

Sep 19, 2024

Three Take-Aways

- 1) Fed does a 50bp cut and signals another 50bp left for 2024.
- 2) 2025 left at 100 bps of cut, Powell says 50 is not the new 25.
- 3) Markets swing but overall slightly disappointed by guidance. Equities slightly softer, yields lift slightly, USD supported.

MACRO THEME: Go Big And (Then) Go Home

Short-lived Opening Act?

Turns out, it was not a “go big or go home”, high-roller, all-in, dovish game-book. Instead, a closer look suggests a one-off, “go big, and then go home”, insurance plan. Or at least that was what the Fed appears to be attempting to convey.

Fed Chair Powell was pretty clear about not making a habit of 50bp cuts. Point being, the signals suggest a 25bp per meeting pace of cut left for 2024.

And it is beside the point (or at least that is what the Fed wishes to convey), whether this is delivered as a 25per meeting or 50bp at year-end. Powell's point is that there is a fairly high pain threshold for 50 to be the new 25.

Lost the (Dovish) Plot?

For all its revisions, the ‘Dot Plot’ too, loses meaningful additional dovish shift if the pace of cuts rather than the levels of rates is considered.

For 2024, Only 25bp More Front-Loaded from March ‘Dot Plot’:

Admittedly, 2024 now has 100bp of rate cuts. But this compares starkly to June's 25bp only because June was revised down aggressively from 3 to just one cut. Whereas against, the March ‘Dot Plot’, it is just an additional, front-loaded 25bp cut front-loaded (in September).

For 2025, Cuts Revert to June's ‘Dot Plot’ Pace:

Looking through front-loaded 2024 cuts the ‘Dot plot’ for 2025 merely reverts to the June ‘Dot Plot’ pace of cuts. And even against the March ‘Dot Plot’, 2025 has a very measured 25bp additional cut. Not quite throwing caution to the wind.

Smoothed & Adjusted Shifts, it is Hardly More Dovish:

Smoothing over the large shifts between March and June ‘Dot Plots’, the Fed Fund rate projections are more dovish, but mostly front-loaded. But crucially, once this historic additional 25bp bump-up to 50bp initial rate cut cycle move is backed out, the remaining pace is hardly more distinctly dovish through 2025 (see Table below)

DATA/EVENTS

Yesterday/Overnight	Actual	Exp.	Prior
(ID) BI Rate	6.00%	6.25%	6.25%
(EZ) CPI/Core YoY (Aug F)	2.2%/2.8%	2.2%/2.8%	2.2%/2.8%
(JP) Trade Balance (Aug)	-¥695.3b	-¥1432.4b	-¥628.7n
(JP) Core Machine Orders MoM (Jul)	-0.1%	0.5%	2.1%
(US) Building Permits (Aug)	1475k	1410k	1396k
(US) Housing Starts (Aug)	1356k	1310k	1238k
FOMC Decision(Lower/Upper Bound)	4.75%.5.00%	5.00%.5.25%	5.25%.5.50%
Today			
(AU) Unemp. Rate/Emp. Chg (Aug)		4.2%/25.0k	4.2%/58.2k
(MY) Exports/Imports YoY (Aug)		11.5%/20.6%	12.3%/25.4%
(PH) BoP Overall (Aug)		--	\$62m
(IN) Wholesale prices YoY (Aug)		1.8%	2.0%
(TW) CBC Benchmark Interest Rate		2.00%	2.00%
(US) Initial Jobless Claims		--	230k
(US) Leading Index (Aug)		-0.3%	-0.6%
(US) Philadelphia Fed Biz Outlook (Sep)		2.9	-7.0
(US) Current Account Balance (2Q)		-\$262.0b	-\$237.6b
(EZ) ECB Current Account SA (Jul)		--	50.5b

Yields (2Y: +1.4bps; 10Y: +5.8bps; 30Y: +6.1bps)

Direction, Pace & (Election) Probabilities

- Arguably, the Fed's ‘Dot Plot’, with Fed Fund rate (FRR) projected to be 3.25-3.50% by end-2025 and 2.75-3.00% by end-2026 might temper the pace of yield downside. To be sure, with 2Y yields at just over 3.6% now, one could argue scope for another 50-100bp reduction.

- And so, the direction of travel of front-end yields is as such not so controversial. More downside is a reasonable call, even if the pace of yield decline will probably be tempered and conditioned on Fed signals and action. But for longer end yields such as the 10Y, greater volatility and tensions must be factored.

- For one, term premium restoration typical for a rate cut cycle, could price in a 50-100bp of term premium. What's more, US election could induce more term premium outcome if recent experience is anything to go by. And this could vary significant depending on the outcome of the Presidential race. Which means probabilistic yield pricing are subject to binary risks. All said, at 3.7%, downside may be more cautious, with say 20-50bp left in the tank for now.

