Mizuho Daily

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Three Take-Aways

1) Despite delivering the expected 25bp cut alongside termination of QT, the FOMC surprised with an unexpected hawkish restraint that sent UST yields and USD higher.

2) Notably, the Fed appears more polarized – Miran dissenting for a 50bp cut while Schmid arguing for no cuts – and far more tentative about further easing.

3) The Fed's restraint easing bias is set to be reflected in the ECB's hold later today. Similarly for the RBA and BoC (after yesterday's cut).

MACRO THEME: The FOMC's Hawkish Inflection Embedded in "Double-Barelled" Easing

No surprises as the FOMC duly delivered the widely expected easing. In fact, regardless of being well-telegraphed, the **effective easing was arguably even more emphatic**, *entailing a greater degree of accommodation.*

Specifically*, as the* well-telegraphed 25bp cut (to 3.75-4.00%) was **accompanied by** the anticipated termination of QT (details below).

But what was ***unexpected*** was the ***degree of hawkish inflection*** embedded within the broader easing bias.

Especially insofar that ~**4% is not expected to be the terminal rate**. Not ***even for the hawkish camps***.

*And this sent the **USD higher** (DXY: +) alongside a ~10bb **lift in yields** across the UST curve **despite the Fed's "double-barred" easing**.*

Polarization with Hawkish Restraint?

*So, **why the hawkish surprise**?*

For one, this may be partly attributed to the prevailing **polarization** in the FOMC, ***with shades of hawkish restraint***.

Admittedly there is absolutely **nothing surprising** – given strong pre-existing political/policy bias – **about Miran's dovish dissent *favouring a 50bp cut***.

But **Schmid's dissent that** called ***for no cuts***, arguably has a **marginal element of surprise**.

Mainly because *Schmid's known hawkish bias ought to have been reasonably tempered* (and therefore subdued) to fit *within a negotiated consensus* (for a 25bp cut) *on premise of limited "risk management" cuts.* And so, an **open dissent against easing at the current elevated altitude of rates arguably reveals greater concealed hawkish restraint**.

Tentative (on Further Easing)

Second, and more importantly, **the hawkish inflection was conveyed in the pipeline restraint** that was **conveyed by Fed Chair Powell**. Notably, emphasizing that "*further reduction in the policy rate in December is … far from … a forgone conclusion*". He also referred to **slowing down on easing** *"if you are driving in a fog"*.

The analogy ostensibly being a reference not only to the **data gaps owing to the shutdown,** *but crucially a **conflicted view between inflation-jobs risks*** **amid signs of recent growth outrun**.

Curve Kinks …

One consequence of this might be **a bit of a curve kink down the pike** as Fed expectations are subject to flux.

Specifically, as the **current pushback** (hawkish restraint) **that has lifted front-end yields alongside the long-end proves fleeting**.

And **softer jobs data** (released with a lag) **forces a more hurried compensatory catch-down in Fed rates**. At which point, **amid outsized Fed cuts markets might be in uncharted territory** of having ***to decide if the USD goes higher*** (on chills about hard-landing risks) **or pullback on Fed credibility/independence doubts**.

Furthermore, this could also create **tensions at the long-end of the UST curve** as markets grapple between sell-off (on Fed credibility risks) or anchor on recession-averting cuts.

One way or the other, **preparing for more flux in Fed expectations** into mid-2026 and ***attendant volatility in*** not just ***USD*** and ***yields***, but also the ***USD-yield correlations*** may be **par for the course**.

… & QT Blink

To be sure, the **termination of the Fed's QT** (quantitative tightening, which refer to a reduction in the Fed's balance sheet) is **not a surprise either**. But the **details** are worth noting. Apart from taking effect from 1st December, the re-investment from maturing MBS will be re-channeled to USTs.

Specifically, it suggests that the ***Fed****, despite the current restraint on further cuts,* *is **increasingly worried about inadvertent liquidity shocks***. Especially given it is **terminating by ending QT when the balance is still ~75% larger than the pre-pandemic lows** (in Q3 2019).

And that is telling of a "QT blink" to insure against the "rail risks" of a liquidity-driven crunch in markets. But equally, by **re-channelling MBS proceeds to USTs**, there is; i) *a concerted effort to concentrate efforts to rein in "risk free" rates*, whilst; ii) allowing marginal credit re-pricing.

Fed Restraint Not Peculiar

To be sure, the **Fed is not alone in exercising forward-looking restraint on easing.** The BoC, after the coincident cuts with the Fed (yesterday), has signalled rates are now appropriate.

The ECB later today is also likely to remain on hold, having cut to 2.00% previously. And the RBA, after somewhat hotter than anticipated inflation prints has a higher bar for further cuts as well.

