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Weekly Market Update – Doves! Ready for take-off?

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25/03/2024 · 3 Min

The latest decisions and comments by central banks confirm

start of monetary loosening in the major developed economi

With several central banks having held monetary policy meeting general tone has been clearly dovish.

At the US Federal Reserve (Fed), the Federal Open Market Comm rate steady on 20 March, for the fifth time in a row.

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The day before, the Bank of Japan (BoJ) ended its negative rate p abandoned its yield curve control (YCC) policy while confirming asset purchase programme. Governor Kazuo Ueda gave no forwa

The Reserve Bank of Australia kept its key rate unchanged, but r from its post-meeting statement. The RBA sees the risks to inflat now.

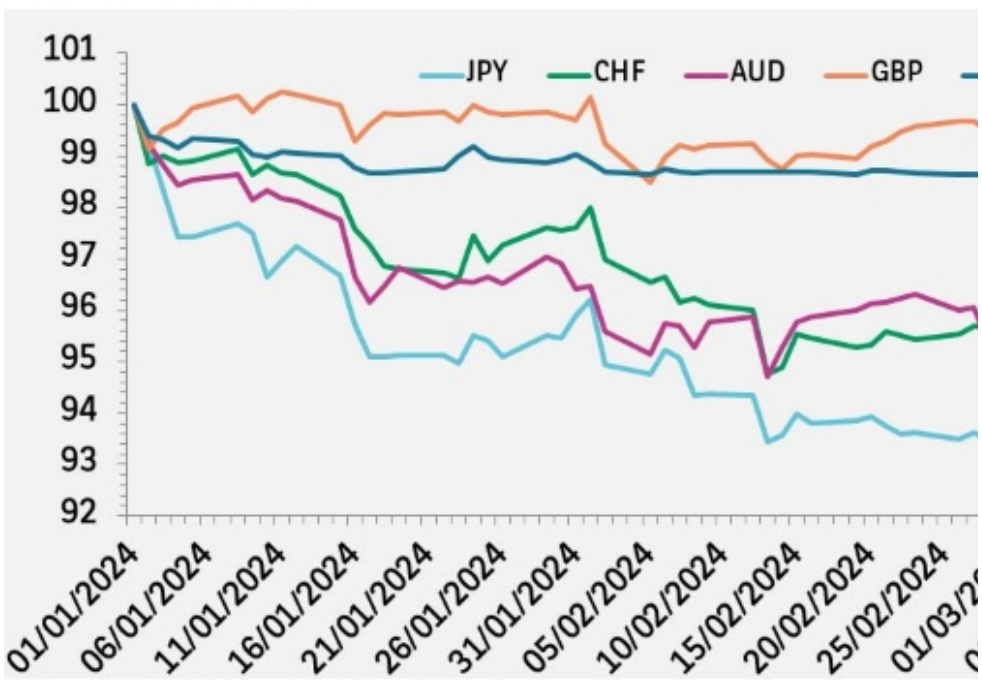
The Bank of England (BoE) maintained its base rate at 5.25%. Th committee members who had voted for a rate hike at the Fe for the status quo. Governor Andrew Bailey said "we're not y cut interest rates, but things are moving in the right directio

Feedback

Exhibit 1: Not all doves are equal

Selected currencies in USD

100 = 01/01/2024



Data as at 22/03/2023. Sources: Bloomberg, BNP Paribas Asset Management.

On 21 March, the Swiss National Bank became the first G10 cent
its key rate, from 1.75% to 1.50%. The SNB said it had taken into
inflationary pressure as well as the appreciation of the Swiss fra
past year'.

With Swiss inflation at 1.2% year-on-year in February, the centr
forecast significantly, to 1.4% in 2024, 1.2% in 2025 and 1.1% in
words: Mission accomplished!

Several doves ready to take wing

The publication of higher-than-expected US inflation figures for
illustrating the stickiness of services inflation, had led investors
delay before rate cuts would begin.

Within a few weeks, the probability of seeing a first cut in the US
at the 30 April-1 May FOMC meeting fell from almost 100%
financial markets was that one of the rate cuts expected in
table.

Feedback

From that perspective, the dovish tilt of recent policy meeti
Even the European Central Bank (ECB) has joined the chorus – th
Council statements making clear that a cut will come in June has
March.

Even so, and perhaps predictably, investors were only fully reass
outcome of the Fed's much-awaited FOMC meeting.

So, what about the Fed?

No rate cuts were expected on 20 March, but there were still so
the message FOMC members would choose to relay via their gro
rate forecasts.

With the sharp upward revision of its GDP growth forecast for th from 1.4% to 2.1% year-on-year, and its forecast of 2.0% growth the consensus estimate of 1.8%), the FOMC seems to be confirmi soft-landing for the economy.

Exhibit 2: Fed economic projections and longer-term views

Year-on-year % changes or level for the fourth quarter of the y

Median	Latest	2024	2
Growth of real GDP (y/y in %)	3.1	2.1	[illegible]
Dec. projections	*(actual - Q4 23)*	*1.4*	[illegible]
Unemployment rate (%)	3.9	4.0	[illegible]
Dec. projections	*(actual - Feb. 24)*	*4.1*	[illegible]
PCE inflation (y/y in %)	2.4	2.4	[illegible]
Dec. projections	*(actual - Jan. 24)*	*2.4*	[illegible]
Core PCE inflation (y/y in %)	2.8	2.6	[illegible]
Dec. projections	*(actual - Jan. 24)*	*2.4*	[illegible]
Federal funds rate (%)	5.4	4.6	[illegible]
Dec. projections	*(actual - March 24)*	*4.6*	[illegible]

Data as at 20/03/2024 Source: Summary of Economi

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Furthermore, while its inflation forecast was revised up for the e 2.6%), its forecast for 2025 and 2026 has not changed, imply particularly concerned about the recent higher-than-expect Jerome Powell put it: 'In and of itself, strong job growth is n concerned about inflation.'

