

## Chances of Fed Hike Rise After Unwavering ECB Hikes 50

This morning, the European Central Bank (ECB) announced a 50 basis point hike in the Deposit Facility Rate, bringing its key overnight target to 3.00%. The half-point move had been widely expected for weeks, but was suddenly in doubt yesterday amid banking system health concerns.

In somewhat of a surprise, the ECB *did not* provide any forward guidance of future rate hikes at the conclusion of the meeting, pledging only to be *data dependent*. However, ECB President Christine Lagarde made it clear in the post-meeting press conference that “inflation is projected to remain too high for too long,” and said the executive board was *not waning on its commitment to fight inflation*.

ECB officials continue to believe a soft-landing scenario is likely, forecasting a gradual easing of inflationary pressure and slower (but still positive) economic growth. Updated economic projections show core inflation decreasing from +4.6% in 2023, to +2.5% in 2024 and +2.2% in 2025. At the same time, GDP is projected to grow at a +1.0% rate in 2024 (up from 0.5%), and +1.6% in both 2024 and 2025 (down slightly).

In addressing the questionable health of the European banking system, LaGarde answered that banks *are in a much stronger position than in 2008*. She also assured that the ECB has the tools to preserve financial stability when needed.

Late yesterday, the Swiss National Bank (SNB) calmed the markets and perhaps made the ECB decision a bit easier when it unveiled a *liquidity backstop* for Credit Suisse. The routinely-troubled financial institution wasted no time in announcing plans to borrow \$54 billion from the SNB in a preemptive move to sure-up its liquidity position.

The steadfast resolve of the European Central Bank paves the way for the FOMC to follow-through with another quarter-point hike next Wednesday, although a pause wouldn't be a complete surprise. Futures are now indicating just under an 80% chance for a 25 bp increase by the Fed, up from 50% yesterday.

Next Wednesday's headline will focus on any change in the overnight funds target, but the updated “dot plot” will be the bigger mystery, providing insight into what committee members expect going forward. With all that's transpired since the last meeting, fresh rate forecasts from the policy-makers themselves will be provocative.

This morning's U.S. economic releases were, on the whole, *stronger than expected*. The labor market resumed a frustrating resiliency, as weekly initial jobless claims dropped back below 200k and continuing claims slipped under 1.7 million. Housing starts unexpectedly jumped +9.8% in February after falling -2.0% in January, while building permits soared +13.8% following a tepid +0.1% January increase. *The Fed would have welcomed softer data*.

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Bond yields have risen sharply (on the short end of the curve) after digesting LaGarde's surprisingly hawkish comments and concluding the Fed has yet to do enough damage to preclude at least one more rate increase.

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## Market Indications as of 11:04 A.M. Central Time

DOW	Up 162 to 32,037 (HIGH: 36,800)
NASDAQ	Up 207 to 11,641 (HIGH: 16,057)
S&P 500	Up 43 to 3,935 (HIGH: 4,797)
1-Yr T-bill	current yield 4.47%; opening yield 3.98%
2-Yr T-note	current yield 4.14%; opening yield 3.88%
3-Yr T-note	current yield 3.97%; opening yield 3.78%
5-Yr T-note	current yield 3.67%; opening yield 3.55%
10-Yr T-note	current yield 3.51%; opening yield 3.45%
30-Yr T-bond	current yield 3.66%; opening yield 3.63%

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