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Three Take-Aways

1) Fed cut was less hawkish than expected sending USD plunging while UST yields decline but in a less marked manner for the week reflecting pausing at lower rates rather than pivot to neutral.

2) The Dot Plot is a restrain but not a firm plan given backlog of data which may trigger reassessment of economic risks.

3) BSP may opt for 25bp rate cut to provide interim support as cautious government disbursement bite.

MACRO THEME: 3 2 1

- Last night, the FOMC voted 9-3 to cut the Fed funds rate by 25bp. Headlines of three dissenters perhaps overstate the divergence with two officials Schmid and Goolsbee in favour of keeping rates unchanged while Miran's 50bp cut dissent was widely expected.

- More importantly, Fed Chair Powell has stepped in to say that a rate hike is not the base case for anyone. In short, the policy calculus is still about the degree of easing.

- Labour market concerns remain the key reason for easing last night. The statement removed their earlier reference to unemployment remaining low alongside allusion to unemployment rate creep up.

Pause, Not Pivot

- The main take-away from the FOMC was that the widely anticipated "hawkish cut" was, in the nuanced revelations of the press conference, **somewhat less hawkish than expected**.

- To be sure, the Fed's message that they are down with the "risk management" cuts was loud and clear. This was underscored by a meeting-by-meeting approach to the depth and speed of further cuts in the context of front-loaded insurance cuts.

- But equally, Fed Chair Powell has suggested that the **next move will still likely be a cut, not a hike.**

- In other words, the Fed is merely pausing at comfortably lower rates, not pivoting to a bona fide neutral stance free from an easing bias (albeit, with an arguably higher bar for imminent rate cuts).

- This explains a markedly softer USD knee-jerk relative to the decline in yields which remains somewhat unchanged for this week.

Plot, Not Plan

- Arguably, the unchanged 'Dot Plot' with a median projection of just one rate cut in 2026 (and another in 2027) does come across as being somewhat of a hawkish signal - all else equal. But markets are expressing doubt, pricing in two cuts instead for 2026. Notably, as the Fed's assessment of inflation-jobs risks balance is likely to be asymmetrically skewed to more, not fewer cuts than the 'Dot Plot' suggests.

- Especially, as; a) the current overshoot is mostly seen being attributable to tariffs and; b) the tariff impact on inflation is seen as mostly a one-off peaking in Q1 2026. Afterall, the summary of economic projections saw both headline and core PCE inflation for 2026 downwardly revised.

- So, whilst the implied 'Dot Plot' restraint is helpful to anchor expectations, the Fed's latent response function may still be more dovish. Point being, not too much weight is placed on the 'Dot Plot' being the plan. Specifically, if inflation fades as expected.

- Embedded in this remnant, latent dovish bias is the scope for short-term interest rates to fall sharply heading into H1 2026.

Accentuated "Behind the Curve" Risks

- More so, as the post-shutdown backlog of data floods in, necessitating rapid reassessment of wider economic risks. Given the nature of the data blackout during the shutdown, the notable risk here is two-fold.

- First, the interpretation of data is rendered even more challenging as the Fed will have to assess if soft spots were merely temporary bumps from the shutdown or this is consistent with the underlying trend.

- Second, and more concerningly, the very real risk of exacerbated lags in data accentuate the risks of the Fed falling further behind the curve that would ordinarily be the case.

- Admittedly, the "risk management" cuts mitigate the "behind the curve" risk. But unprecedented economic uncertainty, compounded by impaired long-end transmission of rate cuts means that the "too little, too late" risks may be lurking around the corner.

Yields ***(2Y: -7.8bp; 10Y: -4.0bp; 30Y:-2.1bp)***

Equities ***(Nasdaq: +0.3%; S&P 500: +0.7%; Dow: +1.1%)***

FX ***(DXY: -0.4%)***

- JPY outperformed alongside the AUD, unsurprising given the direction of travel for policy in the two countries. USDJPY dipped below 156 while AUD hovers in the upper half of mid-66 cents.

BSP: Cautious Interim Support

- This afternoon, we expect the **BSP to provide further interim support to growth with another 25bp cut**.

- Admittedly, **this is not a easy decision for the BSP given PHP weakness** and the manufactured nature of the dismal 4% YoY Q3 GDP growth due to a sharp contraction in general government expenditure on construction. Aside from Q3 being a seasonal low for government investments, the corruption scandal also engendered stricter disbursements resulting in the sharp decline in investments.

- That said, the **tepid consumption growth** which decelerated to 4.1%YoY in Q3 from 5.3%YoY in Q2 remains worrying for the BSP.

