MARKETS: How the Fed rate will affect us

18th Mar, 2015

If US Fed increases interest rate, it will affect in following ways –

a. Hike in rate will reduce liquidity and make Dollar stronger and Rupee may weaken. It may cause outflow of FII investments from India. Its effect also depends on our forex reserves as India's reserve position is quite strong so one can rule out a major negative impact of FII outflows.
b. Weak Rupee means India pays more for its imports. It is now not that much negative as oil and gold which were our major import items, have fallen substantially in price.
c. Weaker Rupee will make our exports more attractive.
d. Rise of rate will indicate in longer term the availability of easy global money will reduce, and returns from equities would be less volatile and moderate.

Recommendations:

Existing investors should remain invested and any correction should be used to enter and restructure existing portfolio. In case of a rate hike, export related sectors will outperform markets.