

Wait and see

- The FOMC meeting will be in focus tomorrow; we expect the Fed to remain in wait-and-see mode, keeping policy rates on hold at 4.25-4.50%.
- The updated SEP will likely show weaker growth and firmer inflation, while the new dot plot will probably continue to pencil in two cuts in 2025.
- The Treasury will sell USD13bn 20Y bond today. 20Y has pulled back from recent cheapening on the curve against 10Y and 30Y.

The March FOMC meeting will be in focus tomorrow; we expect the Fed to remain in wait-and-see mode, keeping policy rates on hold at 4.25-4.50%. Officials have clearly telegraphed that they plan to keep rates on hold. In a speech earlier this month, Chair Jerome Powell emphasised that (1) the Fed is focusing on separating data signal on the economy from the noise as the outlook evolves; (2) it does not need to be in a hurry; and (3) it is well positioned to wait for greater clarity.

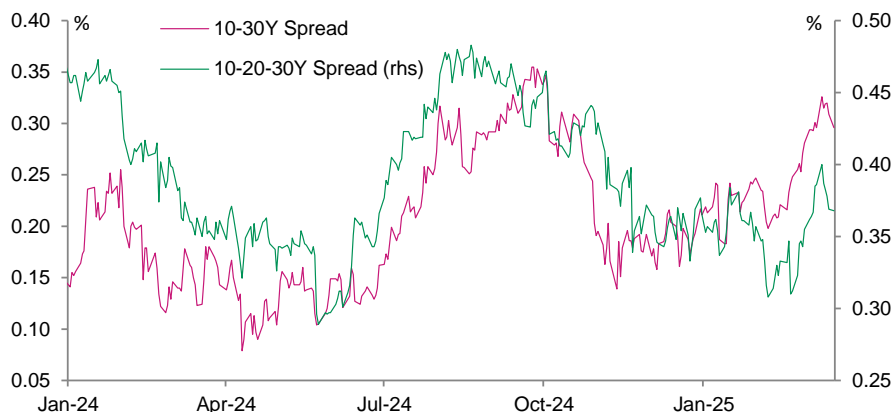
The FOMC will release an updated Summary of Economic Projections (SEP), which will likely show weaker growth and firmer inflation. These adjustments could somewhat offset each other in terms of impact on rate trajectory, leaving the median dots little changed overall, including showing two rate cuts in 2025, similar to the dots from the December 2024 meeting.

We expect the Fed to announce a potential QT pause or slowdown until the debt limit is resolved. With Fed Chair Jerome Powell's recent remarks that QT has a ways to go, we expect the Fed to resume QT once Congress raises or suspends the debt limit. At USD3.4trn, reserve balances remain meaningfully above an ample level, not too different from when QT began in mid-2022. However, New York Fed officials have warned of reserves rapidly declining "to levels that could result in considerable volatility in money markets", if QT is not paused or slowed.

Fed officials are considering SOMA reinvestments to align the Treasury portfolio's maturity closer to that of the outstanding Treasury debt. To achieve that goal quickly, Fed purchases could focus more on shorter-term Treasuries.

The Treasury will sell USD13bn 20Y bond today. 20Y has pulled back from recent cheapening on the curve against 10Y and 30Y. The relative value of 20Y has correlated with 10-30Y curve slope as well as rate volatility. 20Y tends to cheapen in the long end on a steepening 10-30Y curve as well as rising volatility. Besides the auction, the Treasury will buy back up to USD4bn 7-10Y coupons at 14:00 EDT today.

Fig 1. 20Y tends to cheapen a steepening 10-30Y curve



Source: Credit Agricole CIB, Bloomberg



Alex Li

Head of US Rates Strategy

+1 212 261 3950

alex.li@ca-cib.com

Bert Lourenco

Head of Rates Research

Jean-François Perrin

Senior Inflation Strategist

Guillaume Martin

Interest Rates Strategist

Matthias Loise

Inflation Strategist

Riccardo Lamia

Interest Rates Strategist

Upcoming supply

Date	Bond	Amount (bn)
18-Mar	T 4.75% 02/45	13.00
18-Mar	RFGB 3.0% 09/34	1.50
18-Mar	RFGB 2.75% 04/38	

