

Dec 19, 2024

Three Take-Aways

- 1) A more brutally hawkish cut with 2025 cuts halved to 50bp and terminal rate raised to 3.00%.
- 2) US equities see worst “Fed-day” plunge (of 3% in S&P500), yields surge 10-12bp. USD surges.
- 3) Stronger case for BoJ hold (to not rock the boat). Beijing’s policy trade off intensifies. AXJ compromised.

MACRO THEME: Skip or Pause

- Muhammad Ali said it best: “*Float like a butterfly, sting like a bee*”. The **Fed’s measured cut stung like an unbridled hike**.
- To be fair, this was not a **response to the cut in and of itself**. Rather, it was an **anticipatory fear of a truncated Fed cut cycle** with a **higher bar for further cuts**, and possibly more elevated “terminal rate”.
- That’s to say, **markets are now confronting the reality of a prolonged pause rather than a speed-calibration skip**. And that raises **uncomfortable questions about demand restraint, debt burden and attendant valuations**. The upshot is that **not all hawkish cuts are created the same**. In this case, the focus has shifted to an emphatic pause (to cuts) from augmenting pace (of cuts).

Rattled by FOMC Hawks

- In fact, **characterizing the FOMC as a “hawkish cut” does not go far enough**. The **sharp focus was on hawkish, not cut**. In fact, anyone looking at yields and equities would be forgiven for asking “**what cut**”?
- **US equities** had the **worst “Fed Day/Decision” rection since 2001**, with the S&P500 plunging 3% (Nasdaq took a 3.6% dive).
- **UST yields defied the rate cuts to surge 11-12bp** at both the front-end (2Y) and long-end (10Y). The belly (5Y) up ~14bp.
- Correspondingly the **USD (DXY index) surged over 1% to just shy of 108.5 levels**; arguably **reflecting Fed (hawkish flex) and fear (risk aversion)**.

Losing the (Dot) Plot

- The **conspicuously offending hawkish element** of the Fed meeting was arguably the “Dot Plot”. Specifically, how much of a **hawkish revision the “Dot Plot” entailed**. December’s ‘Dot Plot’ has **halved (from September’s projection for a 100bp cuts) 2025 cuts to just 50bp**. Markets are now pricing for the next cut to be pushed back to H2 2025; with a follow-up cut perhaps not being delivered till H1 2026. What’s more, and perhaps more profoundly, **lifted longer-term (beyond 2027) “terminal rate” to 3.00%**.

Passively Hawkish Talk?

- Notably, the **Fed’s language** is also **markedly less dovish**. *Perhaps*, even **passively hawkish**.
- To be sure, **Fed Chair Powell** reiterated that **policy is “still**

restrictive”. *But* his caveat that policy was “*significantly closer to neutral*” suggests **far fewer cuts left**, with **significantly higher bar**. Specifically, that the Fed would “*look for progress on inflation*” and “*move cautiously (on further cuts)*”. In other words, **without fresh cause to cut, the Fed is inclined to leave restriction in place – passively hawkish**, that is.

The r* Wink

- The appears to be a **wink to debates about a higher** so-called **r*** (the unobservable rate at which the economy is at “full” employment and in balanced, non-inflationary growth). Whilst not a 1-for-1 mapping, the **higher terminal rate** appears to hint that the **US might require higher r* neutral rates**. Why is this important? Mainly because it could have **profound impact on valuations** (possibly a dampening bias from elevated valuations now).
- What’s more, it could also have significant sway on the path of debt, deficits and the USD. None of which are clear now. And to be sure, the Fed is unlikely to concede such profound, structural shifts in r* and any spillover effects on the inflation target.

Exceptionalism Accentuated

- Regardless of the r* debate, the **Fed’s implied skip-to-pause shift inconveniently accentuates US exceptionalism**. Fact is, the **ECB (and most other global central banks) have no cause to be markedly less dovish** (with passive hawkish flex). Not only is the pre-existing **economic outlook lamentably less sunny**, but **Trump 2.0 risks** and uncertainty (led by tariffs) exacerbates an already grim situation. Under these circumstances the underpinnings of **USD dominance is more pronounced**. And arguably, this will impose **greater risk premium on non-US assets and FX** (with attendant widening in credit/risk spreads).

