



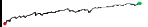
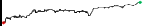
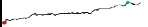
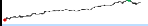
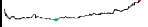

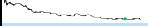

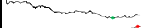
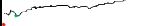
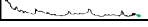
- FOMC holds policy stance; upgrades outlook but signals zero rates through 2023 ([link](#))
- Bank of England maintains policy stance citing need to see sustained recovery ([link](#))
- Bank of Japan reportedly considers greater yield curve flexibility ([link](#))
- Turkish central bank surprises the market with 200 bp policy rate hike to 19% ([link](#))
- Bank Indonesia keeps policy rate unchanged at 3.5%, as expected ([link](#))
- Brazilian central bank lifts policy rate 75 bps; guidance hints at more hikes to come ([link](#))
- **GMM Special Feature: Emerging Market Capital Flows Monitor (see attached)**

[US](#) | [Europe](#) | [Other Mature](#) | [Emerging Markets](#) | [Market Tables](#)

Fed holds dovish line signaling zero rates through 2023

Central bank decisions have dominated markets over the last day with the Fed center stage and reinforcing its commitment to extended policy accommodation. While acknowledging an improving economic backdrop, the updated SEP showed that the median committee member projected no rate hikes through 2023 with Chairman Powell underscoring patience when reacting to incoming data. Most of the immediate market reaction was seen in a steepening of the US Treasury yield curve and a weaker US dollar, while the S&P 500 swung from a modest loss to close with a slight gain (+0.3%). However, this morning, long-end advanced economy sovereign yields have resumed their rise with 10-year US Treasury yields up another 8 bps, driven mostly by real yields, to 1.73%. A series of central bank meetings also occurred overnight and this morning. In Europe, the Bank of England maintained its policy stance and reiterated its intention to not tighten policy until clear evidence of a recovery. In emerging markets, the Brazilian central bank surprised on the hawkish side by increasing its policy rate by 75 bps, above forecasts for a 50 bp hike, while the central bank of Turkey also tightened policy more than expected by hiking 200 bps to 19% compared to estimates for a 100 bp increase. EM assets have generally traded with a positive tone in the aftermath of the central bank decisions with EM equities holding onto gains.

Key Global Financial Indicators

Last updated: 3/18/21 8:27 AM	Level		Change from Market Close				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
Equities			%				%
S&P 500		3974	0.3	2	2	66	6
Eurostoxx 50		3864	0.4	0	5	62	9
Nikkei 225		30217	1.0	3	0	81	10
MSCI EM		54	0.1	2	-5	76	5
Yields and Spreads			bps				
US 10y Yield		1.73	8.5	19	43	54	81
Germany 10y Yield		-0.26	3.0	7	9	-3	31
EMBIG Sovereign Spread		352	3	-16	5	-226	1
FX / Commodities / Volatility			%				
EM FX vs. USD, (+) = appreciation		57.0	-0.1	0	-2	7	-2
Dollar index, (+) = \$ appreciation		91.7	0.3	0	1	-9	2
Brent Crude Oil (\$/barrel)		67.3	-1.1	-3	5	170	30
VIX Index (% change in pp)		20.0	0.8	-2	-2	-56	-3

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

United States

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The FOMC signaled that they expected to keep the policy rate near zero through 2023, and left the pace of asset purchases unchanged, despite their improved economic outlook. The highly anticipated "dot-plot" showed no rate hikes through 2023, although seven of 18 FOMC members called for a rate hike in 2023, which increased from five in December. The median projections for growth, the unemployment rate, and inflation improved slightly, reflecting the recent developments around vaccine optimism and fiscal stimulus. Of note, the median growth projection for 2021 was raised 2.3% pt to 6.5%. In the press conference, Chair Powell's remarks somewhat downplayed the SEP message, saying the economy is a long way from the Fed's employment and inflation goals and reiterated that they want to see inflation moderately above 2%. He said it was not yet time "to talk about talking about" tapering and reiterated that the Fed would give as much advance notice as possible for tapering. Their assessment of financial conditions was unchanged; "overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to US households and businesses." Away from monetary policy, in response to a question about the Supplementary Leverage Ratio (SLR), Powell said, "we'll have something to announce on that in coming days."