But ***interim pauses are more inconveniences than enduring impedance*** *as latent downside risks linger.*

Yields ***(2Y: +10.8bps; 10Y +10.1bp; 30Y: +8.4bp)***

- UST yield curve bear flattened.

Equities ***(Nasdaq: +0.5%; S&P 500: +0.0%; Dow: -0.2%)***

FX ***(DXY: +0.6%)***

DATA/EVENTS

Yesterday	Actual	Exp.	Prior
(AU) CPI/Trimmed Mean YoY (3Q)	3.2%/3.0%	3.0%/2.7%	2.1%/2.7%
FOMC Rate Decision	3.75%-4.00%	3.75%-4.00%	4.00-4.25%
(US) Wholesale Inventories MoM (Sep P)	Delayed	-0.2%	--

Today	Actual	Exp.	Prior
(PH) Exports/Imports YoY (Sep)		11.4%/-2.3%	4.6%/4.9%
(SG) Unemployment Rate SA (Sep)		2.00%	2.10%
(EZ) Unemployment Rate (Sep)		6.3%	6.3%
(US) Initial Jobless Claims (Oct 25)		228k	
(US) GDP Annualised QoQ (3Q A)		3.0%	3.8%
(EZ) GDP SA QoQ (3Q A)		0.1%	0.1%
ECB Deposit Facility Rate		**2.00%**	**2.00%**
BoJ Target Rate		**0.50%**	**0.50%**

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	152.73	152.74	+0.41%	149.50	-	153.50
EURUSD	1.1601	1.1602	▼0.43%	1.1550	-	1.1710
GBPUSD	1.3194	1.3194	▼0.59%	1.3100	-	1.3300
AUDUSD	0.6574	0.6576	▼0.17%	0.6550	-	0.6650
DXY	99.2	--	+0.56%	98.5	-	100.0
USDCNY	7.0985	--	▼0.01%	7.0900	-	7.1500
USDCNH	7.0974	7.0968	+0.02%	7.0900	-	7.1700
USDHKD	7.7709	7.7707	+0.02%	7.7600	-	7.8200
USDSGD	1.2973	1.2974	+0.26%	1.2750	-	1.3050
USDKRW	1422	1421	+0.00%	1410	-	1440
USDTWD	30.62	--	▼0.01%	30.30	-	31.00
USDINR	88.20	--	▼0.08%	87.00	-	89.50
USDIDR	16619	--	+0.08%	16500	-	16800
USDMYR	4.189	4.193	▼0.23%	4.180	-	4.250
USDPHP	58.71	--	▼0.72%	58.20	-	59.30
USDTHB	32.27	32.40	▼0.55%	32.2	-	33.0
USDVND	26334	26333	+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)	3.599	4.078	10.8	10.1
JGB (JP)	0.940	1.648	0.7	1.0
Bunds (GE)	1.972	2.620	0.0	-0.2
Gilts (UK)	3.761	4.391	-0.6	-0.8
AGB (AU)	3.543	4.224	11.8	5.1
SGS (SG)	1.392	1.855	-1.7	3.3
CGB (CN)	1.413	1.811	-4.0	0.2
KGB (KR)	2.621	3.001	5.0	6.5
SDL (IN)	5.781	6.535	-0.2	-0.1

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	177.18	177.22	▼0.03%
GBP/JPY	201.521	201.517	▼0.19%
JPY/SGD (100yen)	0.8494	0.8493	▼0.14%
JPY/HKD (100yen)	5.0881	5.0874	▼0.40%
CNH/JPY	21.53	21.521	+0.48%
CNH/HKD	1.0946	1.0947	+0.01%
EUR/GBP	0.87923	0.87937	+0.15%
AUD/NZD	1.1407	1.1411	+0.17%
EUR/CNH	8.2339	8.2337	▼0.41%
GBP/CNH	9.3637	9.3632	▼0.57%
CNY/HKD	1.0946	1.0947	+0.01%
EUR/HKD	9.0152	9.0156	▼0.42%
SGD/HKD	5.9895	5.9894	▼0.27%

