

18 March 2021

## Global Economics & Market Strategy

### US FED: Despite Dovish Statements-We Remain USD Positive

- ◆ The overall tone of the March 18 Federal Open Market Committee (FOMC) meeting of the US Federal Reserve (US FED) remained dovish.
- ◆ The balance of risks is tilted towards some form of yield control measures being announced by the summer of 2021 on back of UST10YR yields tracking higher to trade at 1.7-1.9% on a sustained basis and real UST10YR yields potentially turning positive by then. We maintain our average 2Q21 and 2H21 UST10YR bond yield forecasts of 1.70-1.75% and 1.38-1.42%, respectively.
- ◆ We remain positive on the USD in 1H21. The balance of risks to our end-2Q21 USDMYR, USDSGD, USDTHB, & USDIDR forecast of 4.105, 1.35, 30.50, & 14,200, respectively, is tilted to the upside. We maintain our end-2Q21 USDCNH forecast of 6.61.
- ◆ There were no major changes in the March 18 FOMC statement compared to the January 27 statement, except that the outlook for growth and inflation were more positive. Although 4 of the 18 FOMC members compared to 1 in the last meeting are forecasting a rate hike in 2022 and 7 are forecasting hikes versus 5 in 2023 in the last meeting, Chairman Powell continued to down play any lift off in policy rates or reduction of monetary accommodation as imminent.

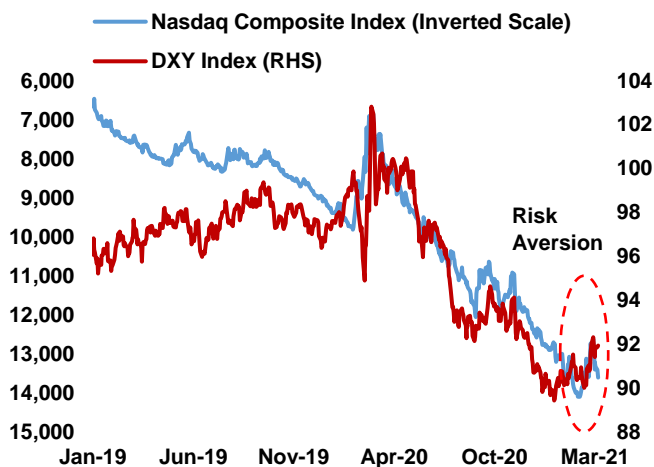
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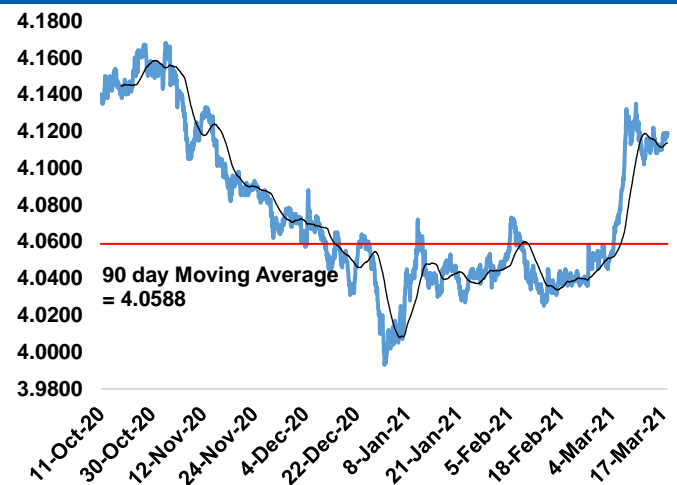
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Figure 1: Flight to safety as UST10YR yields rise...



