



- Most expect no 2023 rate hike in median Fed dot plot ([link](#))
- Fed likely to reiterate that US economy still has a long road to recovery ([link](#))
- Inflows to US bond funds remain strong despite spike in rates ([link](#))
- Bank of Korea acts to counter rise in bond yields ([link](#))
- Lebanese pound hits record low in parallel market as political unrest spreads ([link](#))

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## Caution prevails with all eyes on the Fed

**Most global markets were lower as a spirit of caution prevailed ahead of today's crucial Fed meeting.**

There is widespread uncertainty about the future course of Fed policy in an environment where good news on the economy and vaccinations is being weighed against rising interest rates and the fear that inflation will get out of hand and force the Fed to tighten. Treasury yields have broken through to new post-pandemic highs, with the benchmark 10-year Treasury trading just below 1.67%. The five-year TIPS breakeven yield, a key market inflation gauge, is at its highest in 12 years. Markets are looking for clarity on the path of future policy rates, with the FOMC's dot plot assuming major significance. Will the median dots show a rate hike in 2023, in contrast to the December median, which forecasted no hikes? Futures markets are pricing nearly three hikes in 2023 despite very dovish Fed rhetoric, and investors are focused on how Fed Chair Powell addresses this apparent contradiction between Fed guidance and market expectations.

Key Global Financial Indicators

Last updated: 3/17/21 8:04 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
S&P 500		3963	-0.2	2	1	57	6
Eurostoxx 50		3841	-0.3	1	4	52	8
Nikkei 225		29914	0.0	3	-1	76	9
MSCI EM		54	0.4	2	-6	61	5
<b>Yields and Spreads</b>			bps				
US 10y Yield		1.67	5.3	15	40	59	76
Germany 10y Yield		-0.31	2.6	0	6	12	26
EMBIG Sovereign Spread		349	-6	-22	7	-237	-1
<b>FX / Commodities / Volatility</b>			%				
EM FX vs. USD, (+) = appreciation		56.5	-0.4	0	-2	3	-2
Dollar index, (+) = \$ appreciation		92.0	0.1	0	1	-8	2
Brent Crude Oil (\$/barrel)		67.8	-0.9	0	5	136	31
VIX Index (% change in pp)		20.6	0.8	-2	-1	-55	-2

Colors denote **tightening**/easing financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## United States

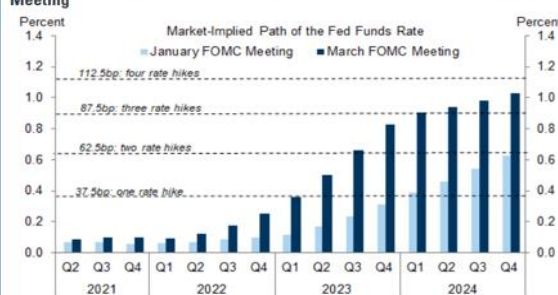
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**Ahead of today's FOMC meeting, surveys show most expect the Fed's updated dot plot median to show no rate hikes in 2023, although a minority expect the dots to show one rate hike that year.** However, interest rates have surged at the long end in 2021, and in the short end interest rate futures are now pricing in nearly three interest rates hikes in 2023. Nevertheless, Goldman thinks anybody looking for rhetoric from Fed Chair Powell that pushes back against these trends will be disappointed. Financial conditions remain very accommodative, and the \$1.9 tn fiscal stimulus is only just beginning to impact the economy. Credit spreads remain tight, demand for corporate bonds remains very robust and equity markets are close to all-time highs. Despite the perceived surge in yields, the 10-year Treasury yield is still below its level in January 2020, and as long as the rise in yields remains orderly, the Fed is likely to stay on the sidelines. In Goldman's view, there is no need to talk about policies to suppress yields via increasing asset purchases or yield curve control.

