

Global Economy

Mar FOMC – Dovish tones on stronger forecasts

Federal funds rate and asset purchase plans remained unchanged at the Mar FOMC meeting. Although economic forecasts were lifted, the Fed pledged to keep accommodative monetary environment until there is substantial progress in “real data”. Meanwhile, the Fed is showing greater tolerance of rising bond yields given that market liquidity is sound.

- **Federal funds rate and asset purchase plan unchanged.** The Committee maintained federal funds rate at 0-0.25% and pace of securities purchase at US\$120bn per month, including US\$80bn T-bonds and US\$40bn MBS.
- **More progressive economic projections.** Participants lifted GDP, employment and inflation forecasts particularly for 2021. Median projection of GDP was 6.5%/3.3%/2.2% in 2021/22/23E, up 2.3/0.1/-0.2ppt from Dec 20 projections. PCE and core PCE inflation projections was raised above 2.0% for 2021E, though staying at around 2.0% over the longer run.
- **Fed continued to see no rate hike through 2023**, although market had been factoring in sooner rate hikes. However, the dot plot shows that three more participants forecasted one rate hike by YE22.
- **Dovish stance on monetary policy.** The Committee pledged accommodative monetary conditions until there is “substantial further progress” towards achieving maximum employment and inflation at 2 percent over the longer run. Chairman Powell emphasized the Fed will wait for progress in “real data” rather than just expectations or forecasts. This lowers the possibility of imminent rate hikes because non-farm payroll was ~10 million short from pre-pandemic levels.
- **More tolerant of rising bond yield.** Fed has shown more tolerance about surging UST yield as a result of strengthening economic fundamentals and rising inflation expectations. Given that liquidity conditions are sound, we think the likelihood of Fed intervening via operation twist, for example, is low. We expect 10-year UST yield to rise above 1.8%, hopefully in a steady way not to strike market unexpectedly.
- **Many uncertainties about UST yield still hover**, including **1)** Fed’s decisions on the extension of SLR exemption in the next few days. **2)** Roll out of further stimulus to boost the economy, including the infrastructure investment plan. **3)** Course of the virus and progress on vaccinations.

Summary of Economic Projections

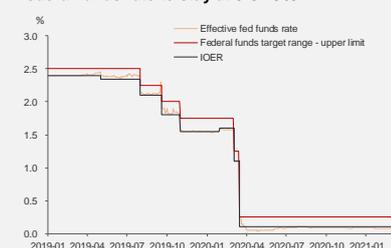
Indicators (%)	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8
<i>Dec projection</i>	4.2	3.2	2.4	1.8
Unemployment rate	4.5	3.9	3.5	4
<i>Dec projection</i>	5.0	4.2	3.7	4.1
PCE inflation	2.4	2.0	2.1	2.0
<i>Dec projection</i>	1.8	1.9	2.0	2.0
Core PCE inflation	2.2	2.0	2.1	-
<i>Dec projection</i>	1.8	1.9	2.0	-

Source: Federal Reserve Board, CMBIS

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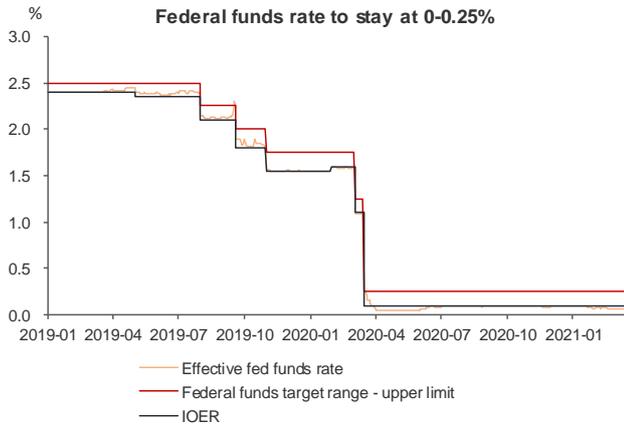
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Federal funds rate to stay at 0-0.25%



