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Our Economy and the World

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This week's issue of "Our Economy and the World" includes:

Key Global and Regional Developments over the Past Week

- Bloomberg: BOJ is likely to wait until Fall on next hike, ex-Board member says
- CNBC: Euro zone inflation unexpectedly slows to 2.4% in March, with core print also below forecast
- Reuters: China's central bank says it will make efforts to expand demand, boost confidence
- CNBC: Fed's Powell emphasizes need for more evidence that inflation is easing before cutting rates

Special Analysis

- Bank of International Settlements: Markets count on a smooth landing

Developments in Financial and Commodity Markets in the Past Week

- Bloomberg: Asian stocks to rise as Powell reaffirms rate cuts
- CNBC: European markets close higher after euro zone inflation data surprises

Key Global and Regional Developments over the Past Week

Bloomberg: BOJ is likely to wait until Fall on next hike, ex-Board member says

The Bank of Japan is likely to wait until autumn before mulling whether to raise interest rates again after successfully negotiating the tricky task of backing away from its massive stimulus program, according to a former policy board member. "There must be a tremendous sense of achievement inside the BOJ," Makoto Sakurai, the former board member, said in an interview Wednesday. "They conquered the mountain and there are no big urgent issues left now."

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CNBC: Euro zone inflation unexpectedly slows to 2.4% in March, with core print also below forecast

Inflation in the 20-nation euro zone eased to 2.4% in March, according to flash figures published by the European Union's statistics agency Wednesday, boosting expectations for interest rate cuts to begin in the summer. Economists polled by Reuters had forecast the rate would hold steady against the previous month at 2.6%.

(Read Full Article)

Reuters: China's central bank says it will make efforts to expand demand, boost confidence

China's central bank will accurately and effectively implement prudent monetary policy, pay more attention to counter-cyclical adjustments and make efforts to expand domestic demand and boost confidence, it said on Wednesday. The People's Bank of China will support banks to replenish capital and guide financial institutions to increase medium- and long-term loans to the manufacturing industry, it said in a statement issued after a quarterly meeting of its monetary policy committee.

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CNBC: Fed's Powell emphasizes need for more evidence that inflation is easing before cutting rates

Federal Reserve Chairman Jerome Powell said Wednesday it will take a while for policymakers to evaluate the current state of inflation, keeping the timing of potential interest rate cuts uncertain. Speaking specifically about stronger-than-expected price pressures to start the year, the central bank leader said he and his fellow officials are in no rush to ease monetary policy.

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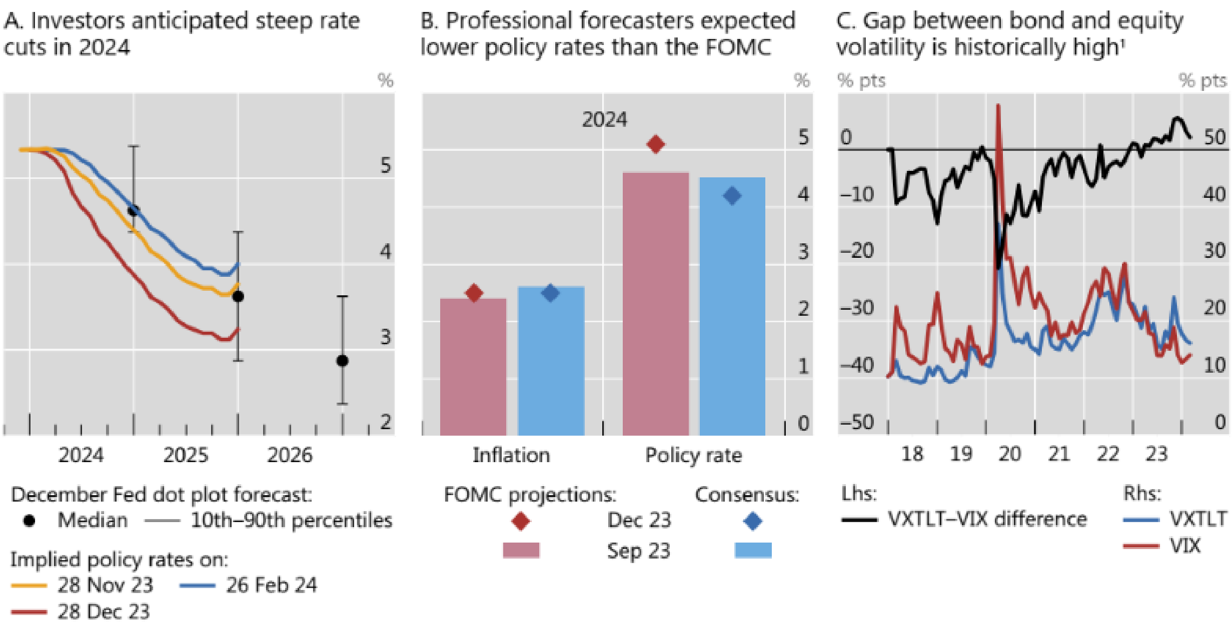
Special Analysis

Bank of International Settlements: Markets count on a smooth landing

The central theme of the review period was the waxing and waning of financial markets' optimistic expectations over the policy outlook.[1] Until late December, financial conditions continued to ease, driven by investors anticipating looser policy in the near term. Since January, financial conditions firmed and tightened, as central bank communication pushed back against such expectations and data releases pointed at more stubborn inflation pressures. Sovereign bond yields declined on balance during the period, while valuations of risky assets generally rose. Supported by resilient risk sentiment, emerging market economies (EMEs) experienced bond inflows, and (except China) their stock markets extended gains.

Expectations of policy rate trajectories set the tone for global fixed income markets. Against a benign backdrop of declining inflation and surprisingly resilient economic activity, market participants' expectations initially drifted away from central bankers' projections, so they started pricing in early rate cuts. But then central bank officials repeatedly intervened to dispel excessive optimism, reaffirming that the fight to bring inflation back to target could not be declared won yet. Their efforts to herd market expectations back in line with their projections succeeded and narrowed the daylight between markets' and central banks' expectations. These reassessments left an imprint in elevated bond volatility, which even surpassed that of equities. Government bond yields in major economies broadly reflected these developments: they first continued to decline in December, and then they edged up again after central bank communications pushed back in January and a less benign inflation release in the United States came out in February.

Yields remain volatile amid changing expectations of monetary policy — Graph 2



[1] See technical annex for details.

Sources: Federal Reserve Bank of St Louis; Bloomberg; Consensus Economics; BIS.

[(Read Full Report)]

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Developments in Financial and Commodity Markets in the Past Week

Bloomberg: Asian Stocks to Rise as Powell Reaffirms Rate Cuts

Equities in Asia were primed for gains Thursday after Jerome Powell reaffirmed his view the Federal Reserve will likely cut rates this year. Shares in Australia and stock futures for Japan rose. Contracts for Hong Kong equities also drifted higher, although the market will be closed Thursday for a holiday along with mainland China and Taiwan.

(Read Full Article)

CNBC: European markets close higher after euro zone inflation data surprises

European markets closed higher Wednesday, shaking off some of the negative sentiment seen at the start of the new quarter after euro zone inflation fell more than expected. The pan-European Stoxx 600 index closed 0.33% higher, with most sectors in positive territory. Banks added 1.4% while food and beverage stocks dropped 0.9%.

[(Read Full Article)]