China & AXJ: Harsher Trade-Offs & Pressures

- **China’s policy dilemma** could **inconveniently be accentuated** as it tries to snap deflation risks onshore. In particular, its attempt at “*moderately loose*” **monetary policy** could **entail harsher trade-off on CNY stability**.
 - The **spill-over pressure on AXJ** is a **matter of degree** and (uneven) **distribution** cross AXJ. Unfortunately, potential for exports/earnings benefit from a more expensive USD will not offset the financial stability risks associated with it. The most perverse thing is that if a strong USD driven by Fed/US exceptionalism is framed as mercantilist AXJ currency policies, exacerbating trade antagonism.
- ## BoJ: Not a Good Day to Rock the Boat
- How, not whether, the **Fed may impact BoJ considerations** is the more relevant (and honest) question. The short answer is that the **Fed reinforces the merits of patience (a hold) today, but increases flexibility on normalization further out**. Point being, the **last thing that the BoJ wants to do is rock the boat** at the pain of **exacerbating the post-FOMC the sell-off**. Especially if a BoJ hike inadvertently triggers (JPY-funded) carry unwind, with unwelcome amplification of Nikkei sell-off amid “risk off”.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(ID) BI-Rate	6.00%	6.00%	6.00%
(MY) Exports/Imports YoY (Nov)	4.1%/1.6%	1.9%/3.7%	1.6%/2.6%
(TH) BoT Benchmark Interest Rate	2.25%	2.25%	2.25%
(US) Building Permits (Nov)	1505k	1430k	1419k
(US) Housing Starts (Nov)	1289k	1345k	1312k
(EZ) CPI/Core YoY (Nov F)	2.3%/2.7%	2.3%/2.7%	2.0%/2.7%
(JP) Trade Balance (nov)	-¥117.6b	-¥687.9b	-¥462.1b
(US) FOMC (Lower/Upper Bound)	4.25%/4.50%	4.25%/4.50%	4.50%/4.75%
Today			
(PH) BoP Overall (Nov)		--	-\$724m
(PH) BSP Overnight Borrowing Rate		5.75%	6.00%
(TW) CBC Benchmark Interest Rate		2.00%	2.00%
(JP) BoJ Target Rate		0.25%	0.25%
(US) Existing Home Sales (Nov)		4.08m	3.96m
(US) Initial Jobless Claims		230k	242k
(US) GDP Annualized QoQ (3Q T)		2.8%	2.8%
(US) Leading Index (Nov)		-0.1%	-0.4%
(US) Philadelphia Fed Biz Outlook (Dec)		2.8	-5.5

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	154.80	154.66	+0.87%	153.50 - 156.50
EURUSD	1.0353	1.0350	▼1.32%	1.0260 - 1.0450
GBPUSD	1.2574	1.2566	▼1.07%	1.2460 - 1.2670
AUDUSD	0.6218	0.6204	▼1.88%	0.6140 - 0.6260
DXY	108.0	--	+1.00%	107.5 - 108.9
USDCNY	7.2857	--	+0.02%	7.2800 - 7.3300
USDCNH	7.3249	7.3251	+0.50%	7.3000 - 7.3500
USDHKD	7.7704	7.7716	+0.01%	7.7500 - 7.7840
USDSGD	1.3631	1.3633	+0.97%	1.3550 - 1.3720
USDKRW	1452	1460	+0.00%	1445 - 1460
USDTWD	32.49	--	▼0.10%	32.40 - 32.90
USDINR	84.96	--	+0.06%	84.80 - 85.20
USDIDR	16090	--	+0.16%	16000 - 16300
USDMYR	4.470	4.474	+0.06%	4.470 - 4.530
USDPHP	59.00	--	+0.19%	58.90 - 59.80
USDTHB	34.25	34.60	▼0.05%	34.2 - 35.0
USDVND	25452	25454	+0.09%	25400 - 25600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.358	4.516	11.1	11.6
JGB (JP)	0.585	1.064	-0.3	-1.1
Bunds (GE)	2.023	2.244	-2.4	1.5
Gilts (UK)	4.458	4.557	0.9	3.4
AGB (AU)	3.870	4.280	-2.6	-1.6
SGS (SG)	2.788	2.803	-1.5	0.3
CGB (CN)	1.166	1.753	0.6	2.7
KGB (KR)	2.758	2.671	8.8	11.1
SDL (IN)	6.746	6.675	-2.9	-0.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	160.26	160.07	▼0.46%
GBP/JPY	194.665	194.338	▼0.20%
JPY/SGD (100yen)	0.8803	0.8815	+0.09%
JPY/HKD (100yen)	5.0183	5.025	▼0.86%
CNH/JPY	21.108	21.228	+0.30%
CNH/HKD	1.0665	1.0667	▼0.01%
EUR/GBP	0.82342	0.82368	▼0.24%
AUD/NZD	1.1055	1.1048	+0.38%
EUR/CNH	7.5831	7.5815	▼0.82%
GBP/CNH	9.2101	9.2044	▼0.57%

