Daily Market Outlook

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Hawkish Repricing

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- **USD rates**. UST yields jumped by more than 10bps upon the FOMC decision with the SEP showing the 2025 median dot has been moved up by 50bps, i.e. pointing to 50bps of cuts in 2025, alongside upward revision to inflation forecasts. Meanwhile, Powell's comments turned more neutral instead of dovish; and the December decision itself was not unanimous. Fed funds futures further pared back 2025 rate cut expectation to as little as 32bps, which appears too hawkish given Powell opined the labour market is less tight than in 2019 – when the Fed funds rate was at 2.50%. At the longer end, the uptick in 10Y UST yield was primarily driven by higher real yield, which was last at 2.19%, not reflecting heightened inflation worries – when the Fed revised up inflation forecasts materially but only mildly for GDP forecasts. Market reaction may be mostly done, and we do not expect the momentum to be much extended.

- **FOMC decision** to cut the target range of the Fed funds rate by 25bps to 4.25-4.50% was not unanimous, with one member voting for a hold. Meanwhile, the o/n reverse repo rate has been cut by 30bps as we expected, to align with the lower bound of the Fed funds rate target range. The Fed revised upward 2025 PCE inflation forecast to 2.5% from 2.1% prior, and 2025 core PCE inflation forecast to 2.5% from 2.2% prior. Inflation is now expected to move nearer or to the 2% target in 2026/2027, which explains the more paced out rate cut cycle the updated dot-plot reflect. On the dot-plot, the median dots reflect 50bps of cuts in 2025, followed by 50bps of cuts in 2026, and a 25bp cut in 2027. Powell commented that the policy stance "is now significantly less restrictive. We therefore can be more cautious as we consider further adjustments to our policy rate". A pause in rate cuts may come as early as January, but between now and January FOMC meeting there are still data to be digested. Granted, these dots move, and past December median dots were not particularly accurate in anticipating the actual outcome.

- **DXY. *Hawkish Cut.*** FX markets received a wakeup call from a hawkish Fed, with USD up over 1% overnight post-FOMC. December seasonality of USD softness doesn't seem to apply for Dec-2024 so far. The last time we saw an up month for December was about 8 years ago in 2016 (recall that was also the year of

DXY Trading Like a "carbon copy" today to 2016 Post Respective Trump Victories

Source: Bloomberg, OCBC Research

Trump victory – a little bit of déjà vu here). Precious metals were the worst hit, with gold under 2600 at one point overnight. This is consistent our near-term challenging outlook for gold, given the risk of Fed slowing pace of cuts (i.e. rate to stay high for longer means higher opportunity cost of owning the metal). To recap, FOMC guided for a slower pace of rate cut for 2025 and even 2026 (2 cuts each year). The quantum of rate cuts has also been reduced for the cycle. Although markets have earlier anticipated for 2 cuts, the hawkish outcome saw further hawkish re-pricing. Markets are now not fully pricing another cut until July or Sep with only 32bp now priced for whole of 2025. In other words, markets are pricing Fed to pause cut cycle for the next 7 or 9 months – a rather hawkish stance against the backdrop of cooling labour market. That said, market pricing can be fluid. If NFP comes in with slower job creation or even core PCE data (tomorrow) comes in softer than expected, then rate cut expectations can adjust again and the USD can weaken from current highs. DXY was last at 108 levels. Daily momentum turned mild bullish while RSI rose to near overbought conditions. Not ruling out a pullback given the sharp move. Resistance at 108.20, 109 levels. Support at 107.20, 106.70 (21 DMA).

- **GBPUSD.** ***BoE Today (8pm SGT).*** We look for BoE to keep rates steady at 4.75%. The last MPC meeting (Nov) saw BoE putting an emphasis on making sure inflation stays close to target. This reinforces the view for a gradual approach to removing restraint. GBP fell amid USD strength post-FOMC while UK CPI was modestly softer than expected. GBP was last at 1.2586. Mild bullish momentum on daily chart is fading but decline in RSI slowed. Consolidation likely. Support at 1.2570 (76.4% fibo), 1.2490 levels. Resistance at 1.2670 (21 DMA), 1.2730 (61.8% fibo retracement of 2024 low to high), 1.2830 levels (50, 200 DMAs). Focus this week on BoE MPC (Thu) and retail sales (Fri).

- **USDSGD.** ***Triple-Top Busted.*** USDSGD rose another leg higher, as USD strength post-FOMC overwhelmed. Pair was last at 1.3615. Daily momentum turned bullish while RSI rose into overbought conditions. Not ruling out pullback move lower in the near term but dips may still find support. Resistance at 1.3620, 1.3670 levels. Support at 1.3510, 1.3460 (21 DMA). S$NEER weakened with our S$NEER index now closer to May-2024 levels. % deviation from model-implied mid has also ease to around 0.64%.

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