19 December 2024

Global Markets Research

Daily Market Highlights

19 Dec: Fed dot plot suggests 50bps rate cut in 2025

Fed cut rates as expected; signals shallower and gradual rate cuts ahead
US equities tanked after Fed's decision; UST yields sharply higher; DXY above 108
BOE and BOJ policy makers to meet today; Both expected to maintain policy rates

- Shallower rate cuts guidance by the Fed for 2025 jarred the US markets, sending equities tumbling and pushing UST yields and the Dollar sharply higher overnight. The Dow sank for the 10th straight day, tumbling more than 1.1k and losing 2.6% d/d overnight, while the S&P 500 and Nasdaq slid 3.0% d/d and 3.6% d/d respectively. All sectors within the S&P closed in red, with consumer discretionary, real estate and communication services sectors notable laggards.
- Elsewhere, Stoxx Eur 600 rose 0.2% d/d ahead of the FOMC meeting, led by gains in banking, technology and energy stocks. Asian markets closed mixed, but futures suggest that the selling in Wall Street could spread to Asia today. Notably, shares of Nissan rallied overnight on news of a possible merger with Honda.
- In the bond space, Treasury yields jumped 9-14bps across the curve after Fed signalled caution on future rate cuts. The 2Y yield closed up 11bps at 4.36%, while the 10Y surged 12bps to 4.51%. Trading in the European bond markets were milder, with the benchmark 10Y sovereign yields closing up in tune to 1-4bps.
- In the forex space, DXY rallied 1.0% d/d to close at 108.03 after Fed delivered its decision, and the Dollar strengthened against all its G10 peers. NZD, AUD and NOK underperformed their peers (-1.7% to -2.3% d/d), EUR weakened by 1.3% d/d, while GBP and JPY depreciated by 1.1% d/d and 0.9% d/d ahead of their central bank decisions today. Regional currencies also weakened against the greenback save TWD and THB, with SGD the laggard at -1.0% d/d. MYR depreciated at a milder pace of 0.1% d/d to close at 4.4700.
- In the crude oil market, prices started the day on a bullish note following the lower inventories data from the US, but later pared their gains after Fed signalled fewer number of rate cuts next year. Still, both the West Texas Intermediate and Brent closed the day higher at 0.7% d/d and 0.3% d/d respectively.

FOMC lowered Fed funds rate by 25bps; another 50bps cut expected for 2025

- As widely expected, the FOMC lowered the Fed funds rate by 25bps to 4.25%-4.50%. The decision was not unanimous, with Cleveland Fed President Beth Hammack dissenting in favour of holding rates. Key highlights from the statement and press conference include: 1) The new dot plot suggests a more gradual and shallower rate cut path ahead. ***The median plot sees Fed funds rate at 3.9% at end-2025 (prior estimate: 3.4%), 3.4% at end-2026 (prior: 2.9%) and 3.1% at end-2027 (prior: 2.9%).*** This implies another 50bps rate cut for 2025, in line with our forecast. 2)

Key Market Metrics

	Level	d/d (%)
Equities		
Dow Jones	42,326.87	-2.58
S&P 500	5,872.16	-2.95
NASDAQ	19,392.69	-3.56
Stoxx Eur 600	514.43	0.15
FTSE 100	8,199.11	0.05
Nikkei 225	39,081.71	-0.72
CSI 300	3,941.89	0.51
Hang Seng	19,864.55	0.83
Straits Times	3,779.62	-0.53
KLCI 30	1,599.58	0.14
FX		
Dollar Index	108.03	1.00
EUR/USD	1.0353	-1.32
GBP/USD	1.2574	-1.07
USD/JPY	154.80	0.87
AUD/USD	0.6218	-1.88
USD/CNH	7.3249	0.50
USD/MYR	4.4700	0.06
USD/SGD	1.3631	0.97
Commodities		
WTI ($/bbl)	70.58	0.71
Brent ($/bbl)	73.39	0.27
Gold ($/oz)	2,636.50	-0.30
Copper ($$/MT)	9,028.50	0.43
Aluminum($/MT)	2,528.50	-0.55
CPO (RM/tonne)	4,988.00	-1.37

Source: Bloomberg, HLBB Global Markets Research
** CPO dated as of 17 December*

The shallower pace of cuts reflects higher inflation projections. Core PCE-inflation was revised higher to 2.8% for 2024 (prior: 2.6%), 2.5% for 2025 (prior: 2.2%) and 2.2% for 2026 (2.0%). 3) Fed was also more optimistic on the economic outlook, raising their GDP growth forecasts to 2.5% for 2024 (prior: 2.0%) and 2.1% for 2025 (prior: 2.0%). 4) In his press conference, Fed Chair Jerome Powell said that the December cut was a "closer call," commented that the policy rates are still meaningfully restrictive but proximity to the neutral rate warrants caution.

