

FOMC Minutes and EM Asian Currencies

- The Fed has released the minutes of the November 7-8 FOMC meeting
- The 10Y UST yield will likely drift lower on account of the Fed's stance shift rather than rising flight-to-quality demand, which could boost risk appetite afterwards
- The Fed easing rate hikes next year would buoy high-yielding and high-beta currencies in the region, particularly if the US and China do agree to a ceasefire in the trade war as we expect

Asia Overview - EM Asian currencies rallied versus the dollar during Thursday's Asian session. The SGD and JPY advanced 0.2% each.

The CNH and CNY gained slightly. While the yuan range trading ahead of the Trump-Xi Summit, it will likely catch up with gains in regional peers later as the US and China could reach a framework agreement at the Summit. The PBoC said in a statement on Thursday that foreign institutional investors can enter Chinese interbank bond market via Bloomberg terminals connected with CFETS trading platforms. The KRW rose more than 0.6%. We maintain our short USD/KRW position with a target of 1,100. South Korea is sticking to the plan to hold a groundbreaking ceremony for inter-Korean railway and road connection projects this year. The TWD advanced around 0.3% despite equity outflows. USD/TWD will decline towards 30.5 if the US-China tensions ease at the G-20 meeting.

The INR extended its rally, up 1.1% on Thursday. With USD/INR falling below the initial target of 70 yesterday, we maintain our short USD/INR position with a new target of 68.5 and a stop of 70.5. The RBI on Thursday relaxed the minimum holding period requirement for originating non-banking finance company (NBFC) loans with the aim of encouraging these lenders to securitize their eligible assets. The IDR rallied 1.0%. USD/IDR is likely to trade towards 14,000 in the near term. Nanang Hendarsah, executive director for monetary management, said on Thursday that the BI will "provide room" for the IDR to continue strengthening in line with market mechanism. The MYR rebounded 0.4%. USD/MYR will likely drift lower but stays susceptible to weak oil prices. The PHP gained around 0.3%. USD/PHP is expected to trade between 52.0 and 53.0 for now. The BSP expects consumer prices rising 5.8% to 6.6% yoy in November, decelerating from an increase of 6.7% the previous month. Philippine finance secretary Carlos Dominguez told reporters in Manila that the nation will maintain a 3.2% budget deficit target for 2019. The THB increased 0.2%, with USD/THB likely to trade between 32.5 and 33.0 in the near term.

Most regional equity indices resided in the green on Thursday, except China's SHCOMP index and Thailand's SET index sliding 1.32% and 0.25% respectively. India's NIFTY50 index rose 1.21%, while South Korea's KOSPI index gained 0.28% with foreign investors purchasing a net USD 279.6mn of Korean shares. In the meantime, Taiwan's TWSE index edged up although global funds reduced their holdings in local main board shares by USD 52.7mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.58% and 1.93% respectively.

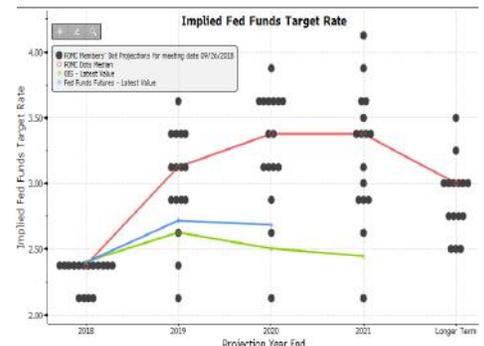
EM Asia • The Fed has released the minutes of the November 7-8 FOMC meeting, affirming a December rate hike.