Source: Reuters, RHB Economics & Market Strategy

Figure 2: ...will push USD Index & USDMYR higher



Source: Reuters, RHB Economics & Market Strategy

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**Figure 3: US Federal Reserve Board Members revised up their forecasts for GDP growth and core PCE inflation on a Q4/Q4 basis most prominently for 2021**

Percent

Variable	Median <sup>1</sup>				Central Tendency <sup>2</sup>				Range <sup>3</sup>			
	2021	2022	2023	Longer run	2021	2022	2023	Longer run	2021	2022	2023	Longer run
Change in real GDP	6.5	3.3	2.2	1.8	5.8-6.6	3.0-3.8	2.0-2.5	1.8-2.0	5.0-7.3	2.5-4.4	1.7-2.6	1.6-2.2
December projection	4.2	3.2	2.4	1.8	3.7-5.0	3.0-3.5	2.2-2.7	1.7-2.0	0.5-5.5	2.5-4.0	2.0-3.5	1.6-2.2
Unemployment rate	4.5	3.9	3.5	4.0	4.2-4.7	3.6-4.0	3.2-3.8	3.8-4.3	4.0-5.5	3.2-4.2	3.0-4.0	3.5-4.5
December projection	5.0	4.2	3.7	4.1	4.7-5.4	3.8-4.6	3.5-4.3	3.9-4.3	4.0-6.8	3.5-5.8	3.3-5.0	3.5-4.5
PCE inflation	2.4	2.0	2.1	2.0	2.2-2.4	1.8-2.1	2.0-2.2	2.0	2.1-2.6	1.8-2.3	1.9-2.3	2.0
December projection	1.8	1.9	2.0	2.0	1.7-1.9	1.8-2.0	1.9-2.1	2.0	1.2-2.3	1.5-2.2	1.7-2.2	2.0
Core PCE inflation <sup>4</sup>	2.2	2.0	2.1		2.0-2.3	1.9-2.1	2.0-2.2		1.9-2.5	1.8-2.3	1.9-2.3	
December projection	1.8	1.9	2.0		1.7-1.8	1.8-2.0	1.9-2.1		1.5-2.3	1.6-2.2	1.7-2.2	
Memo: Projected appropriate policy path												
Federal funds rate	0.1	0.1	0.1	2.5	0.1	0.1-0.4	0.1-0.9	2.3-2.5	0.1	0.1-0.6	0.1-1.1	2.0-3.0
December projection	0.1	0.1	0.1	2.5	0.1	0.1	0.1-0.4	2.3-2.5	0.1	0.1-0.4	0.1-1.1	2.0-3.0