- Meanwhile, housing indicators were mixed. Mortgage applications fell for the first time in 5 weeks for the week ended December 13 (-0.7% w/w vs +5.4% w/w), as mortgage rates rebounded and weighed on refinance applications. Buyers remained active in the purchase market, suggesting pent-up demand, helped by gradually improving inventory conditions and a more positive outlook on the economy and job market. On the supply side, housing starts unexpectedly fell 1.8% w/w in November (prior: -3.2% w/w), but building permits (+6.1% w/w from -0.4% m/m) suggests that construction activity may rebound going forward, amid continuous threats from higher tariffs on imported goods and labour shortages.

UK's inflation ticked up; services costs remain elevated; BOE likely to maintain rates today

- Headline inflation accelerated to 2.6% y/y in November from 2.3% y/y previously, matching forecasts, while core came in a shade softer than expected at 3.5% y/y (prior: 3.3% y/y). The largest upward contribution inflation came from transport, with a further large upward effect from housing and household services. Services inflation, meanwhile, was unchanged and elevated at 5.0% y/y.
- The latest CPI jump serves as a gentle reminder that the BOE inflation fight is not over. Coupled with the strong pay growth recently and upside risk from the increase in minimum wage and National Insurance, there is no change in our view that the central bank will maintain its policy rate unchanged today, and further rate cuts in 2025 will be gradual.

Stronger than expected export growth for Malaysia

- Trade data was mixed, with exports accelerating more than expected and for the second consecutive month to 4.1% y/y in November (prior: 1.6% y/y), while imports unexpectedly eased to 1.6% y/y from 2.7% y/y previously, largely weighed down by the decline in imports of capital goods for a second month. With export growth outpacing imports, the trade surplus widened to RM15.3bn from RM11.9bn previously, its highest since September 2023, boding well for 4Q GDP.
- The upward surprise in export data largely mirrors stronger exports amongst regionals, and will likely continue with its upward trajectory in the near term underpinned by: 1) front-loading of shipment ahead of protectionist trade policies from the US. 2) continuous spillover from the global tech upcycle. In fact, the global semiconductor market is closing out 2024 on a high note, as the industry reached its highest-ever monthly sales total in October and m/m sales increased for the seventh consecutive month. According to the Semiconductor Industry Association, total annual sales are now projected to increase by nearly 20% in 2024, higher than earlier forecasts, and is expected to continue with its double-digits in 2025 (+11.2% y/y).

House View and Forecasts

FX	This Week	4Q-24	1Q-25	2Q-25	3Q-25
DXY	105-108	1ca05.78	105.51	103.40	102.37
EUR/USD	1.03-1.07	1.05	1.05	1.07	1.08
GBP/USD	1.26-1.30	1.28	1.28	1.31	1.32
USD/JPY	149-155	153	153	148	146
AUD/USD	0.62-0.65	0.65	0.66	0.67	0.68
USD/MYR	4.39-4.47	4.40	4.40	4.30	4.26
USD/SGD	1.33-1.36	1.33	1.33	1.31	1.29

Rates, %	Current	4Q-24	1Q-25	2Q-25	3Q-25
Fed	4.25-4.50	4.25-4.50	4.00.-4.25	3.75-4.00	3.75-4.00
ECB	3.00	3.00	2.75	2.50	2.25
BOE	4.75	4.75	4.50	4.25	4.00
BOJ	0.25	0.25	0.50	0.50	0.50
RBA	4.35	4.35	4.35	4.10	3.85
BNM	3.00	3.00	3.00	3.00	3.00

Source: HLBB Global Markets Research

Up Next

Date	Events	Prior
19-Dec	UK Bank of England Bank Rate	4.75%
	US GDP Annualized QoQ (3Q T)	2.80%
	US Initial Jobless Claims	242k
	US Leading Index (Nov)	-0.40%
	US Existing Home Sales MoM (Nov)	3.40%
	JN BOJ Target Rate	0.25%
20-Dec	JN Natl CPI Ex Fresh Food YoY (Nov)	2.30%
	CH 5-Year Loan Prime Rate	3.60%
	CH 1-Year Loan Prime Rate	3.10%
	MA CPI YoY (Nov)	1.90%
	MA Foreign Reserves	$118.3b
	UK Retail Sales Ex Auto Fuel MoM (Nov)	-0.90%
	HK CPI Composite YoY (Nov)	1.40%
	US Personal Income (Nov)	0.60%
	US Personal Spending (Nov)	0.40%
	US Core PCE Price Index YoY (Nov)	2.80%
	EC Consumer Confidence (Dec P)	-13.7
	US U. of Mich. Sentiment (Dec F)	74

Source: Bloomberg

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