Such a comment supports the assumption that productivity gain without creating inflationary pressures. We discussed this idea i Market Update.

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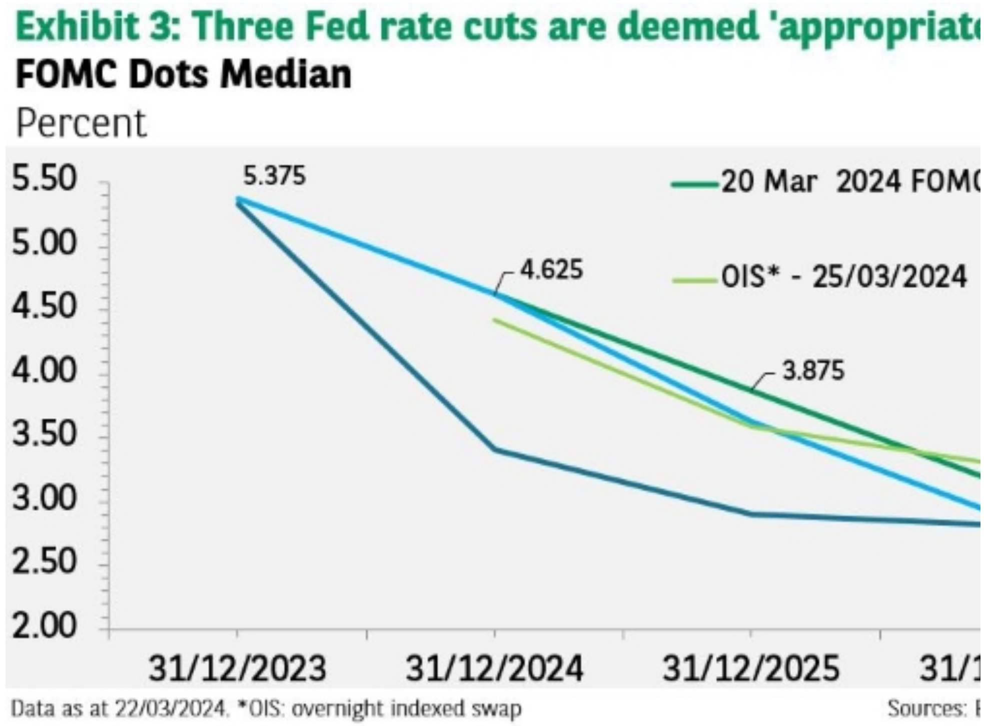

Finally, the FOMC's 'dot plot' – the chart that records each offici short-term interest rate – still points to three rate cuts in 2024; concerned that this would fall to two. The slight increase in 'appropriate' in the long run shows that FOMC members bel a somewhat higher equilibrium rate.

Feedback

So, has Goldilocks moved to Washington? Let's hope she has, in central bank rhetoric or in investors' central scenario could h consequences for financial markets.

Should inflation (again) exceed expectations in March, or if indic economy is close to overheating, it could frighten the doves.

In China, the Vice President of the People's Bank of China (PBoC) Beijing has significant room for manoeuvre on monetary policy, requirement ratio (RRR). In January, similar comments preceded rate, and the National People's Congress (NPC) reassured invest authorities' willingness to support growth.

Wherever they come from, the doves should be welcomed by inv

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investors will not recover their initial outlay. Past performance is no gua
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than-average volatility due to a high degree of concentration, greater un
information is available, there is less liquidity or due to greater sensitivi
conditions (social, political and economic conditions). Some emerging m
the majority of international developed markets. For this reason, service
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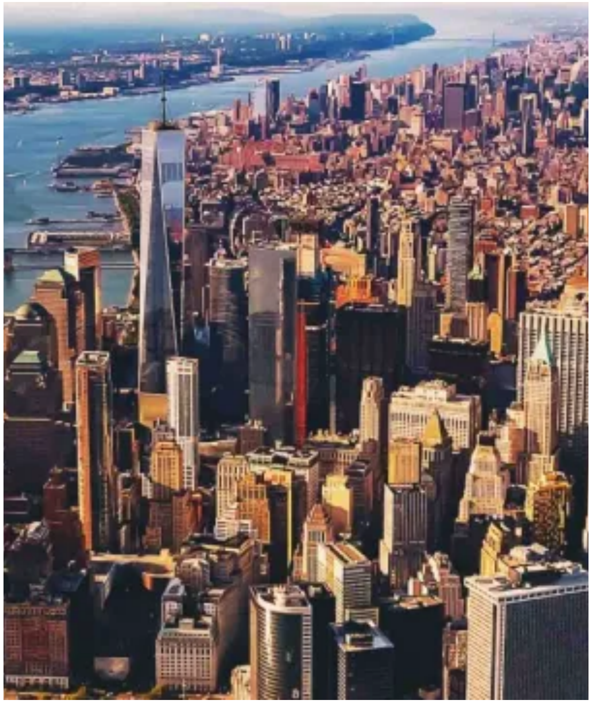

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