Will the median Fed funds dot indicate a hike in 2023?	
Yes	No
BofA	Barclays
BMO	CIBC
Credit Suisse	Citi
Deutsche	Credit Agricole
Goldman Sachs	Danske
JPMorgan	HSBC
Nomura	ING
	Morgan Stanley
	NatWest
	Scotiabank
	SEB
	Societe Generale
	Svebank
	TD
	UBS
	Unicredit
	Wells Fargo
	Wrightson ICAP

Source: MNI

**Exhibit 1: The Market Is Now Pricing Almost 3 Hikes by the End of 2023, up From 1 at the January Meeting**



Source: Goldman Sachs Global Investment Research, Bloomberg

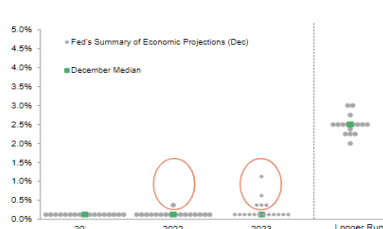
**The Fed is likely to reiterate the view that the economy still has a long road to recovery, according to Morgan Stanley.** Temporary increases in inflation will be tolerated in accordance with the flexible average inflation targeting (FAIT) regime. Morgan Stanley analysts expect no change in the dot plot, with the median for 2023 still showing no rates hikes. Fed Chair Powell is expected to underline the headwinds still facing the economy. Although January saw a major rebound in retail sales and February had a very strong jobs report, the March payrolls report was less impressive. Broader measures of unemployment remain very high and that many sectors of the economy remain very weak. The risk of economic scarring, or long term damage, also remains high. As a result, the case for a sustained period of Fed support remains in place. However, the analysts do expect the Fed's updated Staff Economic Projections (SEP) to raise forecasts for growth, inflation, and employment.

**Exhibit 2: Expectations for Key Indicators in the FOMC's March SEP**

	2021	2022	2023	Longer Run
<b>Real GDP (% 4Q/4Q)</b>				
FOMC March SEP - Projected	5.8	3.1	2.3	1.8
FOMC December SEP	4.2	3.2	2.4	1.8
<b>Unemployment Rate (4Q Avg)</b>				
FOMC March SEP - Projected	4.9	4.0	3.6	4.1
FOMC December SEP	5.0	4.2	3.7	4.1
<b>Core PCE Inflation (% 4Q/4Q)</b>				
FOMC March SEP - Projected	2.1	1.8	2.0	-
FOMC December SEP	1.7	1.8	2.0	-
<b>Fed Funds Target</b>				
FOMC March SEP - Projected	0.125	0.125	0.125	2.500
FOMC December SEP	0.125	0.125	0.125	2.500

Source: FOMC December 2020 Summary of Economic Projections, Morgan Stanley Research

**Exhibit 3: While Some Dots Will Move, We Expect the Median Dot Will Remain at Zero**

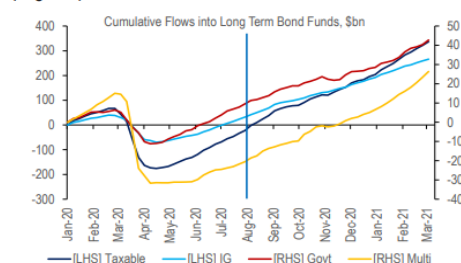


Source: FOMC December 2020 Summary of Economic Projections, Morgan Stanley Research

**Inflows to bond funds remain strong despite the rise in rates.** 70 bps rise in 10-year Treasury yields so far this year has not deterred investors, as spreads remain tight and new bond supply is meeting strong demand. Citi points out that this trend in fund flows is in marked contrast to the 2013 Taper Tantrum when

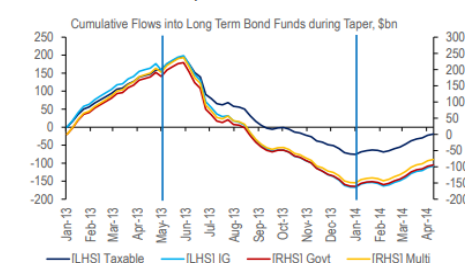
outflows surged a month after the selloff began. The optimistic view is that the Taper Tantrum saw a 140 bps selloff in the 10-year yield sparked by a negative surprise from the Fed when it discussed tapering its asset purchases earlier than expected. The current episode accompanies a robust economic rebound, strengthening consumer demand a new fiscal stimulus package.

Figure 4. Fund flows into gov't and investment grade funds have so far been robust. Blue vertical line shows the start of the current sell-off (Aug 2020)



Source: Citi Research, ICI

Figure 5. During the taper tantrum episode in 2013, fund outflows began about a month after the sell-off started (blue lines denote the start and end of that sell-off).