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

Mar 2021

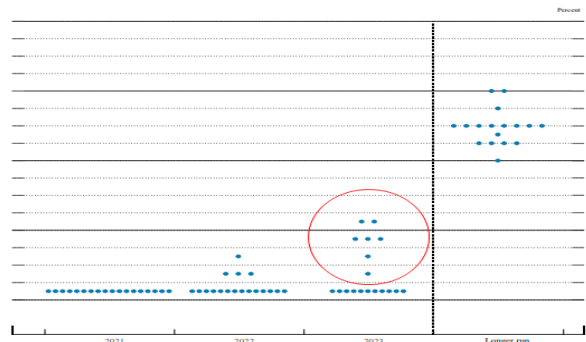
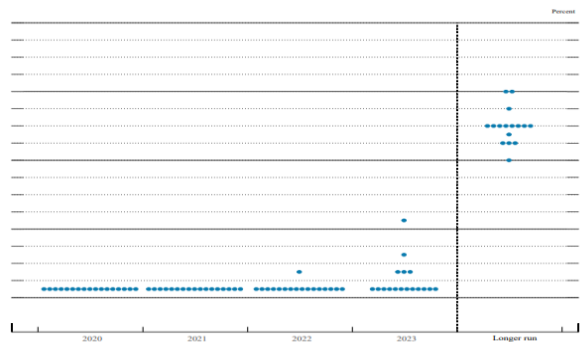


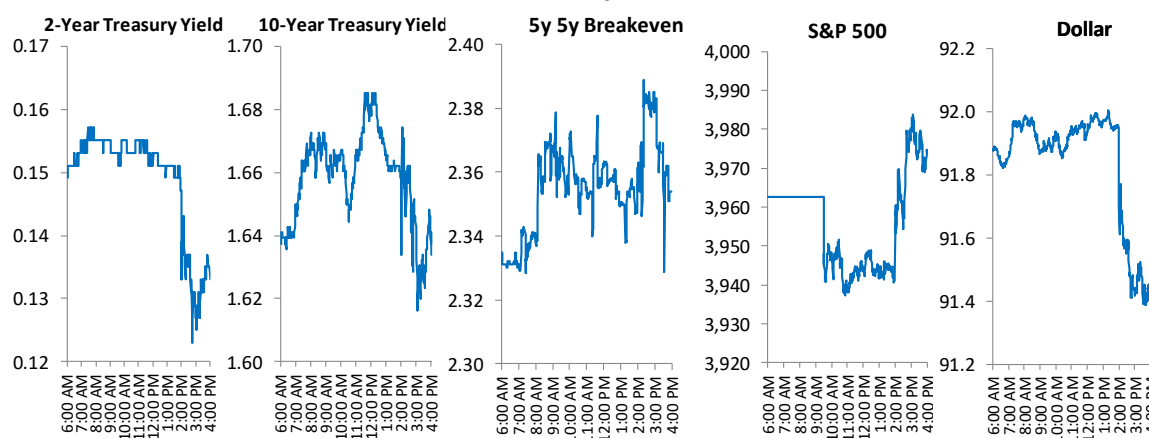
Figure 2. FOMC participants' assessments of appropriate monetary policy: Midpoint of target range or target level for the federal funds rate

Dec 2020



The overall message was perceived as dovish, which sent equities higher, credit spreads tighter, and the dollar weaker. The Treasury yield curve steepened as shorter-maturities went lower and longer-maturities higher on the day; the 2-to-10-year yield spread steepened by 4 bps to its highest level since 2015. Rates traders were disappointed with the median 'dot' in 2023 not shifting higher, and the market-implied policy rate in 2023 declined by 6bps, even though more FOMC members projected a rate hike.

