

FX Insight

USD: Fed Tames Rate Guidance

2 Hikes Projected for 2019, Down From 3

Fed hiked 25bps as expected, taking policy target range to 2.25% - 2.50% at the last FoMC meeting for 2018.

Fed's median dots plot projection was lowered to 2 hikes for 2019 (down from 3 hikes in previous projection in Sep). Typically this would have been interpreted as dovish Fed guidance and would have dragged USD lower but in this case, the Fed's dovish guidance fell short of market expectation. That explains why the USD rebounded instead.

Focus next is **when Fed's 2 hikes will take place in 2019**. Fed noted that it continues to see the risks to the outlook as "roughly balanced" but noted it will "continue to monitor global economic and financial developments and assess their implications for the economic outlook". **We believe this underscores the growing importance of data-dependency for future Fed rate hikes and a less pre-set path of tightening for 2019.**

The Fed is expected to adopt wait-and-see approach should the recent poor run of US data (such as slowing momentum in Industrial production, NFP, wage growth, CPI, import/export prices, housing data) be sustained. As of now, Fed fund futures are no longer pricing in any rate hike in Mar or even Jun 2019. In fact, based on the run from fed fund futures, the highest probability of a rate hike is now in Oct 2019 with a probability of 44%. There is however still the risk of markets re-pricing for earlier than expected Fed tightening if US data improves and this could still keep the USD supported (not our base case scenario as US activity momentum probably have peaked).

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DXY (Daily): Rising Wedge Pattern In the Making; Sell Rallies



Source: Bloomberg, Maybank FX Research & Strategy

DXY Tech View: Bias to Fade

We do not rule out interim support for USD in the near term given year-end seasonality demand for USD (see libor-OIS chart). But bias remains to sell USD rallies as Fed is inching closer to the end of its rate hike cycle. DXY last seen at 97.03 levels. Resistance at 97.80 (61.8% fibo retracement of 2017 high to 2018 low) - 98 levels. Rising wedge pattern appears to be forming with apex at around 98 levels. The pattern is typically associated with a bearish reversal. We look for further downside play. Immediate support at 96.65 (50 DMA), 96 levels (100 DMA, 50% fibo) and 94.2 (38.2% fibo, 200 DMA).

Dollar Funding Pressure on the Rise (3m Libor-OIS)...



Source: Bloomberg, Maybank FX Research & Strategy

... But This May Be Due to Year-End Seasonality

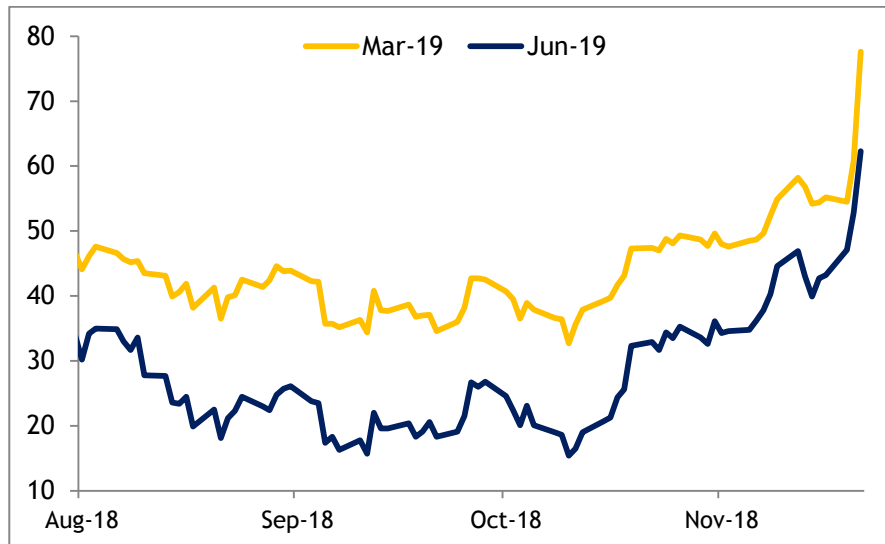


Source: Bloomberg, Maybank FX Research & Strategy

We reiterate USD strength seen this year may be running out of steam and environment for USD going forward could change due to (1) Fed nearing the end of its rate hike cycle; (2) US growth/activity momentum likely nearing its peak; (3) split congress may potentially slow fiscal impulse and amplify the risk of government shutdown; (4) growing twin

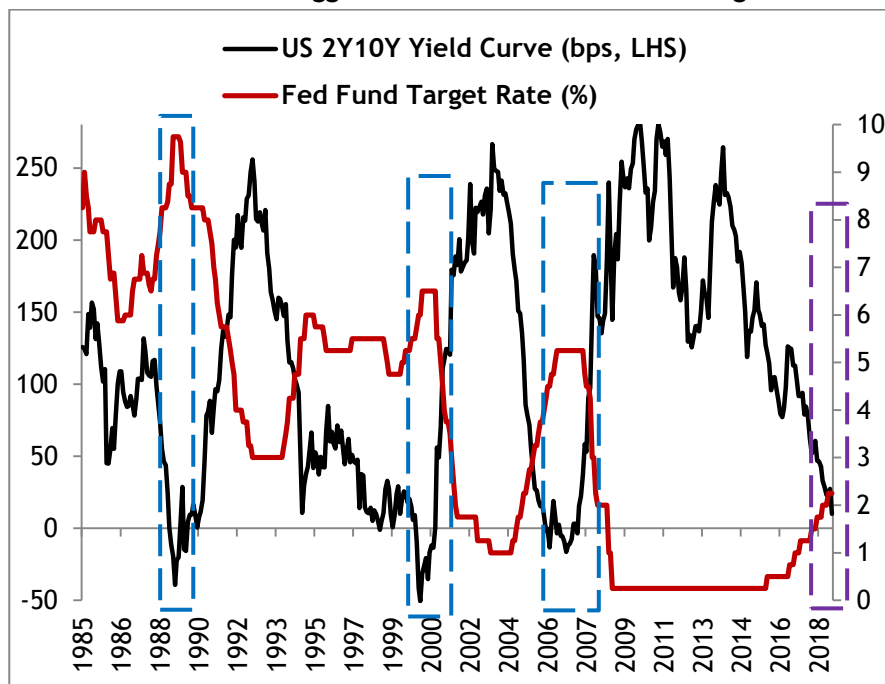
deficits amid slowing growth momentum poses risks to rating outlook and (5) oil price decline has an impact on inflationary expectations on US and softer expectation could dampen the motivation for Fed to embark on hawkish tightening.

