

The 'Fed Put' – would it exercise it?

Global FX

The 'Fed Put', what would tick the Fed on a pause note in 2019. While the coast is yet to be clear, we note the overnight session was filled with market chatter and debate whether post December hike, the Fed exercises its put option on the decision of tightening monetary policy.

The equity market sell-off since the beginning of October has led to questions around whether the Fed will maintain its current path of rate hikes. Historically, the Fed appears to have responded with more accommodative policy after stock market sell-offs, on average. This has led some to conclude that there is a Fed "put," in which the Fed responds to large stock market declines with accommodative policy, but does not change course when faced with small declines or increases in stock prices.

The reason why the Fed reacts is, namely stock price declines serves as a financial market signal of lower growth in future, secondly stick price declines and financial conditions tightening could cause a drag on future growth, via the wealth effects on consumer spending.

If The Fed wants to start changing tack from its hawkish trajectory, next week offers a number of opportunities:

- Nov. 27: Clarida speaks in New York
- Nov. 28: Powell speaks at Economic Club of NY
- Nov. 29: Minutes of last meeting released
- Nov. 30: Williams speaks on the global economy at G-30 meeting
- December 5: Powell goes before the Joint Economic Committee in Congress.

Thanksgiving holiday in the US and Labor Thanksgiving holiday in Japan, makes the Thursday and Friday trading session rather light with flows expected to be tepid. Asian session will follow through with marginal Dollar bid as Oil figures prominently on whether to start adding or reducing Dollar positions for the next 2 sessions.

We believe beyond that, markets will take note of the 'Fed put' argument in coming weeks as December Fed rate hike being priced in, it is rather academic but what holds for 2019 will be of crucial interest for money managers.

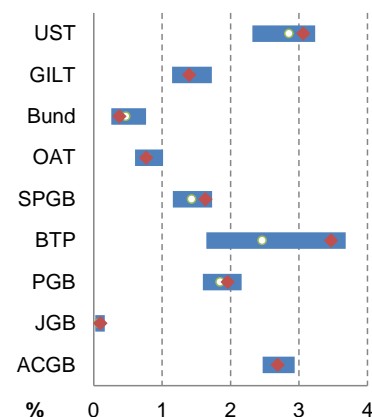
AxJ Rates/FX

Carry, Hedge cost as well as Yield play still remains in the game, but the outlying factor Oil, is thwarting trades in the market. Crude held around UDD 54 p/b overnight as inventories came off. With Asian markets remaining hostage to the Dollar strength as well as Oil, we see limited sharp gains for Asian units today.

Singapore Q3 GDP fell short of expectations at 2.2% y/y while q/q it printed 3.0%, limited reaction in markets, reserves numbers of the first 15 days of November will be a focus for Ringgit traders when it's released later today.

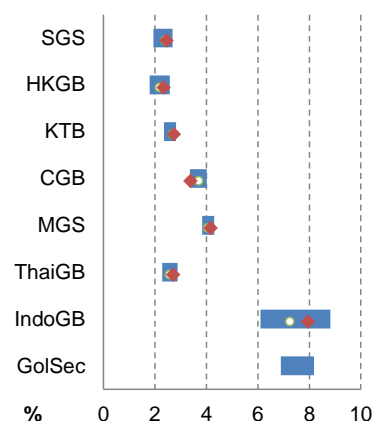
Ringgit still trading marginally below 4.20, as broad based Dollar strength exerts pressure on Asian currencies early in the trading session. Key here being the 4.20 level, a level that though has been tested, but seems to be lacking the legs to inch higher. We remain fairly optimistic, as the Fed engages on a Fed put option on monetary policy in 2019, Asian units will witness greater magnitude of appreciation.

Chart 1: Global 10y Bond Range



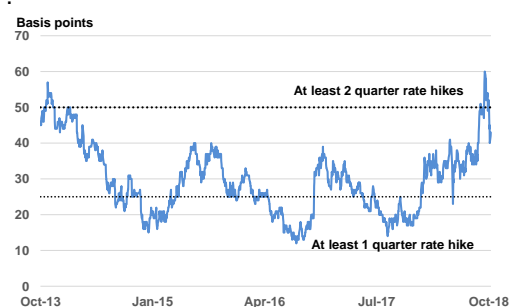
Source: Bloomberg, RHBFC

Chart 2: Asia-ex Japan 10y Bond Range



Source: Bloomberg, RHBFC

Chart 3: Amount of Fed Tightening in 2019



Source: Bloomberg, RHBFC

Suresh Ramanathan CQF, Ph.D.

Senior Currency Strategist

Rates/FX Research

+603 92808878

suresh.kumar.ramanathan@rhbgroup.com

Rates & FX Trade Ideas

Rates Trade Ideas	Date Initiated	Date Closed	Levels			Yield Change Since Initiation (bps)	Status
			Entry	Current	Target / Stop Loss		
Tactical Long 10y UST vs Bunds	26/02/18	25/04/18	221	237	200 / 235	+16	Stop Out

Source: RHBFIC, Bloomberg

Note: Only outstanding positions and positions expired or closed over a rolling one week are reflected in the table; all positions unhedged

*Figures denoted in bps unless otherwise stated.