Source: DMOs, Crédit Agricole CIB

Recent publications

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Upcoming data highlights					
EDT	Country	Indicator/Event	Period	Consensus	Previous
5:00	IT	Trade Balance Total	Jan	--	5980m
5:00	IT	Trade Balance EU	Jan	--	-1861m
6:00	GE	ZEW Survey Expectations	Mar	48.3	26
6:00	GE	ZEW Survey Current Situation	Mar	-80.5	-88.5
6:00	EC	ZEW Survey Expectations	Mar	--	24.2
6:00	EC	Trade Balance SA	Jan	13.8b	14.6b
6:00	EC	Trade Balance NSA	Jan	--	15.5b
8:30	US	Housing Starts	Feb	1381k	1366k
8:30	US	Housing Starts MoM	Feb	0.011	-0.098
8:30	US	Building Permits	Feb P	1450k	1473k
8:30	US	Building Permits MoM	Feb P	-0.016	-0.006
8:30	US	Import Price Index MoM	Feb	-0.001	0.003
8:30	US	Import Price Index ex Petroleum MoM	Feb	0.002	0.001
8:30	US	Import Price Index YoY	Feb	0.016	0.019
8:30	US	Export Price Index MoM	Feb	-0.002	0.013
8:30	US	Export Price Index YoY	Feb	--	0.027
8:30	US	New York Fed Services Business Activity	Mar	--	-10.5
9:15	US	Industrial Production MoM	Feb	0.002	0.005
9:15	US	Capacity Utilization	Feb	0.778	0.778
9:15	US	Manufacturing (SIC) Production	Feb	0.003	-0.001

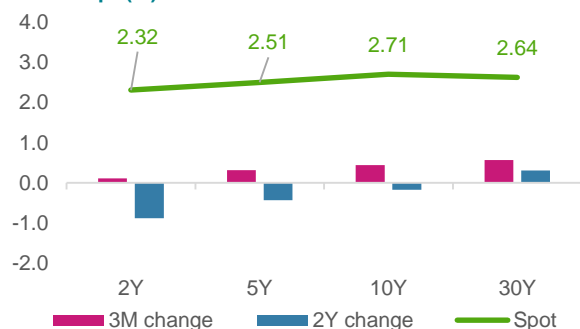
Source: Bloomberg

EUR Rates Dashboard

Spreads and their 3-month change vs Bunds (bp)

	2Y	3M ▲	5Y	3M ▲	10Y	3M ▲	30Y	3M ▲
Swap*	-12	1	-3	7	12	13	48	7
OAT	15	-2	38	-16	68	-11	94	-16
BTP	26	-9	52	-16	111	-2	150	-9
Bono	15	-7	30	-13	62	-5	102	-6
UST	186	-32	163	-54	149	-65	150	-63
Gilt	201	-23	183	-32	185	-31	215	-34
JGB	-139	12	-138	1	-132	-10	-52	-28

EUR Swap* (%)



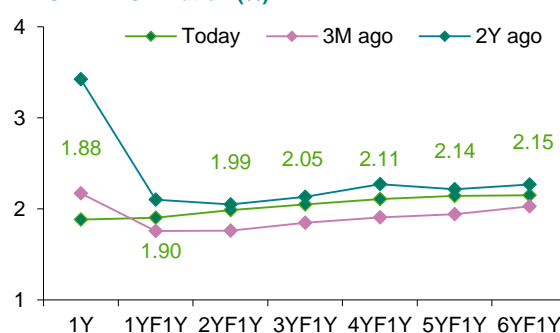
EUR Swap Curve (bp)

Slope	Spot	3M ▲	2Y ▲
2-5Y	19	21	45
2-10Y	39	33	71
5-10Y	20	12	26
10-30Y	-7	13	49
5-30Y	13	25	74
2-30Y	32	46	119

EUR Swaption Normal Implied (bp)

Straddles	Spot	3M ▲	2Y ▲
3M10Y	84	17	-55
1Y1Y	74	-7	-64
2Y2Y	84	3	-42
5Y5Y	80	6	-22
10Y10Y	70	3	-9
20Y20Y	56	3	2

EUR 1Y ZC Inflation (%)



References (%)

ECB Depo	ESTR Fixing	3M Euribor	6M Euribor	ON Bund GC	RX1	EURUSD	HICP YoY
2.50	2.42	2.46	2.42	2.49	127.77	1.09	2.40

* Swap vs 6M Euribor

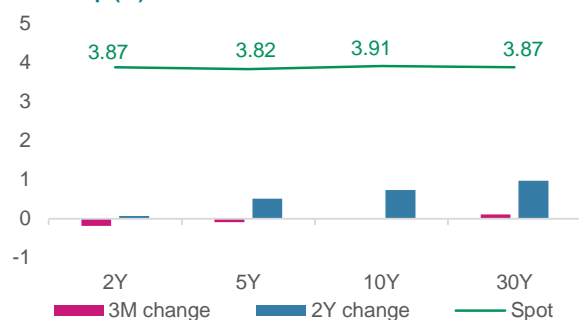
Source: Crédit Agricole CIB, Bloomberg

USD Rates Dashboard

Spreads and their 3-month change vs Treasuries (bp)