Intraday Moves



Source: Bloomberg

Europe

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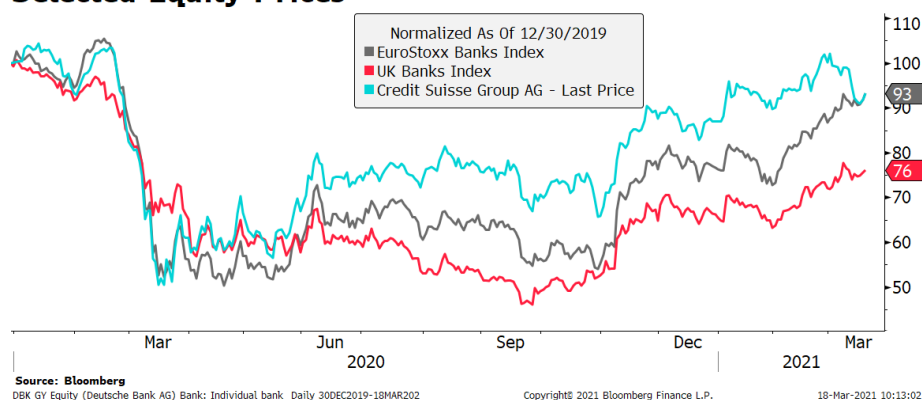
Equity markets gained slightly across countries boosted by better economic prospects in the US.

The DAX (+1.2%) posted the largest regional gains, largely on the back of the auto sector. Gains were smaller in other bourses: CAC 40 (+0.2%), EuroStoxx 600 (+0.4%), Italy's Titans 30 (+0.2%), and Spanish Ibex (+0.3%). Bank stocks (+1.6%) outperformed again today.

Credit Suisse (+1.7%) is falling under investors' scrutiny over its exposure to failed Greensill Bank.

Credit Suisse acknowledged yesterday that there is "considerable uncertainty" regarding the value of some investments that it ran together with Greensill. The estimated value of those investments could be in the order of \$10 bn, according to Bloomberg. Despite the uncertainties, Credit Suisse equities are performing today in line with peers.

Selected Equity Prices



European sovereign yields are largely unchanged, contrasting with the large moves in the US yield curve. German 10-year yields at -0.26% (+3 bps); French OATs are at -0.02% (+2 bps); Italian at 0.38% (-2 bps); and Spanish at 0.39% (+2 bps). In contrast, US Treasury yield were 8 bps higher this morning for the 10-year bond, and +8 bps for the 30-year maturity; the 2-year yield is only 1 bp higher at 0.15%

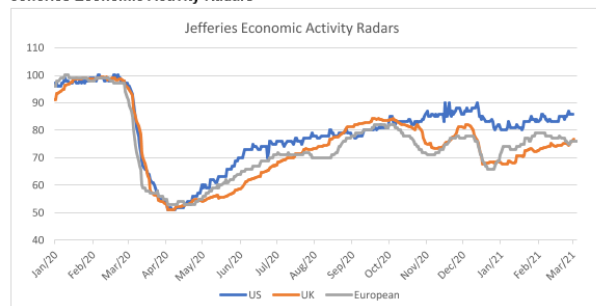
Selected Government Bond Yields (10-yr Yields, in %)



The Bank of England left its policy stance unchanged at this morning's meeting. Policy parameters will remain at 0.10% for the Bank Rate, while the targets for corporate bond and total asset purchases will remain at £20 bn and £875 bn, respectively. The MPC stated it does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably. The sterling (-0.2%) and local equities (-0.3%) are trading slightly lower this morning.

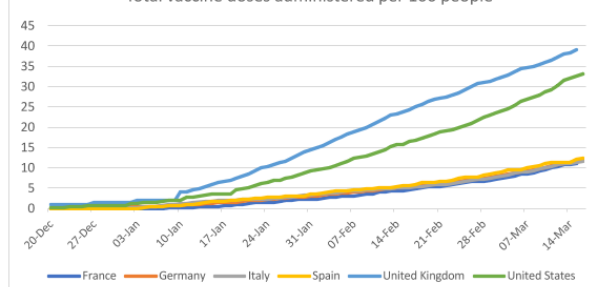
High-frequency economic indicators in Europe suggest a slowdown of the recovery in recent weeks. According to research by Jefferies, economic activity in the euro area remains at 76% of pre-COVID levels, largely due to the slow rollout of vaccines. The European Medicines Agency (EMA) is expected to make an announcement regarding the safety of the AstraZeneca vaccine this week.