FX Trade Ideas	Date Initiated	Date Closed	Levels			Performance Since Initiation (%)	Status
			Entry	Current	Target / Stop Loss		
Long AUDMYR	27/02/18	20/03/18	3.0642	3.0192	3.1620 / 3.0360	-1.47%	Stop Out
Short USDTHB	02/05/18	14/05/18	31.696	31.900	31.20/31.90	-0.64%	Stop Loss

Source: RHBFIC, Bloomberg

Note: Only outstanding positions and positions expired or closed over a rolling one week are reflected in the table; all positions unhedged.

Currency Support and Resistance Levels

	Spot	Support 1	Support 2	Resistance 1	Resistance 2
GBP/USD	1.2781	1.2761	1.2734	1.2817	1.2846
EURUSD	1.1394	1.1361	1.1334	1.1420	1.1452
USDJPY	112.98	112.78	112.58	113.18	113.39
AUDUSD	0.7256	0.7224	0.7198	0.7226	0.7302
USDSGD	1.3735	1.3712	1.3689	1.3761	1.3787
USDCNY	6.9274	6.9190	6.9110	6.9430	6.9590
USDTHB	32.93	32.95	32.92	33.012	33.04
USDIDR	14,589	14,566	14,528	14,643	14,682
USDMYR*	4.1923	4.1907	4.1876	4.1987	4.2036
EURMYR*	4.7606	4.7611	4.7462	4.7949	4.8140
GBPMYR*	5.3582	5.3478	5.3325	5.3815	5.3999
AUDMYR*	3.0416	3.0274	3.0142	3.0340	3.0695
SGDMYR*	3.0520	3.0562	3.0591	3.0512	3.0490

Source: RHBFIG, Bloomberg

Note: **Blue font** highlights that currency is nearing support or resistance level; underlined figure denotes a change in support or resistance level.

*MYR crosses as per previous day closing

Daily Sovereign Rates and FX Changes

Country	As at	2y			10y				2/10y Spread (bps)	Currency	FX Rate (per USD)	
		Closing Yield (%)	Yield Change (bps)	3m Avg Yield (%)	Closing Yield (%)	Yield Change (bps)	3m Avg Yield (%)	Current vs 3m Avg			Last Traded Price	Change (%)
US	21-Nov-18	2.814	1.0	2.815	3.063	0.0	3.080	-1.8	24.9	DXY	96.725	-0.10
										ADXY	104.320	0.22
UK	21-Nov-18	0.732	3.0	0.788	1.394	1.2	1.521	-12.7	66.2	GBP	1.2775	-0.09
Germany	21-Nov-18	-0.586	1.2	-0.573	0.375	2.6	0.436	-6.1	96.1	EUR	1.1383	0.16
France	21-Nov-18	-0.455	1.1	-0.397	0.764	0.8	0.784	-2.0	121.9			
Spain	21-Nov-18	-0.146	-2.5	-0.195	1.632	-1.3	1.551	8.1	177.8			
Italy	21-Nov-18	1.125	-23.3	1.087	3.468	-14.6	3.260	20.8	234.3			
Portugal	21-Nov-18	-0.200	-3.6	-0.131	1.958	-2.2	1.913	4.5	215.8			
Japan	21-Nov-18	-0.141	-0.1	-0.115	0.095	-0.7	0.127	-3.2	23.6	JPY	113.07	-0.27
Australia	21-Nov-18	2.048	-0.9	2.027	2.688	-0.5	2.661	2.7	64.0	AUD	0.7262	0.68
Singapore	21-Nov-18	2.079	1.6	2.005	2.452	1.5	2.508	-5.6	37.3	SGD	1.3729	0.15
South Korea*	21-Nov-18	2.190	0.0	1.924	2.730	0.0	2.730	0.0	54.0	KRW	1,128.1	0.13
China*	21-Nov-18	2.985	-1.9	3.225	3.375	-0.7	3.583	-20.8	39.0	CNY	6.9270	0.27
China (Offshore)*	21-Nov-18	3.896	0.2	3.714	4.020	0.0	3.988	3.2	12.4	CNH	6.9243	0.30
Malaysia*	21-Nov-18	3.675	0.4	3.615	4.156	1.5	4.111	4.5	48.1	MYR	4.1776	0.28
Thailand	21-Nov-18	1.827	-0.9	2.018	2.706	-1.4	2.814	-10.8	87.9	SGD/MYR	3.0551	0.30
										THB	32.895	0.27
Indonesia*	21-Nov-18	7.689	1.7	7.889	7.950	-4.5	8.331	-38.1	26.1	IDR	14,590	0.00

Source: RHBFIG, Bloomberg

*3y

**Against USD unless otherwise mentioned; daily change (%) reflects overnight changes in the pair denoted in market convention.

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Kuala Lumpur

Malaysia Research Office
RHB Research Institute Sdn Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur
Malaysia
Tel : +(60) 3 9280 8888
Fax : +(60) 3 9284 8693

Hong Kong

RHB Securities Hong Kong Limited
12th Floor
World-Wide House
19 Des Voeux Road
Central, Hong Kong
Tel : +(852) 2525 1118
Fax : +(852) 2810 0908

Singapore

RHB Research Institute Singapore Pte Ltd
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +(65) 6533 1818
Fax : +(65) 6532 6211

Jakarta

PT RHB Sekuritas Indonesia
Wisma Mulia Building, 20th Floor
Jl. Jend. Gatot Subroto No.42
Jakarta 12710, Indonesia
Tel : +(6221) 2783 0888
Fax : +(6221) 2783 0777

Shanghai

Bangkok

RHB Securities (Thailand) PCL.
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +(66) 862 9999
Fax : +(66) 108 0999