Fed Fund Futures Pricing in Rising Probability of No Change in Fed Fund Target Rate for Mar and Jun FoMC meetings in 2019



Source: Bloomberg, Maybank FX Research & Strategy

Yield Curve Inversion Suggests Limited Room for Fed to Tighten



Source: Bloomberg, Maybank FX Research & Strategy

Going back to 1980s, previous episodes of yield curve inversions tend to coincide with the peak of each Fed rate hike cycle. In the current episode, 2Y10Y UST yield spread is about +10bps away from being flat and inverted. Historically low in 2y10y yield spread was about -40bps in 1989 and 2000. While there may still be room for Fed to tighten, historical observation suggests that the room may well be limited.

FoMC Meeting Schedule for 2019

January	29 - 30
March	19 - 20
Apr/ May	30 - 1
Jun	18 - 19
July	30 - 31
Sep	17 - 18
Oct	29 - 30
Dec	10 - 11

Source: Federal Reserve, Maybank FX Research & Strategy

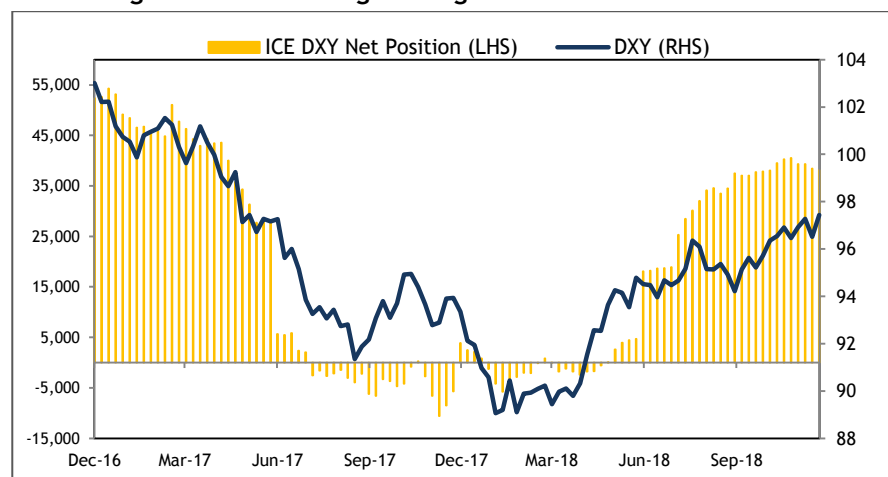
FoMC Voters in 2019: A Tilt Towards Less Hawkish

2018		2019	
Esther George (AV, Kansas)	MD	Esther George (FRB, Kansas)	MD
Loretta Mester (FRB, Cleveland)	H	Michelle Bowman (BOG)	H
Eric Rosengren (AV, Boston)	H	Loretta Mester (AV, Cleveland)	H
John Williams (FRB, NY)	H	John Williams (FRB, NY)	H
Thomas Barkin (FRB, Richmond)	H	Eric Rosengren (FRB, Boston)	H
Jerome Powell (Chairman)	N	Jerome Powell (Chairman)	N
Richard Clarida (Vice-Chair)	N	Richard Clarida (Vice-Chair)	N
Randal Quarles (Vice-Chair for Supervision)	N	Randal Quarles (Vice-Chair for Supervision)	N
Lael Brainard (BOG)	N	Lael Brainard (BOG)	N
Raphael Bostic (FRB, Atlanta)	D	Patrick Harker (AV, Philadelphia)	N/D
Mary Daly (FRB, SF)	D	Robert Kaplan (AV, Dallas)	N/D
Charles Evans (AV, Chicago)	D	Charles Evans (FRB, Chicago)	D
James Bullard (AV, St. Louis)	MD	Neel Kashkari (AV, Minneapolis)	D
		James Bullard (FRB, St. Louis)	MD

Note: FRB refers to regional FRB President who vote in the current rotation; AV refers to Alternate Voting FRB President in the absence of a voting member; BoG refers to Board of Governor who always votes regardless of rotation; N: Neutral; MH: Most Hawkish; H: Hawkish; D: Dovish; MD: Most Dovish (according to Bloomberg Economics Fed Spectrometer)

Source: Bloomberg, Maybank FX Research & Strategy

Unwinding of Stale USD Long to Drag USD Lower



Note: Latest CFTC Positioning as of 11 Dec for report published on 14 Dec 2018.

Source: Bloomberg, Maybank FX Research & Strategy

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