	2Y	3M ▲	5Y	3M ▲	10Y	3M ▲	30Y	3M ▲
Swap	17	-2	29	-5	41	-8	74	-9
DBR	186	-32	163	-54	149	-65	150	-63
OAT	171	-31	125	-38	82	-54	56	-47
Gilt	-15	-9	-20	-21	-35	-34	-65	-29
CAN	151	28	143	15	131	9	135	2
ACGB	30	-5	18	-15	-9	-20	-37	-20
JGB	324	-45	301	-55	281	-55	201	-33

USD Swap (%)



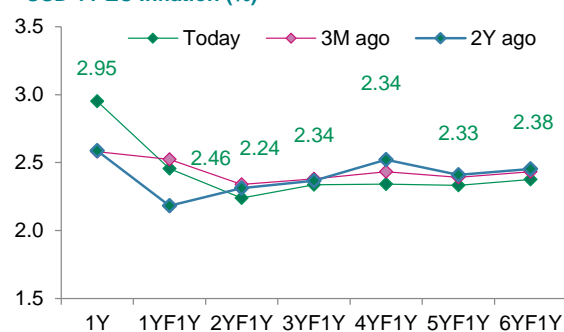
USD Swap Curve (bp)

	Slope	Spot	3M ▲	2Y ▲
2-5Y	-5	9	44	
2-10Y	3	18	66	
5-10Y	8	9	22	
5-30Y	5	20	46	
10-30Y	-4	10	24	
2-30Y	-1	29	90	

USD Swaption Normal Implied (bp)

Straddles	Spot	3M ▲	2Y ▲
3M10Y	108	12	-35
1Y1Y	115	3	-67
2Y2Y	110	4	-37
5Y5Y	98	1	-5
10Y10Y	85	0	9
20Y20Y	68	1	14

USD 1Y ZC Inflation (%)



References (%)

IOER	Fed Funds	SOFR	GCF Repo	CME Term SOFR 3M	TY1	DXY	CPI YoY	Core PCE YoY
4.40	4.33	4.30	4.34	4.30	110.77	103.61	2.80	2.65

Source: Crédit Agricole CIB, Bloomberg

Global Markets Research contact details

Jean-François Paren Head of Global Markets Research +33 1 41 89 33 95				
	Asia (Hong Kong, Singapore & Tokyo)		Europe (London & Paris)	
Macro Strategy	Takuiji Aida Chief Economist Japan +81 3 4580 5360	Ken Matsumoto Macro Strategist Japan +81 3 4580 5337	Louis Harreau Head of Developed Markets Macro & Strategy +33 1 41 89 98 95	Valentin Giust Global Macro Strategist +33 1 41 89 30 01
Interest Rates			Bert Lourenco Head of Rates Research +44 (0) 20 7214 6474 Guillaume Martin Interest Rates Strategist +33 1 41 89 37 66 Riccardo Lamia Interest Rates Strategist +33 1 41 89 63 83	Nicholas Van Ness ** US Economist +1 212 261 7601 Jean-François Perrin Senior Inflation Strategist +33 1 41 89 73 49 Matthias Loise Inflation Strategist +33 1 41 89 20 06 Alex Li ** Head of US Rates Strategy +1 212 261 3950
Emerging Markets	Xiaojia Zhi Chief China Economist Head of Research, Asia ex-Japan +852 2826 5725 Eddie Cheung CFA Senior Emerging Market Strategist +852 2826 1553	Jeffrey Zhang Emerging Market Strategist +852 2826 5749 Yeon Jin Kim Emerging Market Analyst +852 2826 5756	Sébastien Barbé Head of Emerging Market Research & Strategy +33 1 41 89 15 97	Olga Yangol ** Head of Emerging Market Research & Strategy, Americas +1 212 261 3953
Foreign Exchange	David Forrester Senior FX Strategist +65 6439 9826		Valentin Marinov Head of G10 FX Research & Strategy +44 20 7214 5289	Alexandre Dolci FX Strategist +44 20 7214 5064
Quant Research			Alexandre Borel Data Scientist +33 1 57 87 34 27	

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Bert Lourenco, Alex Li, Jean-François Perrin, Guillaume Martin, Matthias Loise, Riccardo Lamia

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MiFID II contact details

Andrew Taylor
MiFID II Research contact
andrew.taylor@ca-cib.com

Please send your questions on MiF
research.mifid2@ca-cib.com

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