Jefferies Economic Activity Radars



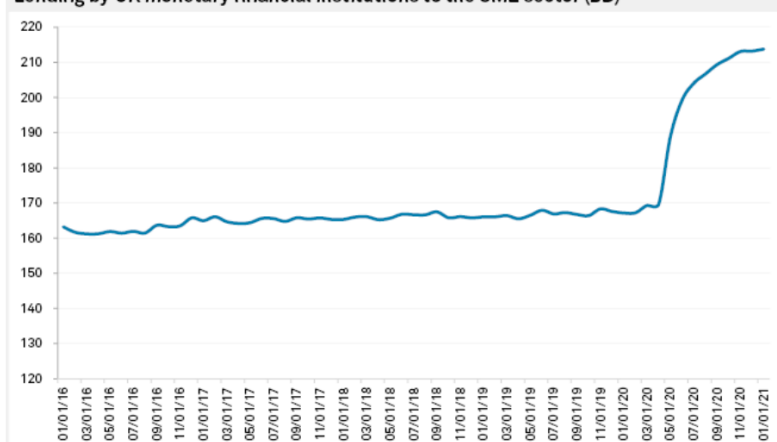
Source: Jefferies

Total vaccine doses administered per 100 people



Recent Bank of England data and analysis note the large increase in SME lending since the launch of the government support programs. According to the British Business Bank, around 45% of SMEs applied for external finance in 2020, compared with only 13% in 2019. Analysts are concerned about a possible deteriorating financial outlook for companies.

Lending by UK monetary financial institutions to the SME sector (£B)

Data compiled March 15, 2021.
Source: Bank of England

Other Mature Markets

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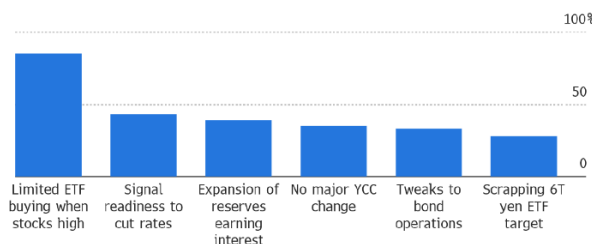
Bank of Japan (BOJ) reportedly considers greater yield curve flexibility. According to Nikkei, the BOJ may widen the range for its 10-year JGB target from 20 bps to 25 bps (around zero) when concluding its policy review this Friday. Long-end JGB yields increased (10-year: +1.3 bps; 30-year: +0.5 bps). Analysts viewed that the BOJ's main challenge is to avoid creating any impression that it is backpedaling on stimulus. One option for the BOJ is to signal its readiness to ease further by showing some analysis that banks can manage the side-effects of lower (negative) rates. Following the recent rise in U.S. treasury yields, Japanese yen has become among the weakest performers in the Asia Pacific (today: -0.2%; YTD: -5.6%). Equities gained (NIKKEI: +1.0%). **The state of emergency for the Tokyo region will end this Sunday.**

10-year JGB Yield



Options

Most economists see the BOJ hinting at more flexibility in its ETF buys



Bloomberg

Emerging Markets

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Emerging market assets are mixed this morning and holding onto some gains following the FOMC meeting yesterday. Asian stock markets posted modest gains, +0.4% on net, and currencies were mixed. In Taiwan POC, the central bank kept its key rate unchanged at 1.125% as expected, while the government is studying how to resume cross-strait interactions such as travel with mainland China. EMEA equities were trading mostly higher with indices outperforming in South Africa (+0.8%) and Czech Republic (+0.7%). The Turkish lira (+2.0%) gained following the central bank's rate hike. Russian assets have been underperforming in the last 24 hours as political tensions escalated with the U.S. and contacts have been reporting outflows from the local bond market.