- Providing scope to ease, inflation remains well managed with core inflation within the BSP's target range while headline inflation is below the BSP's 2-4% range. Nonetheless, this will be a **cautious cut as the BSP has limited room left for further cuts** with the overnight borrowing rate hovering just 50bp above late 2019 levels and the PHP has underperformed.

- The upshot is even amid seasonal tailwinds that there will be **depreciation pressures on the PHP should a rate cut come to pass** but we expect Governor Remolona not to sound overly dovish and the BSP being on hand to keep a lid on excessive moves.

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(CH) CPI/PPI YoY (Nov)	0.7%/-2.2%	0.7%/2.1%	0.2%/-2.1%
(KR) Unemployment Rate SA (Nov)	2.7%	2.6%	2.6%
(PH) Unemployment Rate (Oct)	5.0%	--	3.8%
(US) Employment Cost Index (3Q)	0.8%	0.9%	0.9%
(JP) PPI YoY (Nov)	2.7%	2.7%	2.7%
(US) FOMC Rate (Lower-Upper Bound)	3.50-3.75%	3.50-3.75%	3.75%-4.00%

Today	Actual	Exp.	Prior
(AU) Employment Change (Nov)		20k	42.2k
(AU) Unemployment Change (Nov)		4.4%	4.3%
BSP Overnight Borrowing Rate		**4.50%**	**4.75%**
(US) Initial Jobless Claims		220k	191k
(US) Trade Balance (Sep)		-$63b	-$59.6b

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	156.02	155.78	▼0.55%	154.50	-	158.00
EURUSD	1.1695	1.1701	+0.58%	1.1550	-	1.1750
GBPUSD	1.3383	1.3389	+0.65%	1.3200	-	1.3500
AUDUSD	0.6676	0.6674	+0.51%	0.6600	-	0.6700
DXY	98.8	--	▼0.44%	98.2	-	100.0
USDCNY	7.0680	--	+0.06%	7.0500	-	7.1500
USDCNH	7.0610	7.0577	+0.00%	7.0400	-	7.1700
USDHKD	7.7810	7.7796	▼0.02%	7.7600	-	7.8200
USDSGD	1.2930	1.2922	▼0.35%	1.2890	-	1.3050
USDKRW	1465	1470	+0.00%	1447	-	1485
USDTWD	31.19	--	▼0.04%	30.80		31.60
USDINR	89.98	--	+0.10%	89.00	-	90.10
USDIDR	16685	--	+0.12%	16500	-	16800
USDMYR	4.118	4.106	+0.09%	4.050	-	4.120
USDPHP	59.23	--	+0.05%	58.50	-	59.60
USDTHB	31.82	31.75	+0.00%	31.6	-	32.2
USDVND	26357	26355	▼0.05%	26250	-	26600

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.539	4.149	-7.8	-4.0
JGB (JP)	1.065	1.948	-0.2	-1.0
Bunds (GE)	2.175	2.850	2.4	0.2
Gilts (UK)	3.782	4.505	0.5	0.1
AGB (AU)	4.121	4.810	5.3	5.1
SGS (SG)	1.439	2.121	-0.2	1.6
CGB (CN)	1.389	1.833	-0.2	0.1
KGB (KR)	2.882	3.444	0.0	0.0
SDL (IN)	5.790	6.628	-2.7	3.8

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6886.68	46.17	+0.67%
Nasdaq (US)	23654.15	77.66	+0.33%
DJIA (US)	48057.75	497.46	+1.05%
N225 (JP)	50602.8	-52.30	▼0.10%
STOXX50 (EU)	5708.12	-10.20	▼0.18%