Source: Citi Research, ICI

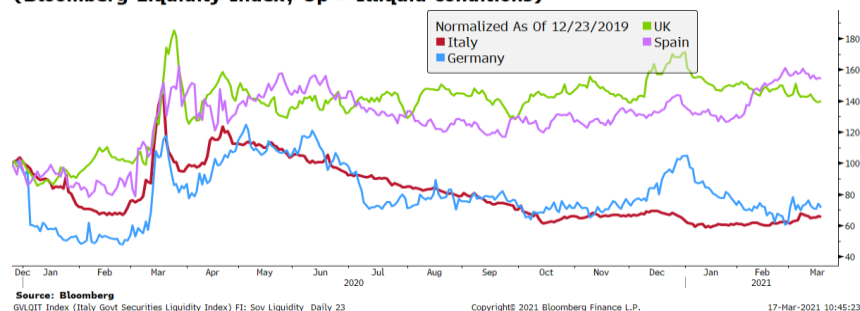
## Europe

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**Eurozone sovereign yields edged higher, while the euro (+0.1%) strengthened marginally against the dollar at \$1.19.** German 10-year yields are at -0.32% (+2 bps); French OATs are at -0.07% (+2 bps); Italian at 0.65% (+3 bps); and Spanish at 0.33% (+2 bps). According to Bloomberg analysis, liquidity conditions for Spanish and British paper have not returned to pre-pandemic levels. Italian and German sovereign debt is trading under similar liquidity conditions as before Covid.

## Sovereign Liquidity Indices

(Bloomberg Liquidity Index; Up = Illiquid conditions)



Source: Bloomberg

GVLT Index (Italy Govt Securities Liquidity Index) FI: Sov Liquidity Daily 23

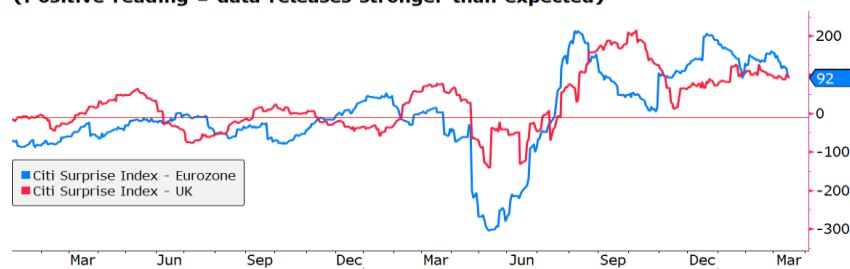
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**Gilt yields moved in synchrony with continental peers, as no changes are expected from the BoE tomorrow:** the 10-year yield is at 0.82% (+4 bps) and 2-year at 0.11% (+2 bps). Market contacts note, however, that the BoE will likely become more hawkish on the back of better-than-expected data during Britain's last lockdown. Sterling is flat at \$1.39.

## Economic Surprise Indices

(Positive reading = data releases stronger than expected)



Source: Bloomberg

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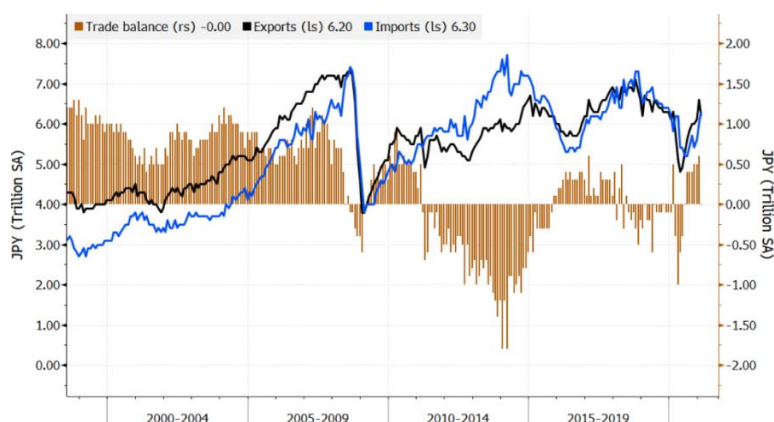
## Other Mature Markets

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### Japan

**A slump in exports added more pressures in Q1.** Exports fell 4.5% y/y in February, more than expected, after a two-month expansion. The decline stemmed from weaker demand from China during the Lunar New Year holiday and reduced shipments to the United States (particularly, autos). Imports grew 11.8% y/y in February, broadly in line with expectations. **The government is planning to lift the state of emergency in the Tokyo region** as scheduled on March 21.

