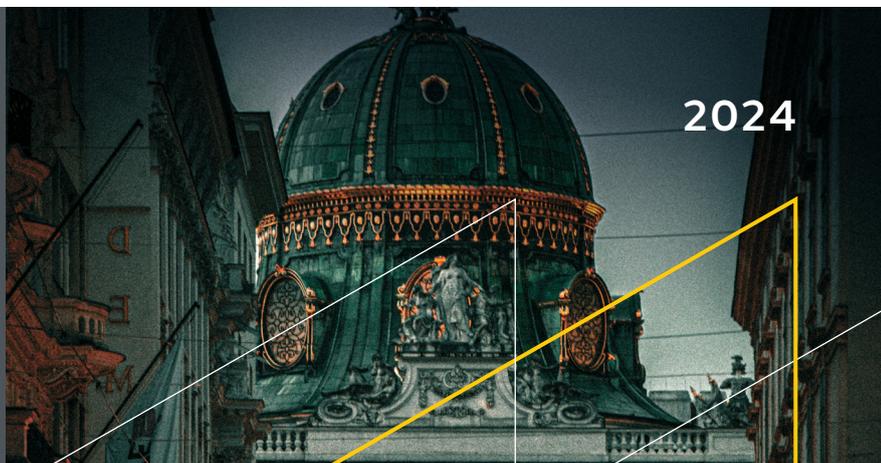




Treasury Monthly Market Commentary - March

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Powell sticks to his story on Capitol Hill - Recent upticks in inflation readings did not cause US Federal Reserve Chair Jerome Powell to alter his view that it will likely be appropriate to cut interest rates later this year. He said that while inflation has eased notably, it remains elevated. The economy, Powell said in his semi-annual testimony to lawmakers, is on a good path and the Fed is not far from having enough confidence that inflation is falling toward its 2% goal to begin rate cuts. Markets breathed a sigh of relief after the testimony as Powell, rather than adopting a more hawkish approach, reiterated much of what he said after the January FOMC meeting which took place before hotter-than-expected US inflation data were released in February rather than adopt a more hawkish approach. Regarding banking regulations, Powell indicated, that after heavy lobbying efforts, the Fed is prepared to redo its plan to force big banks to hold more capital. The US banking system, the Fed chair said, can withstand threats posed by commercial real estate.

US employment report offer both upside and downside surprises - Nonfarm payrolls in the United States rose by 275,000 jobs in February, significantly exceeding expectations for a 200,000-job gain. However, the readings for the prior two months, including January's upside blowout, was revised lower by 167,000. The unemployment rate rose to 3.9% from 3.7% while average hourly earnings rose a less-than-expected 0.1%. Economists continued to see a perplexing divergence between the surveys the government conducts to compile the data. In recent months, the household survey has suggested that the labour market is weakening but the establishment survey has pointed to continued robust demand for labour. All in all, the data should not dissuade the Fed from beginning to cut rates by midyear coupled with Tuesday's largely in line consumer price data release.

European services index rises; US index dips - The European services sector purchasing managers' index rose to 50.2 in February, the sector's first expansion since July. The index stood at 48.4 in January. In the United States, the ISM nonmanufacturing index remains in expansion, though it ticked down to 52.6 from 53.4. After a number of recent upside inflation surprises, markets welcomed a sharp decline in the prices paid index, which fell to 58.6 in February from January's reading of 64.

ECB holds rates steady, hints at June rate cut - European Central Bank President Christine Lagarde suggested that the ECB is more likely to cut rates in June than in April, saying policymakers will have much more information in hand by then. Futures markets are pricing in a 93% chance of a June cut. The ECB will act independently of the Fed, she said. The US central bank is expected to cut rates in June too, about a week after the ECB. ECB Vice President Luis de Guindos addressed the commercial real estate exposure of European banks, calling it "quite limited" and saying there are no widespread signs of contagion from CRE, though the issue needs to be closely monitored.

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