

Dec 18, 2024

Three Take-Aways

- 1) A hawkish Fed cut (25bp cut with 2025 'Dot Plot' lifting the rate path by 25bp) is the base case.
- 2) BoJ call for tomorrow is more split (between a hold and a hike). We prefer a hold ahead of Trump tariffs.
- 3) USD to retain tone but perhaps not surge all out (with the hawkish elements priced in). UST yields backstopped too.

MACRO THEME: The Second Derivative

- The **second derivative*** of monetary policy is **where the action is** (for policymakers and markets alike). In other words, **determining shifts in the rate of change of the ongoing global rate cut (hike in the case of the BoJ) cycles.**

- Point being, with **global policy considered to be restrictive** (rate elevated), the **direction of travel for policy (rate) is widely expected to be down** (with the notable exception of the BoJ that has a tightening stance). But it is the **dynamic shifts in the pace of rate cuts** (rate hikes for the BoJ) – the **second derivative** – that is gripping markets.

- **Tensions between sticky inflation and demand/jobs soft spots** (albeit further obfuscated by mixed bag economic indicators more broadly) is **one dimension of second derivative shifts.**

- **Trump 2.0** and the accompaniment of "Trumpflation" (comprising demand side deflation as well as potential supply/cost shocks) and trade antagonism involving potential demand destruction **elevates uncertainty another dimension.** Under these conditions of **exceptional unpredictability**, and "fat tail" risks, policy calculus is complicated.

- On the whole though, **relative US exceptionalism gives the Greenback a sustained edge** (even if significant boost is already baked in).

*loosely associated with the rate of change of the rate of change (i.e. acceleration or deceleration in policy cycles)

The Central Bonanza

- And on that (second derivative of the policy) curve, the **next 36 hours will see a deluge of policy meetings.** In the G4 space, the **Fed, BoJ** (tomorrow) and **BoE** (tomorrow) will conclude their 2024 policy decisions/outlook.

- In Asia, **Bank of Thailand (BoT), Bank Indonesia (BI)** will announce **decisions ahead of the Fed today** while **BSP** (Philippines) and **CBC** (Taiwan) will announce **tomorrow.** **Separating noise from signal, and then ascribing reasonable probabilities to these signals** will be the **real challenge.**

- With respect to the **Fed**, the question is **how hawkish the assumed cut comes across.** The **'Dot Plot' shift and rhetoric** will guide this. **No cut will be the curve ball**, albeit in the context of 'Dot Plot' (shifts). For the **BoJ**, whether it is a **hawkish hold** or a **measured hike** will determine outcomes. **JPY though may struggle for traction** unless guidance is adequately hawkish. A **BoE hold is expected.** How neutral the stance may be and the caveats to cover downside risks is what's pertinent. Markets expect both BI and BoT to hold. We flag a potential BoT cut to alleviate pressures on growth.

DATA/EVENTS

| Yesterday | Actual | Exp. | Prior |
|--|------------|-----------|------------|
| (SG) NODX/Elect. Exports YoY (Nov) | 3.4%/23.2% | -1.0%/-- | -4.7%/2.6% |
| (US) Retail Sales Advance MoM (Nov) | 0.7% | 0.6% | 0.5% |
| (US) Retail Sales Ex Auto, Gas MoM (Nov) | 0.2% | 0.4% | 0.2% |
| (US) Industrial Production MoM (Nov) | -0.1 | 0.3% | -0.4% |
| (EZ) Trade Balance SA (Oct) | 6.1b | 11.6b | 12.6b |
| (GE) IFO Business Climate/Expt (Dec) | 84.7/84.4 | 85.5/87.5 | 85.6/87.0 |
| (GE) ZEW Survey Current/Expt (Dec) | -93.1/15.7 | -92.6/6.9 | -91.4/7.4 |