Equities (Nasdaq: -0.3%; S&P: -0.3%; Dow: -0.3%)

She Loves Me, She Loves Me Not

- The post-FOMC dip in equities, after volatile swings between gains and losses, appears to be linked with cheer about larger cuts giving way to a damp squib about 50 not being the new 25. From here on, there may be more two-way risks in equities. On the one hand, there will probably be the usual cheer and relief associated with rate cuts.

- But on the other, economic disappointment (or worse, outright gloom) driving larger-than-expected cuts could weigh heavily. Between cuts and the motivation for cuts, equities will have soul-searching and price discovery to contend with.

FX (DXY: -0.3%)

Bumpier USD, Not Necessarily a Lot More Bearish

- The USD call is perhaps far more contentious and uncertain than yields, where general south-bound direction of travel is a reasonably easier call. For one, with forward market already pricing in aggressive rate cuts, USD declines may be mostly factored in, thereby limiting significant further downside. What's more, if other Major central banks follow suit on larger-than-expected Fed cuts the case for rate-differential based USD sell-off will be less compelling.

- Moreover, if frantic rate cuts are under conditions of stress or worse, fear (of recession etc.), then USD will in fact gain on haven demand.

- Finally, US elections could also obscure and add to bumpiness, with the propensity to (at least intially) squeeze the USD higher. This will cloud Fed-USD mechanics. In our view, the case for more a more durably mellow USD (DXY 93-98) solidifies into mid-2025. But for no, though bumpiness and bounces could mark USD dynamics.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	142.29	142.69	▼0.08%	139.00 - 145.00
EURUSD	1.1119	1.1114	+0.04%	1.1000 - 1.1200
GBPUSD	1.3214	1.3202	+0.40%	1.3000 - 1.3300
AUDUSD	0.6764	0.6764	+0.12%	0.6670 - 0.6820
DXY	100.6	--	▼0.30%	100.4 - 101.8
USDCNY	7.0769	--	▼0.29%	7.0800 - 7.1500
USDCNH	7.0954	7.0958	▼0.22%	7.0800 - 7.1500
USDHKD	7.7930	7.7936	▼0.02%	7.7800 - 7.8100
USDSGD	1.2952	1.2961	▼0.14%	1.2860 - 1.3080
USDKRW	1329	1324	+0.00%	1310 - 1345
USDTWD	31.96	--	+0.19%	31.70 - 32.10
USDINR	83.76	--	+0.00%	83.50 - 83.90
USDIDR	15340	--	+0.03%	15250 - 15450
USDMYR	4.244	4.243	▼0.36%	4.230 - 4.310
USDPHP	55.73	--	+0.06%	55.30 - 56.20
USDTHB	33.27	33.41	▼0.08%	33.10 - 33.60
USDVND	24629	24626	▼0.02%	24500 - 24750

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.620	3.705	1.4	5.8
JGB (JP)	0.374	0.823	-0.7	0.2
Bunds (GE)	2.260	2.189	3.6	4.7
Gilts (UK)	3.900	3.846	8.0	7.9
AGB (AU)	3.579	3.863	2.6	3.1
SGS (SG)	2.281	2.420	2.8	2.3
CGB (CN)	1.367	2.035	0.9	-3.3
KGB (KR)	2.948	2.876	6.1	1.4
SDL (IN)	6.781	6.691	-0.3	-0.7

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	158.2	158.58	▼0.04%
GBP/JPY	188.008	188.368	+0.31%
JPY/SGD (100yen)	0.9103	0.9082	▼0.04%
JPY/HKD (100yen)	5.4768	5.4616	+0.06%
CNH/JPY	19.96	20.167	▼0.10%
CNH/HKD	1.101	1.1012	+0.26%
EUR/GBP	0.84146	0.84184	▼0.35%
AUD/NZD	1.0894	1.0895	▼0.27%
EUR/CNH	7.8893	7.8859	▼0.17%
GBP/CNH	9.3748	9.3675	+0.18%