### Trade Balance, Exports, and Imports



Source: Bloomberg.

## Emerging Markets

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**Most emerging markets were lower ahead of the FOMC meeting, with China today and Mexico yesterday among the few exceptions. Poland's bank shares (-3.0%) were under pressure** after local media reported potential delays to the Supreme Court ruling on foreign currency mortgages. In **India**, the government reportedly will leave the central bank's inflation target unchanged in the 2%-6% range, enabling monetary policy to tackle rising prices amid the economic rebound.

Key Emerging Market Financial Indicators

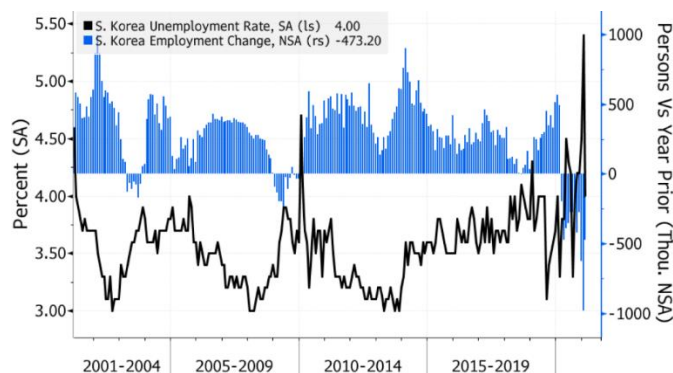
Last updated: 3/17/21 8:12 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
<b>Major EM Benchmarks</b>			%				%
MSCI EM Equities		54.35	-1.6	2	-6	61	5
MSCI Frontier Equities		29.58	-0.3	1	-1	38	4
EMBIG Sovereign Spread (in bps)		349	-6	-22	7	-237	-1
EM FX vs. USD		56.54	-0.4	0	-2	3	-2
<b>Major EM FX vs. USD</b>			%, (+) = EM currency appreciation				
China Renminbi		6.50	0.0	0	-1	8	0
Indonesian Rupiah		14428	-0.1	0	-3	5	-3
Indian Rupee		72.55	0.0	1	0	2	1
Argentine Peso		91.14	-0.1	-1	-3	-31	-8
Brazil Real		5.66	-0.7	0	-4	-12	-8
Mexican Peso		20.74	-0.6	1	-2	11	-4
Russian Ruble		73.76	-1.3	0	0	2	0
South African Rand		14.93	-0.3	1	-2	11	-2
Turkish Lira		7.53	-0.4	0	-7	-15	-1
EM FX volatility		10.57	0.0	0.0	0.8	-2.5	-0.2

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

## Korea

**Bank of Korea (BOK) took measures to contain the rise in bond yields.** The BOK is stepping up its bond purchases and halving its planned issuance of monetary stabilization bonds to counter the rise in bond yields. BOK Governor Lee Ju-yeol said that changes in external conditions—e.g., vaccinations and U.S. fiscal stimulus—could increase market volatility. The main policy priority is to manage these financial risks while solidifying the economic recovery. **The unemployment rate unexpectedly dropped to 4% in February** from 5.4% in January following the relaxation in social distancing measures and a resumption of the government's job-creation program. However, analysts noted that any recovery in the labor market is still in its early days. Employment in the services sector remains well below pre-pandemic levels.