Today

| | | | |
|---|--------------------|--------------------|----------|
| (ID) BI-Rate | 6.00% | 6.00% | |
| (MY) Exports/Imports YoY (Nov) | 1.9%/3.7% | 1.6%/2.6% | |
| (TH) BoT Benchmark Interest Rate | 2.25% | 2.25% | |
| (US) Building Permits (Nov) | 1430k | 1419k | |
| (US) Housing Starts (Nov) | 1345k | 1311k | |
| (EZ) CPI/Core YoY (Nov F) | 2.3%/2.7% | 2.0%/2.7% | |
| (JP) Trade Balance (nov) | -¥117.6b | -¥687.9b | -¥462.1b |
| (US) FOMC Decision (Lower/Upper Bound) | 4.25%/4.50% | 4.50%/4.75% | |

Yields: Connecting the Dot (2Y: -0.4bp; 10Y: +0.2bp, 30Y: -0.9bp)

- The mild bull steepening in UST yield curve is not necessarily a neat pricing of the rate cut expected (later today), but might be position adjustment ahead of a refresh of the 'Dot Plot.

Equities: Sales & Slippage (Nasdaq: -0.3%; S&P: -0.4%; Dow: -0.6%)

- US equities pulled back ahead of the FOMC meet. **Whether** this was **despite** (US exceptionalism/optimism) **upside surprise in US retail sales or because of** it (hawkish expectations) is **debatable.** In any case, caution seems to rule the roost. Rather than unbridled Santa (rally) it may be a case to rein(deers) in exuberance.

FX: USD Retains Tone Pre-FOMC (DXY: +0.1%)

- USD mostly retained its tone ahead of the FOMC meet (and the assumed hawkish cut), with other G10 FX somewhat mixed.

China: Fighting Bears ...

- China appears to be caught in a place where it is still **fighting bears** (amid data disappointments conspiring with policy shortfall) **rather than stoking bulls.** Fact is, the morning after of initial optimism about "moderately loose" monetary policy of the CEWC appears to be bracing for disappointments in details and execution of stimulus. **Alongside stumbles in retail sales and credit growth** the China narrative simply **does not lend** (no pun intended) **to optimism** about *virtuous stimulus-confidence dynamics firing up growth multipliers.*

FOMC: Of Cuts & Caveats

- Despite the stickiness in inflation data, the **FOMC remains on course to cut another 25bp.** Nonetheless, the cut will be **couched in caveats** about a **slower pace of conditional cuts** ahead rather than unqualified and unfettered easing. A few key points worth noting are;

1. At current levels, the Fed's policy remains restrictive, even with the full suite of cuts as per the Sep 'Dot Plot' (cumulative 200bp into end-2025)
2. Inflation, while sticky, is not necessarily re-accelerating alarmingly.
3. There remains a lot of two-way uncertainty around rates path ahead.
4. Whilst jobs is resilient, the signals are mixed, and risks of overheating are far better contained.

- On account of the first point, it is patently clear that suspending cuts in December will be premature and an overreaction. What's more, in concert, this also dictates that the **direction of travel (lower) in policy rates need not be abruptly suspended.** Certainly not reversed.

- **Even if the pace of rate cuts may be justifiably slowed** whilst incoming economic data is assessed. In fact, it is **highly likely** that the Fed will dampen the pace of cuts for 2025 (from the current guidance for 4 cuts to 3 cuts) flagged in the 'Dot Plot'. **Essentially**, this is likely to frame the Dec FOMC move (if we are right) as **a hawkish cut.**

- Nonetheless, **scope for a surge in UST yields and the USD from the hawkish aspect of the cut may be limited** insofar that this outcome is **widely expected.** Especially if the press conference reveals a Fed that is concerned about two-way risks, including negative demand shocks, rather than being asymmetrically obsessed about "Trump-flation".