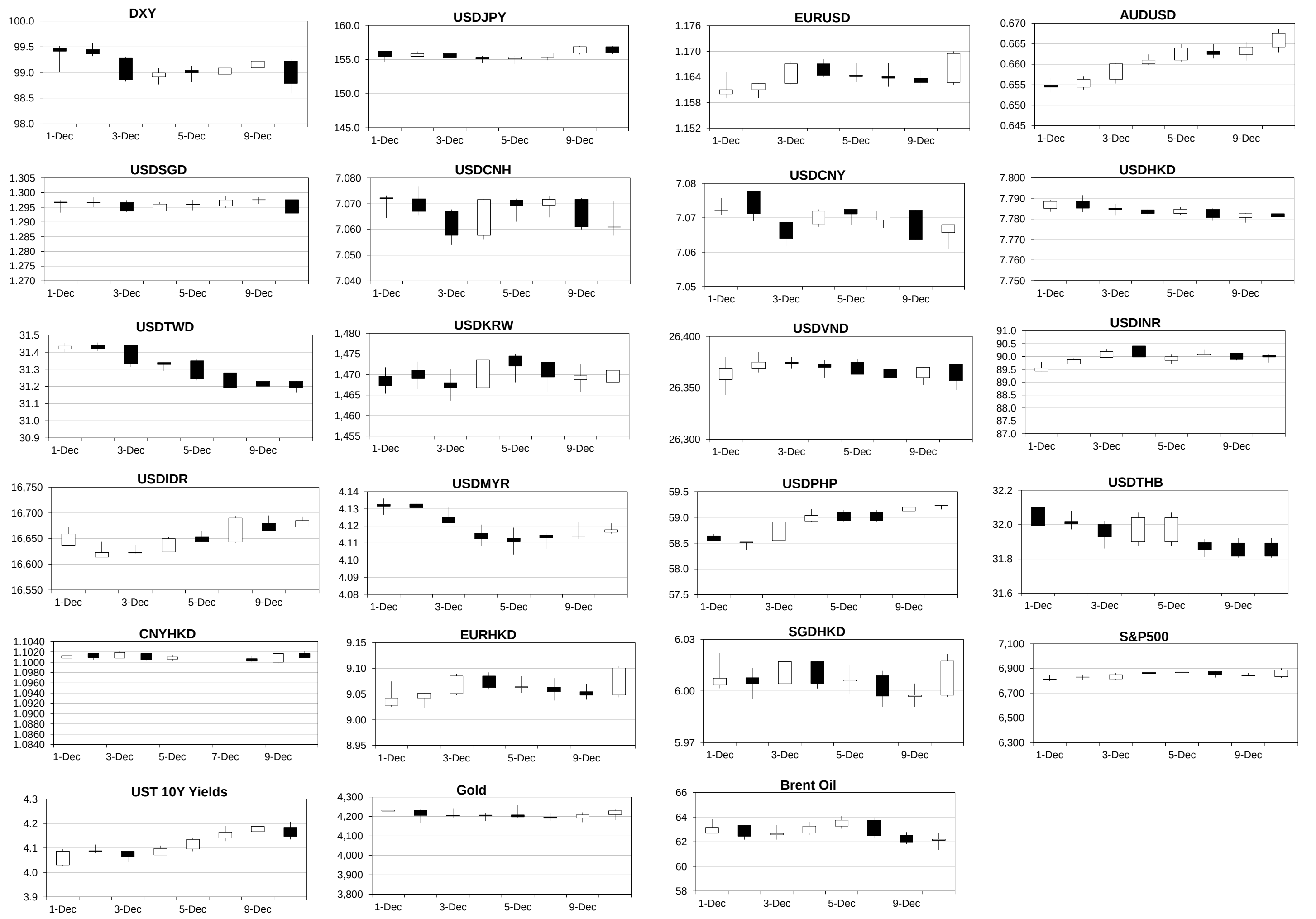
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	11,568.19	81.19	+0.71%
IRON ORE (CN)	106.54	-1.31	+0.56%
GOLD	4,228.84	20.60	+0.49%
SILVER	61.81	0.02	+0.46%
OIL (BRENT)	62.21	0.27	+0.44%
OIL (WTI)	58.46	0.21	+0.36%
NATURAL GAS	4.60	1.14	+1.87%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	182.44	182.27	+0.02%
GBP/JPY	208.771	208.559	+0.08%
JPY/SGD (100yen)	0.8288	0.8295	+0.22%
JPY/HKD (100yen)	4.9875	4.9941	+0.54%
CNH/JPY	22.132	22.039	▼0.36%
CNH/HKD	1.1009	1.1007	▼0.07%
EUR/GBP	0.87392	0.87396	▼0.04%
AUD/NZD	1.1479	1.1475	▼0.09%
EUR/CNH	8.2582	8.2582	+0.58%
GBP/CNH	9.4491	9.4492	+0.63%
CNY/HKD	1.1009	1.1007	▼0.07%
EUR/HKD	9.1007	9.1029	+0.58%
SGD/HKD	6.0177	6.0204	+0.34%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5201.95	4.44	+0.09%
STI (SG)	4511.9	-1.34	▼0.03%
SHCOMP (CN)	3900.496	-9.03	▼0.23%
SZCOMP (CN)	2492.372	6.44	+0.26%
HSI (HK)	25540.78	106.55	+0.42%
SENSEX (IN)	84391.27	-275.01	▼0.32%
JSE (ID)	8700.924	43.75	+0.51%
KLSE (MY)	1611	-3.17	▼0.20%
PSE (PH)	5959.94	-16.70	▼0.28%
SET (TH)	1269.87	0.00	+0.00%
VNINDEX (VN)	1718.98	-0.02	▼1.61%

CHARTS



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