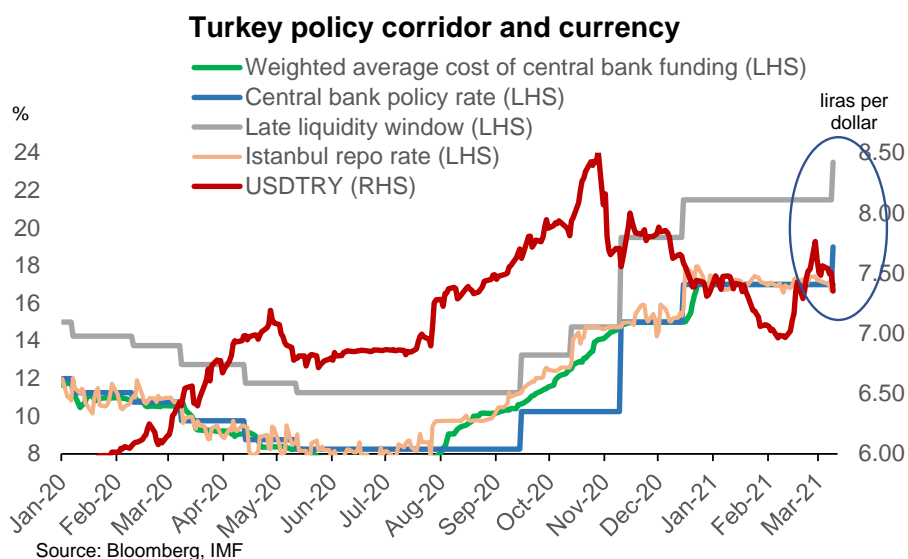
Key Emerging Market Financial Indicators

Last updated: 3/18/21 8:30 AM	Level		Change				YTD
	Last 12m	index	1 Day	7 Days	30 Days	12 M	
Major EM Benchmarks			%				%
MSCI EM Equities		54.42	0.2	2	-5	76	5
MSCI Frontier Equities		29.92	1.1	1	0	50	6
EMBIG Sovereign Spread (in bps)		352	3	-16	5	-226	1
EM FX vs. USD		57.05	0.0	0	-1	7	-2
Major EM FX vs. USD			%, (+) = EM currency appreciation				
China Renminbi		6.50	0.0	0	0	8	0
Indonesian Rupiah		14410	0.1	0	-3	6	-2
Indian Rupee		72.53	0.0	1	0	2	1
Argentina Peso		91.21	-0.1	-1	-2	-31	-8
Brazil Real		5.52	1.2	0	-2	-7	-6
Mexican Peso		20.46	-0.3	1	-1	16	-3
Russian Ruble		73.90	-0.4	-1	0	10	1
South African Rand		14.74	-0.6	1	-1	16	0
Turkish Lira		7.35	2.1	2	-5	-12	1
EM FX volatility		10.37	0.0	0.0	0.7	-3.3	-0.4

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

Turkey

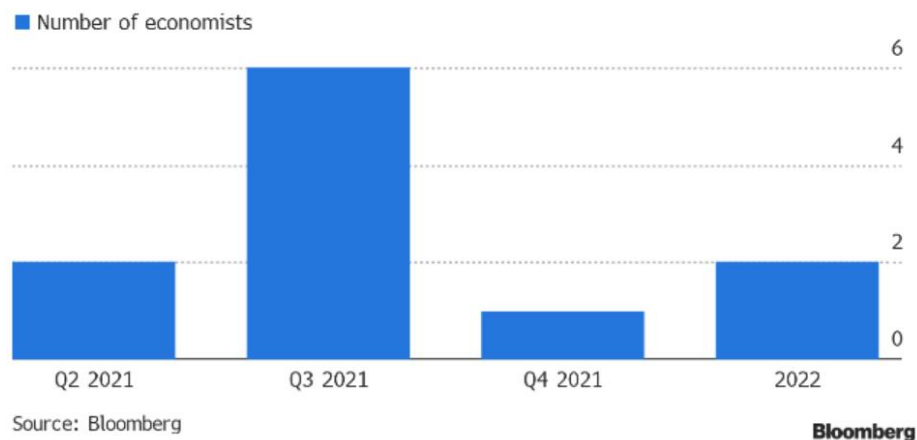
The Central Bank of Turkey surprised the market by hiking the policy rate by 200 bps to 19%. The analysts' consensus expected 100 bps of tightening while some contacts even noted skepticism among local investors that the central bank would deliver further tightening at this stage. **Markets reacted positively to the decision with the Turkish lira appreciating by over 2%.** Contacts point out that the policy move and recommitment to a hawkish stance in the policy statement is a rather positive step in the central banks credibility building and should further reduce skepticism among international investors.