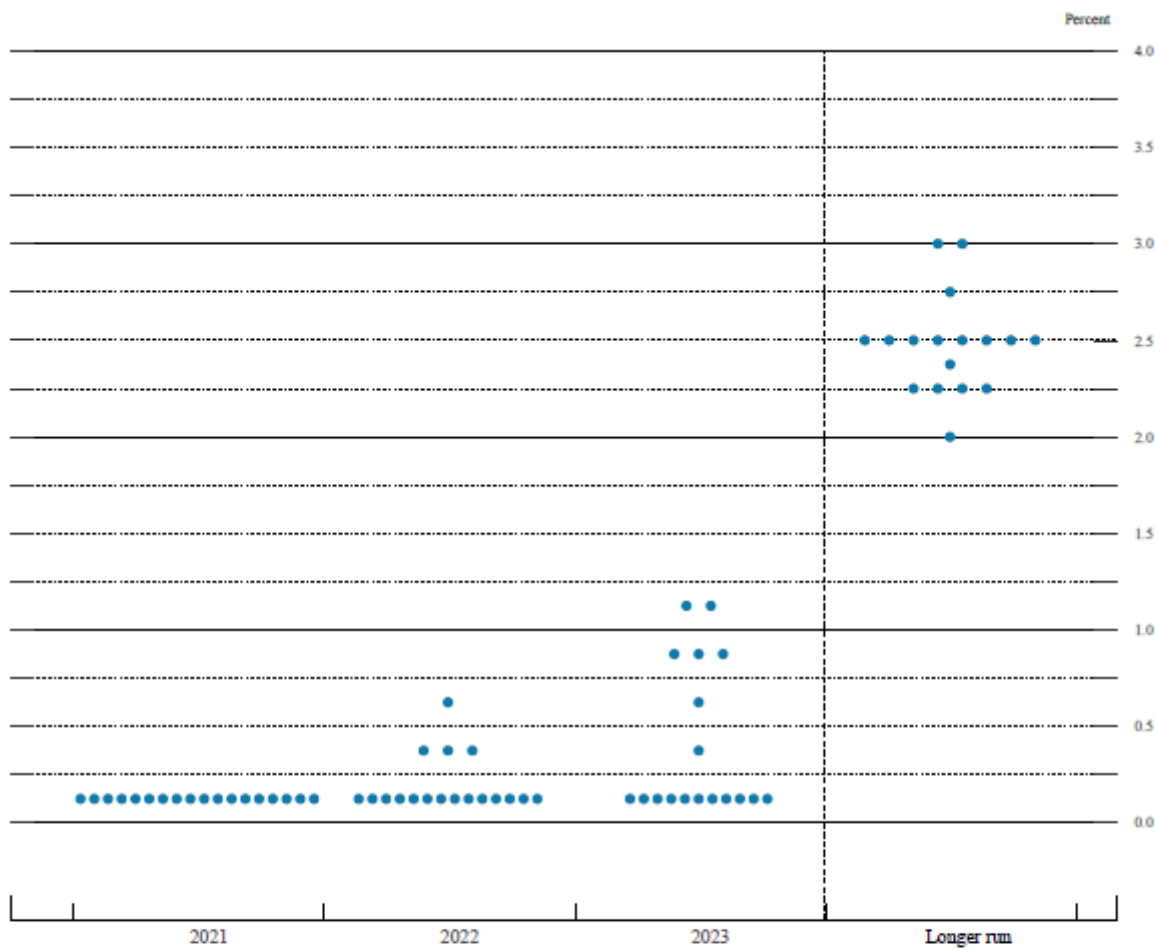
NOTE: Projections of change in real gross domestic product (GDP) and projections for both measures of inflation are percent changes from the fourth quarter of the previous year to the fourth quarter of the year indicated. PCE inflation and core PCE inflation are the percentage rates of change in, respectively, the price index for personal consumption expenditures (PCE) and the price index for PCE excluding food and energy. Projections for the unemployment rate are for the average civilian unemployment rate in the fourth quarter of the year indicated. Each participant's projections are based on his or her assessment of appropriate monetary policy. Longer-run projections represent each participant's assessment of the rate to which each variable would be expected to converge under appropriate monetary policy and in the absence of further shocks to the economy. The projections for the federal funds rate are the value of the midpoint of the projected appropriate target range for the federal funds rate or the projected appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. The December projections were made in conjunction with the meeting of the Federal Open Market Committee on December 15-16, 2020. One participant did not submit longer-run projections for the change in real GDP, the unemployment rate, or the federal funds rate in conjunction with the December 15-16, 2020, meeting, and one participant did not submit such projections in conjunction with the March 16-17, 2021, meeting.

1. For each period, the median is the middle projection when the projections are arranged from lowest to highest. When the number of projections is even, the median is the average of the two middle projections.
2. The central tendency excludes the three highest and three lowest projections for each variable in each year.
3. The range for a variable in a given year includes all participants' projections, from lowest to highest, for that variable in that year.
4. Longer-run projections for core PCE inflation are not collected.

Source: US Federal Reserve Board, Summary of Economic Projections, March 18, 2021

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Figure 4: The dot plots indicate that more FOMC members expect the policy rate to be higher in 2023 compared to the last meeting on January 27, 2021



NOTE: Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the midpoint of the appropriate target range for the federal funds rate or the appropriate target level for the federal funds rate at the end of the specified calendar year or over the longer run. One participant did not submit longer-run projections for the federal funds rate.

Source: US Federal Reserve Board, Summary of Economic Projections, March 18, 2021

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Figure 5: UST10YR yields already looking past today's FOMC meeting statements & tracking higher



Source: Bloomberg. Above is an intra-day chart of UST10YR yields.

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