

# Market Comment | Cautious mode in markets ahead of today's FOMC meeting

Global Financial Markets Unit  
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- **US core CPI continues upward trend in February.** US core CPI rose in February by 2.3% YoY, reaching the highest level since April 2012 and taking a big step towards the Fed's inflation target ([see](#)). Meanwhile, total industrial production fell 0.5% MoM in February following a 0.9% gain in January, however manufacturing production up for second consecutive month rising 0.2% MoM ([see](#)). On another front, building permits moderated in February, increasing by less than forecast (to 1,167K from 1,204K; consensus: 1,200K), while housing starts rose above estimates (to 1,178K from 1,120K; consensus: 1,150K).
- **BoJ reinforce its dovish tone.** Haruhiko Kuroda, Bank of Japan Governor, said that theoretically it would be possible to cut interest rates to -0.5% from their present level of -0.1%. He added that he is prepared to take additional measures to reach the 2% inflation target.
- **Cautious mode in markets ahead of today's FOMC meeting.** Markets stood in tense calm awaiting new hints regarding the pace of tightening of US rates. The probability of today's rate-hike is close to zero, but the market is expecting to know whether recent developments have contributed to changing the Fed's view of the US economy. The slightly better-than-expected inflation rate is another factor that could contribute to increasing the chances of a neutral mode by Fed (instead of the dovishness of the last meeting). In this line the probability of an interest rate increase within this year - less than 50% in recent months - has been increasing since mid-February (June: 42%, December: around 66%). On another front, the meeting of non-OPEC and OPEC members - scheduled definitely for 17 April - coupled with a bullish oil inventories report (smaller inventories than expected by analysts) caused an oil rebound which helped risk assets. In this context, US equity markets remained almost unchanged despite the sharp rebound in oil prices and positive manufacturing data in the US, while European equities dropped slightly with the exception of the DAX (Eurostoxx: -0.2% IBEX: -0.3% DAX: +0.5% CAC: -0.2%). Meanwhile, Asian markets showed mixed performances (Nikkei: -0.83% Shanghai: +0.21%). On bond markets, US treasury yields inched up slightly (2Y and 10Y: +2 bps) waiting for today's FOMC meeting. Meanwhile, European bond yields declined after yesterday's increase (GER 10Y: -1 bps FRA 10Y: -2 bps ITA 10Y: -4 bps SPA 10Y: -2 bps POR 10Y: -2 bps). On FX markets, the USD appreciated against other major currencies (EUR: -0.38% GBP: -0.41% JPY: -0.44%). Mixed performance of EM currencies against the US dollar (RUB +0.7% COP: +0.1% CLP: +0.2% BRL: -0.3% MXN: -0.2%) despite the rebound in oil prices (Brent: +3.6% Wtx: +4.2%).

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Table 1



\*CDS, EMBI & MSCI indices with one day delay

\*\*Credit spread (BAA) with two days delay

\*\*\*S&P GSCI with one day delay

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