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 153.46 | 153.57 | ▼0.45% | 151.00 - 156.00 |
| EURUSD | 1.0491 | 1.0495 | ▼0.20% | 1.0390 - 1.0600 |
| GBPUSD | 1.2710 | 1.2712 | +0.21% | 1.2580 - 1.2820 |
| AUDUSD | 0.6337 | 0.6338 | ▼0.53% | 0.6280 - 0.6400 |
| DXY | 107.0 | -- | +0.09% | 106.4 - 107.5 |
| USDCNY | 7.2842 | -- | +0.00% | 7.2600 - 7.3100 |
| USDCNH | 7.2881 | 7.2875 | ▼0.06% | 7.2600 - 7.3100 |
| USDHKD | 7.7694 | 7.7702 | ▼0.06% | 7.7500 - 7.7840 |
| USDSGD | 1.3500 | 1.3498 | +0.01% | 1.3400 - 1.3620 |
| USDKRW | 1439 | 1436 | +0.00% | 1430 - 1445 |
| USDTWD | 32.52 | -- | +0.09% | 32.40 - 32.70 |
| USDINR | 84.90 | -- | +0.04% | 84.70 - 85.10 |
| USDIDR | 16065 | -- | +0.41% | 15950 - 16150 |
| USDMYR | 4.467 | 4.463 | +0.40% | 4.440 - 4.485 |
| USDPHP | 58.89 | -- | +0.34% | 58.40 - 59.00 |
| USDTHB | 34.27 | 34.19 | +0.57% | 34.0 - 34.4 |
| USDVND | 25428 | 25430 | +0.14% | 25350 - 25550 |

*Open is as at 8am HKT/SGT.

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US) | 4.247 | 4.400 | -0.4 | 0.1 |
| JGB (JP) | 0.588 | 1.075 | 1.3 | 1.1 |
| Bunds (GE) | 2.047 | 2.229 | 0.1 | -1.7 |
| Gilts (UK) | 4.449 | 4.523 | 9.7 | 8.2 |
| AGB (AU) | 3.896 | 4.296 | -2.4 | -2.1 |
| SGS (SG) | 2.805 | 2.800 | 1.3 | 2.5 |
| CGB (CN) | 1.159 | 1.725 | 0.2 | 0.2 |
| KGB (KR) | 2.787 | 2.718 | -0.9 | -0.4 |
| SDL (IN) | 6.759 | 6.694 | -0.4 | 1.3 |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 161 | 161.17 | ▼0.64% |
| GBP/JPY | 195.051 | 195.204 | ▼0.23% |
| JPY/SGD (100yen) | 0.8795 | 0.879 | +0.46% |
| JPY/HKD (100yen) | 5.0616 | 5.0599 | +0.37% |
| CNH/JPY | 21.044 | 21.082 | ▼0.50% |
| CNH/HKD | 1.0666 | 1.0667 | ▼0.07% |
| EUR/GBP | 0.82538 | 0.82563 | ▼0.41% |
| AUD/NZD | 1.1013 | 1.1007 | ▼0.05% |
| EUR/CNH | 7.6461 | 7.6482 | ▼0.26% |
| GBP/CNH | 9.263 | 9.2635 | +0.14% |