Ukraine

Analysts expect only one IMF program disbursement in 2021. According to a survey by Bloomberg, analysts' consensus sees only a single disbursement arriving in the third quarter of 2021, before the program is set to expire at the end of the year. Contacts note that investors remain hopeful for the program to be renewed later this year, which is reflected in stable international bond credit spreads amid broader emerging market turbulence recently. The local bond markets have also seen more than \$1 bn of non-resident inflow since December with the Ukrainian hryvna appreciating by 3% year-to-date.

Most analysts see Ukraine getting its next IMF tranche in the fall

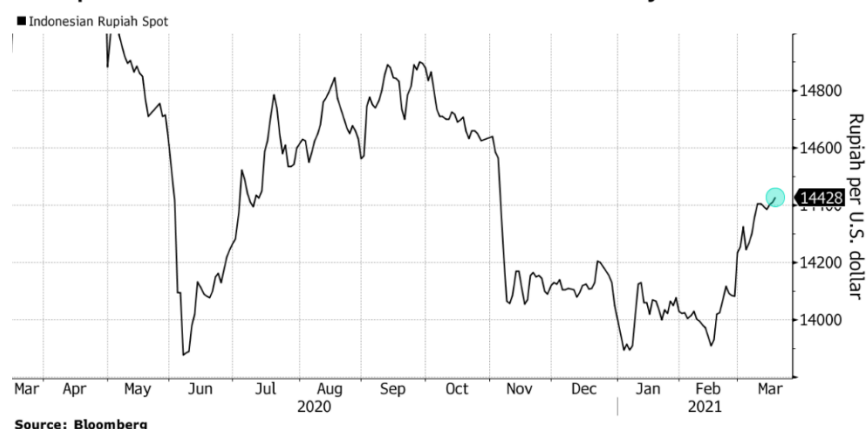


Indonesia

Bank Indonesia (BI) kept its policy rate at 3.5% as expected. BI also pledged greater efforts to maintain stability the currency, which has been weakening amid global market volatility and rising U.S. Treasury yields. Analysts viewed that BI's decision was largely driven by concerns about the currency's weakness. Indonesian sovereign bonds have seen \$1.5 bn of outflows this year, while Indonesian rupiah has depreciated 2.5% YTD. Governor Perry during the media briefing skipped a question on the omnibus bill that would weaken BI's autonomy. **Indonesian rupiah appreciated (+0.1%); government bond yields increased (10-year: +2.1 bps); equities gained (+1.1%).**

Selling Off

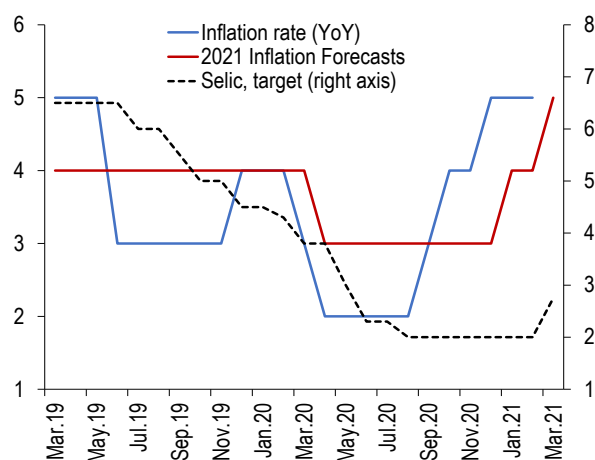
The rupiah touched a four-month low on bets of a U.S. recovery