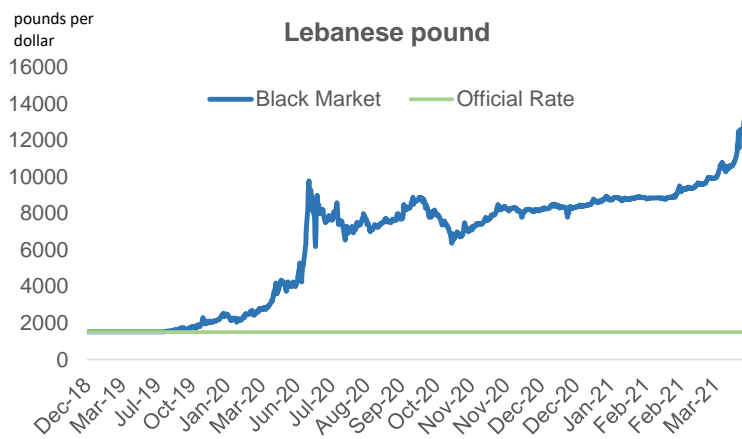
### South Korea Jobless Rate, Employment Change



Source: Bloomberg.

## Lebanon

**The Lebanese pound saw a large depreciation in the parallel market.** The currency hit a record low of 15,000 pounds per dollar in the parallel market after depreciating by more than 30% in the last 2 weeks and by 90% since the start of the pandemic. **The pressure on the currency started to grow once again at the end of February as protests spread throughout the country.** Given the extreme scarcity of foreign exchange reserves, the government plans to further reduce subsidies on essential goods and fuel, which analysts expect to further boost inflation and increase public discontent. Meanwhile, the energy ministry has warned of country wide blackouts by the end of March due to the absence of budget financing. A new government is still to be formed as political fractions continue to disagree on the division of power.



Source: Lebaneselira.org

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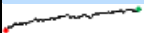



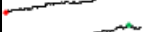
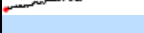


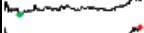


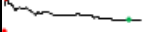
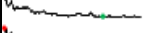

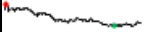
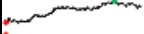

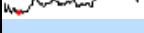
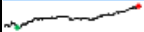


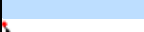
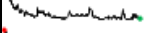


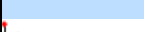
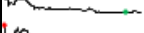
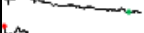
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## Global Financial Indicators

Last updated: 3/17/21 8:07 AM	Level		Change				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
<b>Equities</b>			%				%
United States		3949	-0.2	1	0	56	5
Europe		3840	-0.3	1	4	52	8
Japan		29914	0.0	3	-1	76	9
China		3446	0.0	3	-6	24	-1
Asia Ex Japan		95	0.5	1	-7	62	6
Emerging Markets		54	0.4	2	-6	61	5
<b>Interest Rates</b>			basis points				
US 10y Yield		1.67	5.1	15	40	59	76
Germany 10y Yield		-0.31	2.7	0	6	13	26
Japan 10y Yield		0.10	-0.5	-3	0	8	8
UK 10y Yield		0.83	4.8	12	26	28	64
<b>Credit Spreads</b>			basis points				
US Investment Grade		102	0.0	-3	16	-139	7
US High Yield		358	0.9	-6	15	-472	-22
Europe IG		48	0.5	-1	0	-70	0
Europe HY		243	1.6	-5	-3	-367	2
<b>Exchange Rates</b>			%				
USD/Majors		91.96	0.1	0	1	-8	2
EUR/USD		1.19	-0.1	0	-1	8	-3
USD/JPY		109.2	0.2	1	3	1	6
EM/USD		56.5	-0.4	0	-2	3	-2
<b>Commodities</b>			%				
Brent Crude Oil (\$/barrel)		68	-0.8	0	5	136	31
Industrials Metals (index)		144	0.5	2	1	49	9
Agriculture (index)		52	-0.5	1	2	48	9
<b>Implied Volatility</b>			%				
VIX Index (% change in pp)		20.6	0.8	-2.0	-0.9	-55.3	-2.2
US 10y Swaption Volatility		85.9	0.9	4.8	10.0	-41.4	25.8
Global FX Volatility		8.0	0.0	0.0	0.5	-4.6	-0.1
<b>EA Sovereign Spreads</b>			10-Year spread vs. Germany (bps)				
Greece		125	4.8	9	7	-288	5
Italy		98	1.8	-1	3	-181	-13
Portugal		54	0.6	-2	-2	-116	-6
Spain		66	0.9	-1	0	-81	4