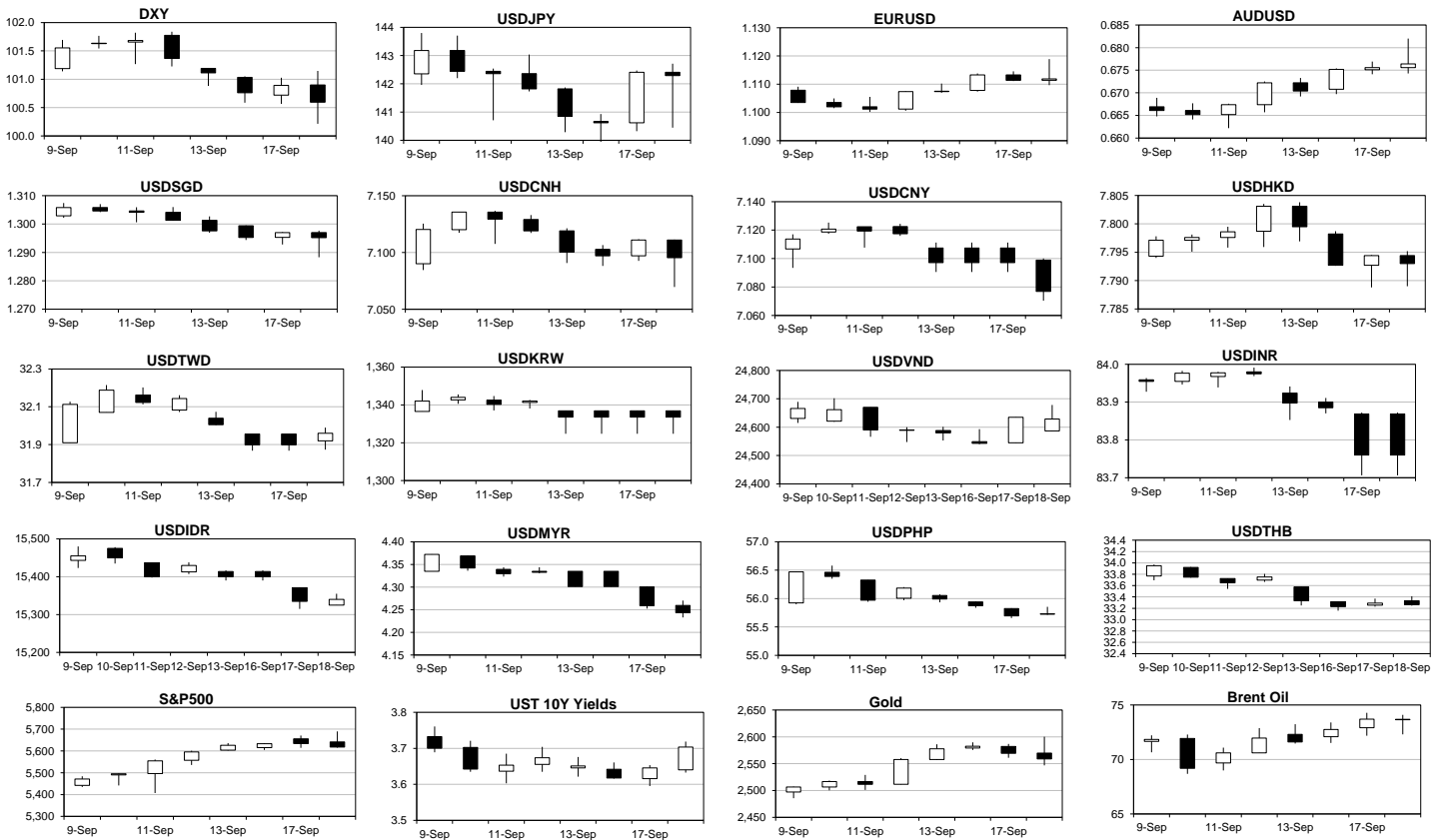
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5618.26	-16.32	▼0.29%
Nasdaq (US)	17573.3	-54.76	▼0.31%
DJIA (US)	41503.1	-103.08	▼0.25%
N225 (JP)	36380.17	176.95	+0.49%
STOXX50 (EU)	4835.3	-25.48	▼0.52%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4511.6	-29.40	▼0.65%
STI (SG)	3592.42	-1.00	▼0.03%
SHCOMP (CN)	2717.281	13.19	+0.49%
SZCOMP (CN)	1473.729	-2.53	▼0.17%
HSI (HK)	17660.02	0.00	+0.00%
SENSEX (IN)	82948.23	-131.43	▼0.16%
JSE (ID)	7829.135	-2.64	▼0.03%
KLSE (MY)	1660.59	-3.69	▼0.22%
PSE (PH)	7155.9	-19.46	▼0.27%
SET (TH)	1435.77	-0.83	▼0.06%
VNINDEX (VN)	1264.9	0.00	+0.47%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	9,266.06	28.43	+0.31%
IRON ORE (CN)	91.53	-0.95	▼0.71%
GOLD	2,558.91	-10.59	▼0.41%
SILVER	30.08	-0.04	▼1.72%
OIL (BRENT)	73.65	-0.05	▼0.07%
OIL (WTI)	70.91	-0.28	▼0.39%
NATURAL GAS	2.28	-0.62	▼2.02%

CHARTS



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