hold up.
- Global central banks are not aggressively hiking yet, but they are clearly turning more cautious. The Fed and BoE have both kept interest rates unchanged, signaling a ‘wait-and-watch’ approach as inflation risks rise again due to higher energy prices and geopolitical tensions. The Bank of Canada has also held rates but warned that hikes are possible if inflation remains elevated, making its stance slightly more hawkish. Meanwhile, the ECB is expected to also keep rates on hold. Overall, central banks are moving toward a hawkish pause (not cutting rates anytime soon), and staying ready to tighten if inflation pressures persist.
- For India, the implications are mixed but manageable. Higher global interest rates and a stronger US dollar could tighten external financial conditions, potentially leading to:
 - Currency pressures
 - Moderation in capital inflows
 - Higher imported inflation via crude oil
- However, India’s relatively strong domestic demand, contained core inflation, and large FX reserves provide a buffer. The RBI is likely to maintain a cautious pause, balancing external risks with domestic growth priorities. Elevated oil prices remain the key vulnerability, especially given India’s import dependence.

Are global central banks turning hawkish? Fed and BoE hold, ECB likely to follow

Recent central bank actions reinforce a clear global trend; policy rates are being held steady amid rising uncertainty and inflation risks. The Fed has already kept rates unchanged at 3.50–3.75%, despite internal divisions, signaling a cautious and data-dependent approach in the face of energy-driven inflation and geopolitical risks.

Similarly, the BoE has also held its policy rate at 3.75% in its latest decision, reflecting concerns around rising inflation linked to higher energy prices and uncertainty from the Middle East conflict. The BoE’s stance underscores the difficult trade-off between weak growth and persistent inflation, leading to a ‘wait-and-watch’ policy approach.

The Bank of Canada has also maintained its policy rate, but with a more explicit warning; it has indicated that further rate hikes could be considered if elevated oil prices continue to feed into inflation. This makes the BoC relatively more hawkish in its forward guidance compared to peers.

Meanwhile, the ECB is yet to announce its policy decision, but expectations strongly point toward a rate hold as well. Policymakers are likely to pause to assess the impact of elevated energy prices and geopolitical developments on inflation and growth before taking any directional call.

Overall, the message from global central banks is consistent: a hawkish hold driven by uncertainty, where policymakers prefer to wait for clearer signals on inflation and growth before committing to any directional move.

Fed Policy highlights: Policymakers are deeply divided on where the interest rates are headed

- The latest decision by the Fed to keep policy rates unchanged at 3.50–3.75% was widely expected, but the 8–4 voting split, the first of its kind since 1992, marks a clear inflection point.
- The dissent pattern is particularly revealing: while Stephen Miran voted for an immediate rate cut, three others opposed the continuation of an easing bias in forward guidance.
- This indicates that the debate within the Fed has shifted meaningfully ‘from when to cut rates to whether easing should be signaled at all’. Markets have rightly interpreted this as a hawkish hold, with the Fed gradually transitioning toward a neutral policy stance.
- **The policy statement emphasized uncertainty in the outlook from the ongoing Middle East conflict while acknowledging resilience in the economy, stability in the labor market, and upside risks to inflation.**
- **We retain our view of the FOMC remaining on prolonged pause over 2026.** Markets viewed the outcome as a hawkish hold, given the three dissenters calling for a removal of the easing bias, while also responding to the fact that the US President ordered for the continued blockade of Iranian ships.
- **Market Implications: Higher yields, stronger dollar:** Financial markets have responded to the Fed’s hawkish undertone and geopolitical developments with a rise in US bond yields and a stronger dollar. The US Dollar Index (DXY) has moved higher, and is expected to remain firm in the near term (around **99-100 on DXY Index in the near term**). As long as oil prices remain elevated, yields could continue to rise, tightening global financial conditions (**US 10-year G-sec yields may struggle to ease below 4.3-4.4%, with risks tilted to the upside if current trends persist**). This environment reduces the likelihood of risk-on sentiment and could lead to more volatile capital flows across emerging markets.

BoE: Policy hold reinforces global ‘wait-and-watch’ shift

The BoE also kept its policy rate unchanged at 3.75% in its latest meeting today, broadly in line with expectations and mirroring the cautious stance adopted by the Fed. The decision, taken with an 8–1 vote split, reflects growing uncertainty around the economic outlook, particularly due to rising energy prices linked to the ongoing Middle East conflict.

Importantly, inflation in the UK has started to edge higher again (around 3.3% in March), driven by elevated fuel and energy costs. At the same time, growth remains fragile, with expectations of a weaker expansion profile relative to peers. This

combination has forced the bank into a policy pause despite inflation pressures, highlighting the difficult trade-off between growth and price stability.

From a signaling perspective, the BoE’s decision reinforces a broader global trend:

Central banks are reluctant to ease prematurely and are shifting toward a cautious, data-dependent stance. While rates are on hold for now, markets are increasingly pricing the possibility of future tightening if inflation remains elevated, especially given the sensitivity of the UK economy to energy price shocks.

In essence, the BoE’s stance aligns with the Fed, a hawkish hold driven by uncertainty, where policymakers prefer to wait for clearer signals on inflation and growth before committing to any directional move.

Some details on the US economy

US Economy: Resilient Growth with Underlying Soft Spots

The US economy continues to expand at a solid pace, supported by resilient consumption and strong business investment. However, beneath the surface, there are signs of moderation. Labor market momentum has softened at the margin, with job gains slowing and unemployment stabilizing (4.3% in Mar’26). Inflation, however, has re-emerged as a concern, largely driven by rising global energy prices, particularly linked to disruptions around the Strait of Hormuz, which have pushed Brent crude oil close to USD120 per barrel.

US labor market trends suggest a gradual cooling in momentum:

The US labor market continues to appear stable on the surface, but underlying trends suggest a gradual cooling in momentum. Recent data showed a sharp rebound in non-farm payrolls to 178K in Mar’26 (significantly above expectations), largely reflecting normalization after temporary disruptions from adverse weather and strikes that had led to a contraction of 133K jobs in Feb’26. While this rebound is encouraging, it does not fully alter the broader picture of structurally weaker labor demand.

A closer look at trend indicators highlights this moderation. The three-month average of job gains stands at just 68K, while the 12-month average has slowed further to 27K, well below pre-pandemic norms. This indicates that hiring demand has softened meaningfully over time. However, the adjustment in labor demand has been offset by a parallel decline in labor supply, which has effectively lowered the break-even level of job creation required to keep unemployment stable.

As a result, the unemployment rate has remained relatively range-bound, stabilizing at around 4.3% in Mar’26, down slightly from a recent peak of 4.5% in Nov’25.

Looking ahead into 2026–27, labor market conditions are expected to remain broadly stable. However, risks are tilted to the upside if labor demand weakens more than anticipated. Overall, the **labor market is no longer a strong source of inflationary pressure, but neither is it weak enough to justify aggressive monetary easing.**

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