Brazil

The central bank delivered markets a double surprise by way of a larger rate hike and hawkish guidance. Given the high inflation (5.2% y/y for Feb) and depreciation in Brazilian real (-7.5% YTD), the markets were pricing a 50 bp rate hike by the central bank (BCB). However, the BCB announced a 75 bp increase in the policy rate (Selic) and guided for another probable hike of 75 bps going forward. In its statement, BCB stated that the hike is part of a “partial normalization of monetary policy” which aims at bringing inflation expectations within its target range. Currently the inflation expectations for the 2021 is at 4.6%, according to the Focus survey. On the other hand, the bank acknowledged the economic recovery to be fragile, particularly in the light of rising COVID-19 infections. Analysts believe, with this larger than expected hike and hawkish guidance, BCB is looking to frontload the hikes while becoming accommodative in the later part of the year. The bank projects 2022 inflation at 3.5%, and the Selic rate targets of 4.5% and 5.5% for 2021 and 2022 year-ends, respectively. Brazil’s sovereign yield curve had moved up in the short end over the past week, however, analysts believe steeper hikes in Selic are yet to be priced in.

Inflation forecasts continue to rise



Inflation Scenarios¹

%oya		
Meeting	2021	2022
August	3.0	3.4
September	2.9	3.3
October	3.1	3.3
December	3.4	3.4
January	3.6	3.4
March	5.0	3.5
March (JPMe)	4.2-4.3	3.5-3.7

1. Focus consensus for Selic and purchasing power parity FX forecast
Source: JP Morgan; Bloomberg; and Central Bank of Brazil



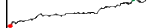
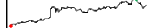
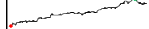
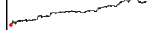




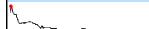





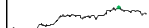


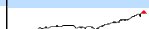


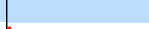
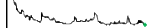


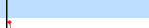
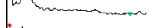
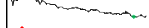
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Global Financial Indicators





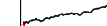





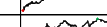

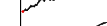



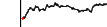

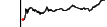

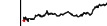









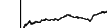

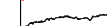





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China		3463	0.5	1	-6	27	0
Asia Ex Japan		95	0.0	2	-6	74	6
Emerging Markets		54	0.1	2	-5	76	5
Interest Rates			basis points				
US 10y Yield		1.73	8.5	19	43	54	81
Germany 10y Yield		-0.26	3.0	7	9	-3	31
Japan 10y Yield		0.11	1.4	1	2	3	9
UK 10y Yield		0.89	5.9	15	27	9	69
Credit Spreads			basis points				
US Investment Grade		100	0.1	0	14	-187	5
US High Yield		358	-2.9	2	10	-563	-22
Europe IG		47	-0.5	1	-1	-91	-1
Europe HY		242	-1.7	5	-7	-465	0
EMBIG Sovereign Spread		352	2.7	-16	5	-226	1
Exchange Rates			%				
USD/Majors		91.69	0.3	0	1	-9	2
EUR/USD		1.19	-0.4	0	-1	9	-2
USD/JPY		109.1	0.2	1	3	1	6
EM/USD		57.0	-0.1	0	-2	7	-2
Commodities			%				
Brent Crude Oil (\$/barrel)		67	-1.1	-3	5	170	30
Industrials Metals (index)		145	-0.1	0	0	55	9
Agriculture (index)		52	-0.2	0	1	47	8
Implied Volatility			%				
VIX Index (%, change in pp)		20.0	0.8	-1.9	-2.5	-56.4	-2.7
US 10y Swaption Volatility		83.0	-0.2	4.3	12.3	-55.6	22.9
Global FX Volatility		7.7	0.0	0.0	0.4	-5.7	-0.3
EA Sovereign Spreads			10-Year spread vs. Germany (bps)				
Greece		123	-4.0	11	1	-295	3
Italy		97	-1.6	4	-2	-170	-14
Portugal		54	-1.1	2	-5	-115	-6
Spain		65	-1.5	2	-3	-80	4

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

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Emerging Market Financial Indicators

