

Powell delivers

Fed Chair, Jerome Powell delivered a 25bp hike at the March FOMC meeting - as universally expected - median expectations for total hikes from the dot plot remains three in total for 2018.



Source: Federal Reserve

3

The total number of hikes the Fed will deliver this year

...or 4, if everything goes well

As expected

For a full analysis of yesterday's Fed decision, James Knightley's [note](#) is well worth a read. And despite the dot plot median for 2018 not changing this month, changing personnel on the FOMC suggest that a slight increase is on the cards for the next release of the dots. Moreover, so long as the data runs well, a fourth hike could well follow. One way or another, between now and the end of 2019, there are good reasons to expect the Fed funds range to nose up to 2.75%-3.00%. That's today's range (1.50-1.75%), plus two more hikes (50bp) and then plus another three (75bp) in

2019. At that point, the Fed should be done, or very nearly. Though we note that there remain a couple of hawks on the dot-plot - one looking for rates to rise to 4-4.25% and one looking for rates to reach 4.75-5%. I don't see it myself.

Markets viewed the inaugural Powell press conference and FOMC statement as falling a little short of their hawkish expectations, and the USD was slightly weaker against the EUR and JPY. Stocks fell (not sure what they were expecting) and bond yields were down a touch, keeping the 10Y yield firmly in the 2.8-2.90 range it has inhabited for almost one month now.

The latest news from the front (war on trade)

The latest news from the war on trade is a rumoured \$50bn of tariffs against China for intellectual property violations. The sanctions will apparently be announced sometime today (US time, maybe overnight for the Asian Friday) and be imposed on hundreds of items. We haven't heard any more on a retaliatory tariff on soybeans or pork from China. Instead, China seems to be taking to the moral high-ground, with Premier Li Keqiang announcing more opening of the economy, no requirement for foreign firms to transfer technology and lower tariffs and taxes, and foreign payments firms operating under the same rules as domestic ones. China really doesn't seem to want a trade war, but we will need to see whether these latest overtures are enough to hold Trump back from a further escalation of this conflict.

Day ahead

PMI releases dominate the G-7 calendar, and these are slow moving and will show no meaningful deviation from the strong growth message delivered in recent months. No one is looking for a big shock in any direction, and barring a substantial move, these indices signal to noise ratio is weak.

The Bank of England might give GBP a lift today. Wages data yesterday were not bad at all at 2.8%YoY (last month revised higher too to 2.7%), the unemployment rate fell and employment rose - so much for businesses worrying about Brexit. A May hike, though not really warranted in our view given the absence of other inflationary evidence, looks probable, and talking it up now in today's meeting could provide the GBP some support.

Australian employment data was strong. The headline 17,500 rise in jobs in February came from a 64,900 rise in full-time jobs, more than outweighing the 47,400 decline in part-time jobs. But without wages rising, and some further signs of broader inflation, this takes us no nearer an RBA hike.

In Asia, there are plenty of central bank meetings on the calendar (Philippines, Indonesia, Taiwan). None are expected to change policy, though BSP, the Philippine Central Bank, is a more marginal call, with a small chance for a hike thought likely by forecasters.

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