



Investment Daily

19 December 2024

US stocks and Treasuries sold off after the Fed's hawkish rate cut

US stocks dropped on Wednesday amid a surge in Treasury yields, as the Fed delivered an expected 25bp rate cut but signalled a slower easing pace in 2025. The S&P 500 lost 2.9%.

US Treasuries sold off following the hawkish changes in the Fed's economic and rate projections. 2-year and 10-year yields jumped 11bp to 4.35% and 4.51% respectively.

European stock markets were mostly higher ahead of major global central bank meetings. The Euro Stoxx 50 closed 0.3% higher. The German DAX ended flat while the French CAC rose 0.3%. In the UK, the FTSE-100 was unchanged.

European government bonds ended lower. 10-year German yields edged up 1bp to 2.24% with 10-year French yields up 2bp at 3.05%. In the UK, 10-year gilt yields gained 4bp to 4.56% after data showed UK inflation accelerated in November.

Asian stock markets lacked clear direction on Wednesday ahead of Fed and Bank of Japan policy meetings. Japan's Nikkei 225 closed down 0.7%, while India's Sensex lost 0.6%. Meanwhile, China's Shanghai Composite and Hong Kong's Hang Seng rallied 0.6% and 0.8% respectively. Korea's Kospi also jumped 1.1%.

Crude oil prices rose on Wednesday as data showed a weekly decline in US crude stockpiles and a rise in US crude exports, but gains were capped by the Fed rate outlook. WTI crude for January delivery settled 0.7% higher at USD70.6 a barrel.

US stocks and Treasuries sold off on Fed rate projection

European stocks edged up with government bonds lower

Asian stocks lacked clear direction

Key Data Releases and Events

Releases yesterday

In the **US**, the **Federal Reserve (Fed)** cut the Fed funds rate by 25bp, as expected. The median projection in the economic projections showed a slower easing pace ahead, with two more 25bp cuts in 2025 (vs. four cuts previously), two further 25bp cuts in 2026, and one additional 25bp cut in 2027 to a terminal rate of 3.125% (vs. 2.875% previously). The end-2025 inflation forecast was revised up by 0.3pp to 2.5%. Consequently, the Fed wants to see more progress on inflation and can afford to be patient regarding further easing given the economy is growing at a solid pace. Chair Powell said Fed members took different approaches regarding tariffs in their inflation forecasts, but most view the risk to inflation has moved notably to the upside since September and there is more uncertainty. Partly offsetting this, Powell noted that the labour market is cooler than in 2019 and the Fed does not want to see further cooling. The Fed does not view the labour market as a source of inflation pressure.

Bank Indonesia left its policy rate on hold at 6.00%, amid recent depreciation pressure on the IDR given its FX stability mandate, despite high real rates (benign inflation) and tepid economic growth.

Releases due today (19 December 2024)

Country	Indicator	Period	Survey	Prior
Japan	BoJ Policy Rate	Dec	0.25%	0.25%
Mexico	Banxico de Mexico, Overnight Lending Rate	Dec	10.00%	10.25%
United Kingdom	BoE MPC Base Rate	Dec	4.75%	4.75%
Norway	Norges Bank Sight Deposit Rate	Dec	4.50%	4.50%
Sweden	Riksbank Policy Rate	Dec	2.50%	2.75%
Philippines	Central Bank Policy Rate	Dec	5.75%	6.00%

The **Bank of Japan** is expected to keep the policy rate unchanged, though Governor Ueda suggested a rate hike is "nearing".

In the **Philippines**, the **central bank** is expected to cut the policy rate to 5.75% from 6.00%, as inflation continues moderate.

In the **UK**, the **Bank of England** is expected to hold the policy rate steady at 4.75% as inflation and pay growth rose recently.

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