

## Rates Spark: Some calm ahead of the Fed meeting

Oil prices are down but still above US\$100/bbl. Markets still eye higher central bank rates or at least delayed rate cuts. The latter is also the signal we expect from the Fed tonight. Nonetheless, risk sentiment is holding up, and long-end rates have managed to ease lower, with the 10y UST yield below 4.2% and the Bund below 2.9%



With oil prices elevated, the Federal Reserve is likely to keep rates on hold later today and could signal that rate cuts will be delayed

Going into a busy central bank meeting schedule, the oil price remains above US\$100/bbl, keeping short-term inflation expectations elevated. The market discount is for the European Central Bank to still hike one or two times this year.

Nonetheless, the broader market seems to have calmed somewhat with risk sentiment improving. We see that in stock market gains, but within the eurozone also moderately tightening EGB/Bund spreads. Long-end rates are coming down with the 10y Bund yield sliding below 2.90%.

### With the outlook clouded, the Fed could signal a delay to rate cuts

First, the focus is on the FOMC meeting tonight, with rising inflation on the back of energy market turmoil seen as constraining the Fed. From the market side, the Fed is getting a feed of higher nominal yields, higher real yields and higher inflation breakevens. That combination is hardly one

that is conducive to rate cuts. In fact, every leg of it argues that a hold makes the most sense. And, for now at least, we will likely see more of the same.

As for the immediate decision at hand, no cut is the clear expectation from markets. The vote split is likely to show at least one dissent towards cutting rates coming from Miran, which would be his fourth since joining the Fed. Beyond March, markets are seeing chances rising for a cut starting in the summer, with a cut fully priced in only by year-end.

One key focus will be the Fed's new forecasts, including the Dot Plot of individual Fed members' effective rate expectations. In December, the Fed pencilled in one rate cut in 2026 with one further 25bp cut in 2027. Our economists suspect the FOMC will trim growth forecasts marginally, push up its inflation forecast and then delay the 2026 rate cut until 2027. That said, given the situation, the Fed will likely have little conviction in its forecasts, and Chair Powell will be certain to underline the challenges in the current volatile environment.

There will likely be some focus on the balance sheet as well, since the monthly US\$40bn pace of reserve management purchases was temporary to begin with and expected to be reduced in April. We think the disappointing impact of the net US\$130bn of balance sheet expansion since mid-December on the Fed Funds effective rate deserves questioning.

## Wednesday's events and market view

The main event of the day is the [FOMC meeting](#) tonight and Chair Powell's press conference. Ahead of the meeting, the data calendar only features final eurozone CPI numbers for February and US producer prices for February as well as final durable goods orders for January.

In primary markets, Germany will auction 20y and 30y Bunds for a total of €2.5bn.

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