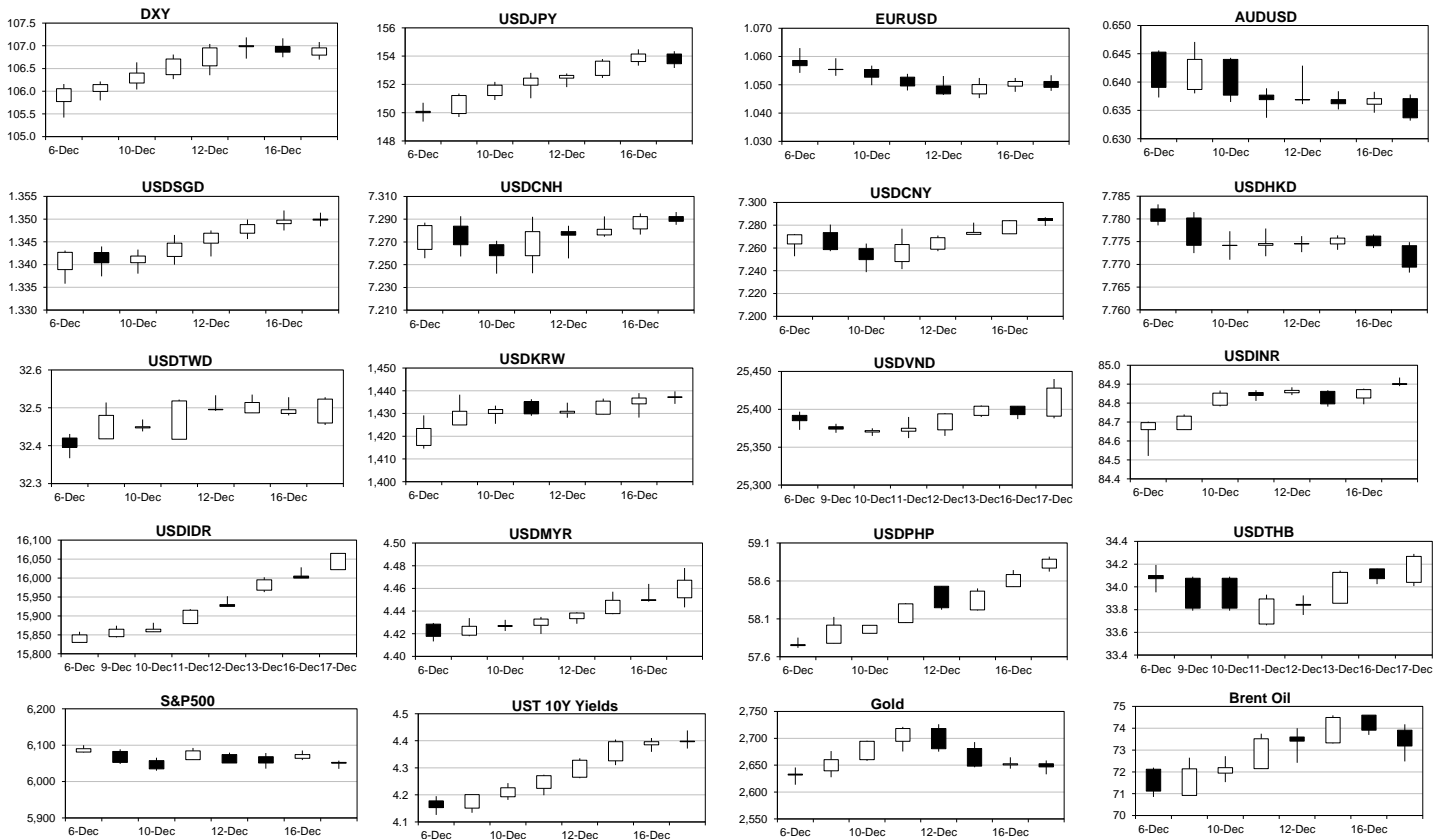
*Open is as at 8am HKT/SGT.

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 6050.61 | -23.47 | ▼0.39% |
| Nasdaq (US) | 20109.06 | -64.83 | ▼0.32% |
| DJIA (US) | 43449.9 | -267.58 | ▼0.61% |
| N225 (JP) | 39364.68 | -92.81 | ▼0.24% |
| STOXX50 (EU) | 4942.58 | -4.45 | ▼0.09% |

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|----------|----------|
| ASX (AU) | 4475.55 | -39.61 | ▼0.88% |
| STI (SG) | 3799.93 | -21.10 | ▼0.55% |
| SHCOMP (CN) | 3361.485 | -24.85 | ▼0.73% |
| SZCOMP (CN) | 2013.783 | -35.32 | ▼1.72% |
| HSI (HK) | 19700.48 | -95.01 | ▼0.48% |
| SENSEX (IN) | 80684.45 | -1064.12 | ▼1.30% |
| JSE (ID) | 7157.732 | -100.90 | ▼1.39% |
| KLSE (MY) | 1597.33 | -9.52 | ▼0.59% |
| PSE (PH) | 6501.71 | -113.45 | ▼1.72% |
| SET (TH) | 1395.57 | -24.15 | ▼1.70% |
| VNINDEX (VN) | 1261.72 | 0.00 | ▼0.16% |

| Commodity | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| COPPER (LME) | 8,868.97 | -73.50 | ▼0.82% |
| IRON ORE (CN) | 105.45 | -0.31 | ▼0.20% |
| GOLD | 2,646.83 | -5.89 | ▼0.22% |
| SILVER | 30.54 | 0.09 | +2.92% |
| OIL (BRENT) | 73.19 | -0.72 | ▼0.97% |
| OIL (WTI) | 70.08 | -0.63 | ▼0.89% |
| NATURAL GAS | 3.31 | -0.01 | ▼0.03% |

CHARTS



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