Colors denote **tightening**/**easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

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## Emerging Market Financial Indicators

Last updated: 3/17/2021 8:13 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
	vs. USD		(+)= EM appreciation					% p.a.						
China		6.50	0.0	0.0	-1	8	0		3.4	-0.5	1	3	59	8
Indonesia		14428	-0.1	-0.2	-3	5	-3		6.8	0.8	-12	52	-73	73
India		73	0.0	0.5	0	2	1		6.5	-1.3	1	23	2	57
Philippines		49	-0.2	-0.2	-1	7	-1		3.7	-4.8	1	21	-42	6
Thailand		31	-0.2	-0.4	-3	4	-3		2.0	-0.8	-5	51	63	70
Malaysia		4.12	-0.2	0.1	-2	6	-2		3.3	-3.1	-2	47	20	75
Argentina		91	-0.1	-0.5	-3	-31	-8		45.4	34.3	199	70	-801	-1072
Brazil		5.66	-0.7	0.1	-4	-12	-8		7.5	-5.4	6	101	78	196
Chile		732	-0.4	-0.8	-2	16	-3		3.2	1.1	1	37	17	44
Colombia		3558	0.1	1.1	-1	15	-4		5.9	1.6	-3	72	-268	84
Mexico		20.74	-0.6	0.8	-2	11	-4		6.4	14.1	24	69	-124	81
Peru		3.7	0.1	0.0	-1	-4	-2		4.6	0.7	-11	67	-104	99
Uruguay		44	0.1	0.3	-4	0	-5		7.3	4.7	18	22	-337	4
Hungary		309	-0.1	-0.5	-4	2	-4		2.1	-1.7	-5	29	-14	54
Poland		3.88	-0.5	-1.2	-4	5	-4		0.9	0.5	-3	11	-93	26
Romania		4.1	-0.1	-0.3	-1	7	-3		2.7	0.0	-2	23	-229	-9
Russia		73.8	-1.3	-0.2	0	2	0		6.5	-0.6	16	23	-125	83
South Africa		14.9	-0.3	1.0	-2	11	-2		10.0	-2.9	-21	50	-100	40
Turkey		7.53	-0.4	-0.3	-7	-15	-1		14.6	-14.2	11	119	254	149
US (DXY; 5y UST)		92	0.1	0.2	1	-8	2		0.86	2.8	7	31	11	50

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)					Level		Change (in basis points)				
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	YTD
								basis points						
China		5101	0.4	2	-12	38	-2		199	0	-2	-9	30	-9
Indonesia		6277	-0.5	1	1	41	5		158	0	-9	-25	-5	-29
India		49802	-1.1	-2	-4	63	4		162	-2	-7	10	-113	11
Philippines		6567	0.1	-4	-6	23	-8		83	0	-9	-17	13	-22
Malaysia		1625	0.1	-1	2	29	0		113	0	-2	-3	9	3
Argentina		49647	0.0	7	-5	92	-3		1459	0	19	8	-570	91
Brazil		114019	0.0	2	-5	53	-4		253	0	0	-16	58	3
Chile		4905	0.0	0	8	50	17		126	0	-6	-16	-14	-18
Colombia		1350	0.0	0	-1	35	-6		207	0	-4	-15	44	2
Mexico		48204	0.0	2	7	31	9		348	0	-9	-34	55	-12
Peru		22340	0.0	-1	-2	45	7		133	0	-4	-3	22	1
Hungary		43697	-1.3	1	-2	39	4		65	0	-6	-15	-42	-31
Poland		57646	-2.4	-3	-2	44	1		-22	0	-4	-11	-54	-21
Romania		10802	-0.4	2	4	43	10		189	-3	-14	-2	-136	-14
Russia		3512	-2.2	1	2	58	7		159	0	-5	-3	19	-7
South Africa		66715	-0.9	-3	-1	60	12		357	0	-4	-35	25	-23
Turkey		1574	0.2	1	2	81	7		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-3	3		479	0	12	-21	127	-12
EM total		54	-1.6	2	-6	61	5		421	0	17	-10	97	128

Colors denote **tightening/easing** financial conditions for observations greater than  $\pm 1.5$  standard deviations. Data source: Bloomberg.

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