Last updated: 3/18/2021 8:30 AM	Exchange Rates							Local Currency Bond Yields (GBI EM)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
	vs. USD		(+) = EM appreciation					% p.a.						
China		6.50	0.0	-0.2	0	8	0		3.4	-0.4	0	2	57	8
Indonesia		14410	0.1	0.0	-3	6	-2		6.8	-0.8	-5	33	-85	72
India		73	0.0	0.5	0	2	1		6.5	0.4	1	21	-4	57
Philippines		49	0.1	-0.4	0	5	-1		3.8	5.2	-27	27	-37	11
Thailand		31	-0.1	-0.8	-3	5	-3		2.0	1.6	1	50	57	72
Malaysia		4.11	0.3	-0.1	-2	6	-2		3.3	-1.1	-1	38	6	74
Argentina		91	-0.1	-0.5	-2	-31	-8		45.5	6.2	195	165	-1097	-1066
Brazil		5.52	1.2	0.3	-2	-7	-6		7.5	0.6	1	91	123	196
Chile		728	0.2	-1.8	-2	19	-2		3.2	1.7	3	35	19	45
Colombia		3567	-0.2	0.4	-1	13	-4		6.0	10.6	18	85	-190	94
Mexico		20.46	-0.3	0.7	-1	16	-3		6.3	-5.5	16	59	-145	76
Peru		3.7	-0.1	-0.2	-1	-4	-2		4.6	0.2	4	65	-96	100
Uruguay		45	0.0	0.0	-4	2	-5		7.4	9.3	17	37	-338	13
Hungary		308	-0.7	-1.2	-4	5	-4		2.1	0.6	-3	29	8	54
Poland		3.87	-0.9	-1.2	-4	7	-4		0.9	-1.8	-2	14	-57	24
Romania		4.1	-0.4	-0.5	-2	9	-3		2.7	0.0	-1	15	-255	-9
Russia		73.9	-0.4	-0.8	0	10	1		6.6	5.2	15	32	-120	89
South Africa		14.7	-0.6	0.6	-1	16	0		10.2	14.5	3	58	-90	54
Turkey		7.35	2.1	1.8	-5	-12	1		14.7	7.2	19	128	261	156
US (DXY; 5y UST)		92	0.3	0.3	1	-9	2		0.86	6.5	8	31	8	50

	Equity Markets							Bond Spreads on USD Debt (EMBIG)						
	Level		Change (in %)				YTD	Level		Change (in basis points)				YTD
	Last 12m	Latest	1 Day	7 Days	30 Days	12 M		Last 12m	Latest	1 Day	7 Days	30 Days	12 M	
								basis points						
China		5142	0.8	0	-11	41	-1		199	0	-2	-9	30	-9
Indonesia		6348	1.1	1	2	47	6		158	0	-9	-25	-5	-29
India		49217	-1.2	-4	-4	70	3		165	3	0	10	-126	14
Philippines		6631	1.0	-1	-3	24	-7		83	0	-9	-17	13	-22
Malaysia		1628	0.2	0	3	31	0		113	0	-2	-3	9	3
Argentina		49916	0.5	5	-4	126	-3		1459	0	19	8	-570	91
Brazil		116549	2.2	3	-2	74	-2		253	0	0	-16	58	3
Chile		4909	0.1	1	9	71	18		126	0	-6	-16	-14	-18
Colombia		1344	-0.5	-1	-1	50	-7		207	0	-4	-15	44	2
Mexico		47679	-1.1	1	7	34	8		348	0	-9	-34	55	-12
Peru		22444	0.5	-1	0	55	8		133	0	-4	-3	22	1
Hungary		44183	1.6	1	0	50	5		65	0	-6	-15	-42	-31
Poland		58262	0.6	-1	-1	48	2		-22	0	-4	-11	-54	-21
Romania		10867	0.5	1	4	49	11		192	3	-12	-4	-110	-11
Russia		3521	0.4	0	4	67	7		159	0	-5	-3	19	-7
South Africa		66680	0.3	-3	0	73	12		357	0	-4	-35	25	-23
Turkey		1571	0.6	1	2	84	6		421	0	-5	-47	34	-24
Ukraine		517	0.0	0	-1	-1	3		479	0	12	-21	127	-12
EM total		54	0.2	2	-5	76	5		421	0	17	-10	97	128

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