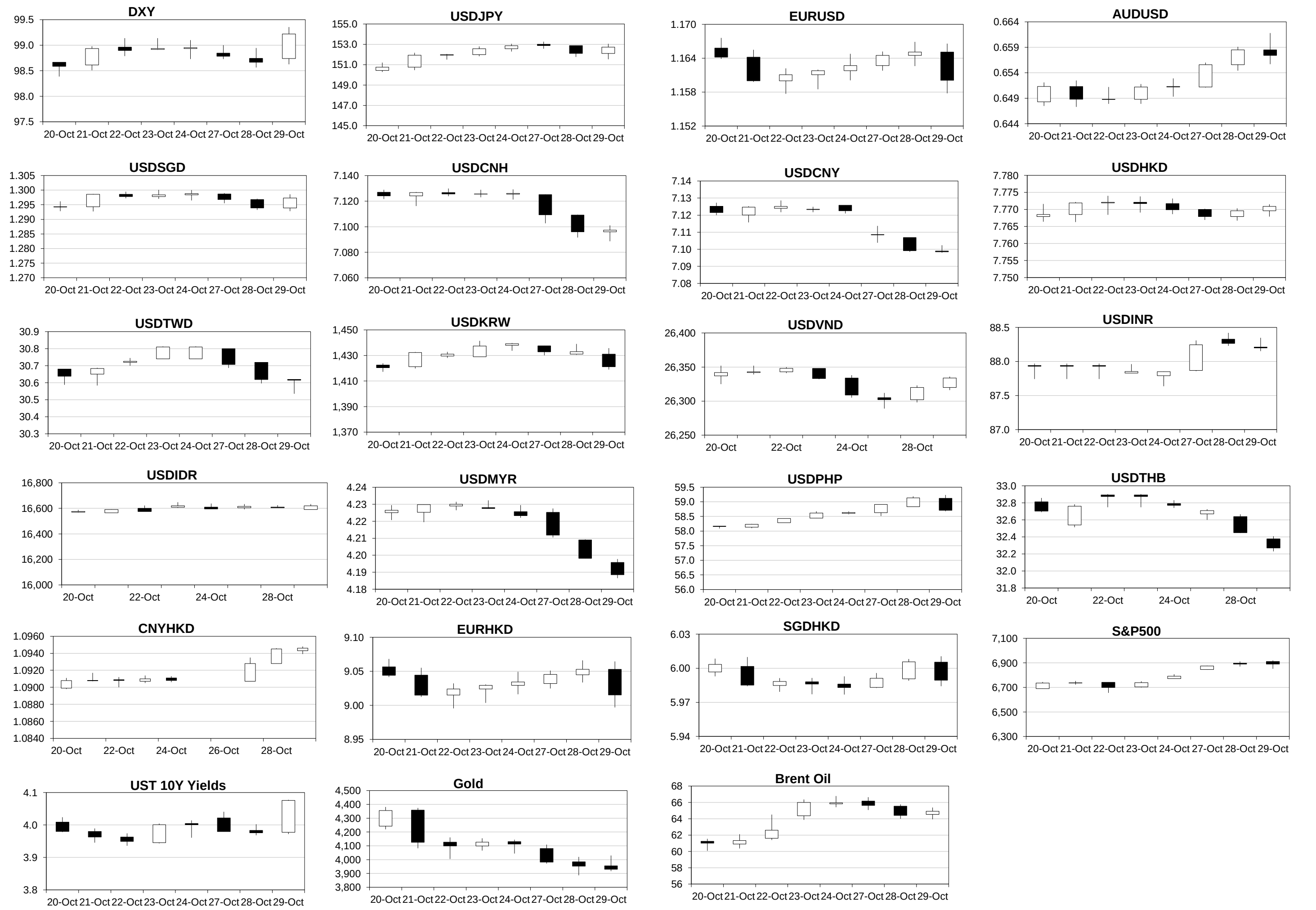
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	6890.59	-0.30	▼0.00%
Nasdaq (US)	23958.47	130.98	+0.55%
DJIA (US)	47632	-74.37	▼0.16%
N225 (JP)	51307.65	1088.47	+2.17%
STOXX50 (EU)	5705.81	1.46	+0.03%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5266.17	27.15	+0.52%
STI (SG)	4440.21	-10.15	▼0.23%
SHCOMP (CN)	4016.331	28.11	+0.70%
SZCOMP (CN)	2550.28	33.31	+1.32%
HSI (HK)	26346.14	0.00	+0.00%
SENSEX (IN)	84997.13	368.97	+0.44%
JSE (ID)	8166.224	73.60	+0.91%
KLSE (MY)	1611.54	-2.02	▼0.13%
PSE (PH)	5963.77	10.61	+0.18%
SET (TH)	1315.64	1.36	+0.10%
VNINDEX (VN)	1685.83	0.00	+0.32%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	11,163.84	144.88	+1.31%
IRON ORE (CN)	105.95	0.80	+0.19%
GOLD	3,930.07	-22.07	▼0.56%
SILVER	47.55	-0.05	▼1.34%
OIL (BRENT)	64.92	0.52	+0.81%
OIL (WTI)	60.48	0.33	+0.55%
NATURAL GAS	3.82	0.49	+1.05%

CHARTS



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