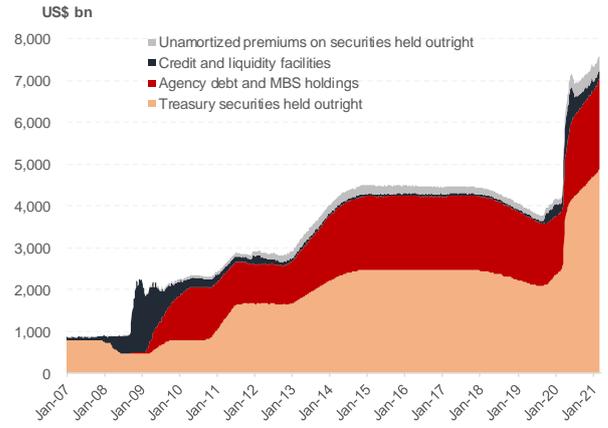
Source: FRED, CMBIS

Figure 1: Policy rates remained unchanged



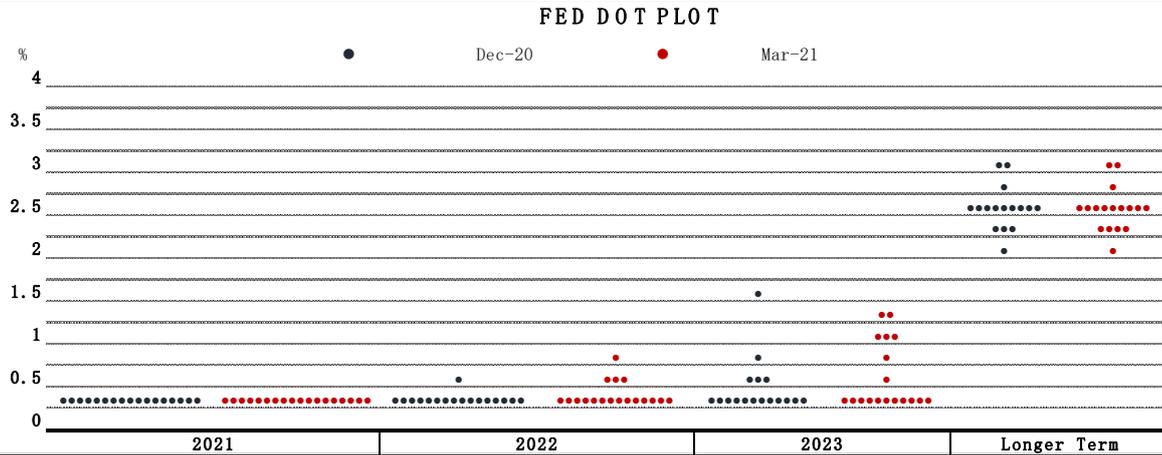
Source: FRED, CMBIS

Figure 2: Fed's balance sheet



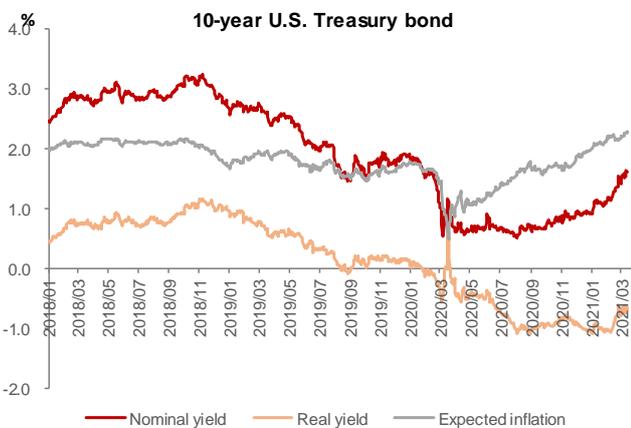
Source: FRED, CMBIS

Figure 3: Dot plot of median projections of federal funds rate (Mar 2021 meeting)



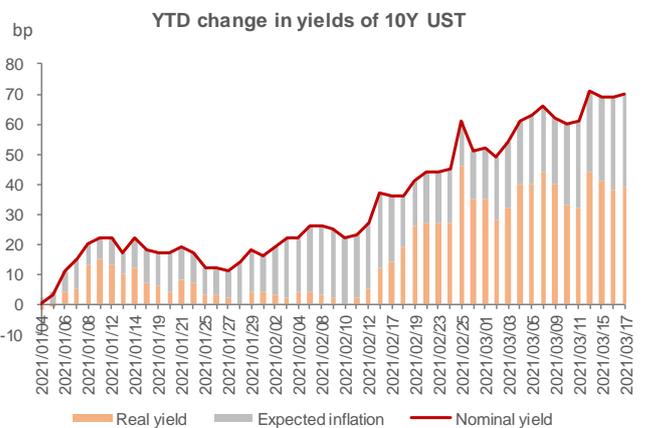
Source: Fed, CMBIS

Figure 4: 10-year UST yield



Source: FRED, CMBIS

Figure 5: Drivers of changes in UST yields



Source: FRED, CMBIS

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