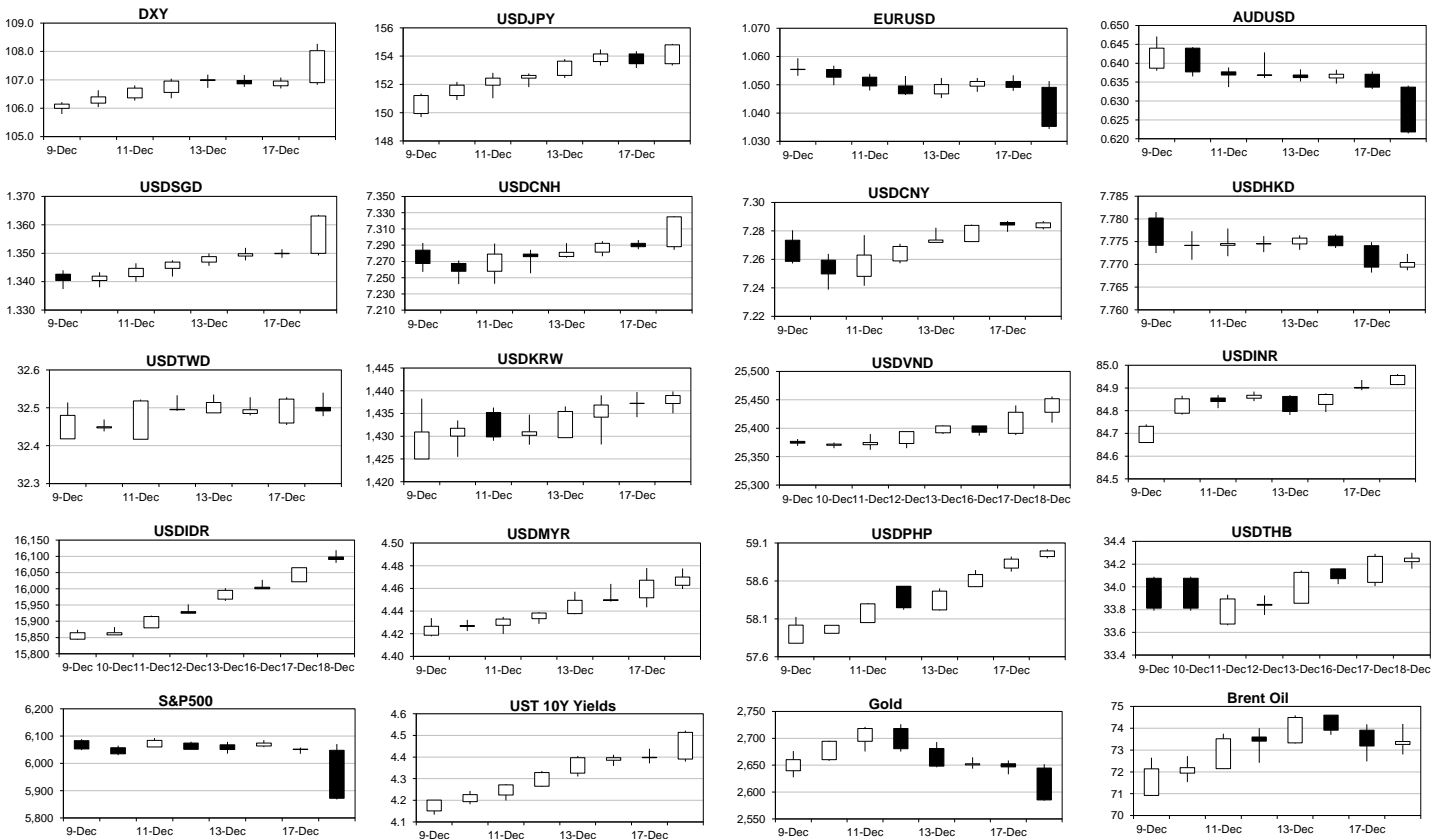
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	5872.16	-178.45	▼2.95%
Nasdaq (US)	19392.69	-716.37	▼3.56%
DJIA (US)	42326.87	-1123.03	▼2.58%
N225 (JP)	39081.71	-282.97	▼0.72%
STOXX50 (EU)	4957.28	14.70	+0.30%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	4478.99	3.44	+0.08%
STI (SG)	3779.62	-20.31	▼0.53%
SHCOMP (CN)	3382.208	20.72	+0.62%
SZCOMP (CN)	2025.533	11.75	+0.58%
HSI (HK)	19864.55	164.07	+0.83%
SENSEX (IN)	80182.2	-502.25	▼0.62%
JSE (ID)	7107.875	-49.86	▼0.70%
KLSE (MY)	1599.58	2.25	+0.14%
PSE (PH)	6469.08	-32.63	▼0.50%
SET (TH)	1398.95	3.38	+0.24%
VNINDEX (VN)	1266	0.00	+0.34%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	8,909.54	40.57	+0.46%
IRON ORE (CN)	104.68	-0.46	▼0.73%
GOLD	2,585.35	-61.48	▼2.32%
SILVER	29.35	0.07	+2.00%
OIL (BRENT)	73.39	0.20	+0.27%
OIL (WTI)	70.58	0.50	+0.71%
NATURAL GAS	3.37	-1.19	▼3.90%

CHARTS



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