- *Almost all Fed policymakers at the November 7-8 meeting believed another rate increase was likely to be "warranted fairly soon."*
- *Fed officials debated changing the "further gradual increases" phrase to place greater emphasis on the evaluation of incoming data for future decision making. Participants emphasized that the Committee's approach to setting the stance of policy should be importantly guided by incoming data and their implications for the economic outlook.*
- *The Fed could move to cut so-called interest on excess reserves rate (IOER) before the December meeting to keep its benchmark federal-funds rate from drifting too*

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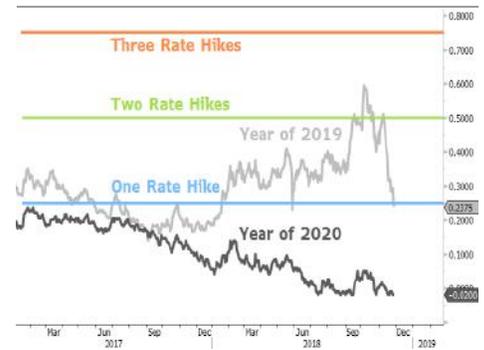
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FOMC Dots Median (September 2018) vs. Implied Fed



Source: Bloomberg & Scotiabank FICC Strategy

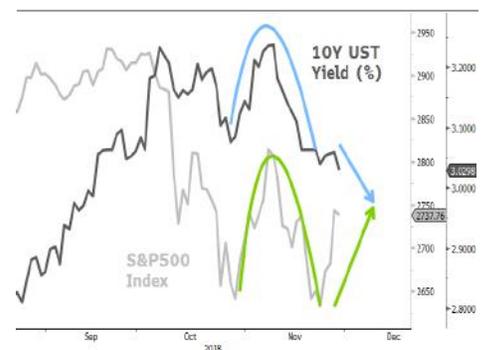
Eurodollar Futures Implied Number of Fed Rate Hikes: 2019 vs. 2020



Source: Bloomberg & Scotiabank FICC Strategy

10Y UST Yield vs. S&P500 Share Index

A lower yield due to the Fed's dovish stance could boost risk appetite and prop up US stocks



Source: Bloomberg & Scotiabank FICC Strategy

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high.

- A couple of participants noted that the federal funds rate might currently be near its neutral level and that further increases in the federal funds rate could unduly slow the expansion of economic activity and put downward pressure on inflation and inflation expectations.
- Various factors such as the recent tightening in financial conditions, risks in the global outlook, and some signs of slowing in interest-sensitive sectors of the economy on the one hand, and further indicators of tightness in labor markets and possible inflationary pressures, on the other hand, were noted in this context.

We believe the Fed will increasingly rely on economic data for its future decision making. Moreover, the Fed will hold press conference after every policy meeting starting in 2019, meaning all sessions are live. According to the minutes, the US central bank reckons *"monetary policy was not on a preset course; if incoming information prompted meaningful reassessments of the economic outlook and attendant risks, either to the upside or the downside, their policy outlook would change."*

Earlier on Wednesday, Fed Chairman Jerome Powell said at the Economic Club of New York that interest rates are "just below" a range of estimates of the so-called neutral level, easing investor worries about an aggressive increase in interest rates. Last Friday, we identified the Fed fine-tuning its policy stance amid risks of a synchronized global slowdown.

Both Fed Funds Futures and Eurodollar Futures are indicating the prospect of fewer rate hikes in the year of 2019 than three rate rises predicted in the September "dot plot" forecasts. We are awaiting the December "dot plot" forecasts for more clues to the Fed's rate tightening path.

The 10Y UST yield will likely drift lower on account of the Fed's stance shift rather than rising flight-to-quality demand, which could boost risk appetite afterwards and prop up risk assets including US stocks. In addition, the Fed easing rate hikes next year would buoy high-yielding and high-beta currencies such as the INR, IDR, KRW and THB in the region, particularly if the US and China do agree to a ceasefire in the trade war as we expect at the upcoming Trump-Xi Summit set for 1 December.

We believe reaching a framework agreement at the Summit is in both Trump and Xi's interest and reckon the comprehensive competition between the US and China will likely continue for decades. US President Donald Trump said Thursday that he is very close to "doing something" with China ahead of a planned meeting with Chinese President Xi Jinping.

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
05:45	NZ	DATA	Building Permits MoM	Oct		1.5%	-1.3%	med-high
07:00	KR	DATA	Industrial Production YoY	Oct	6.9%	10.7%	-8.4%	med
08:30	AU	CREDIT	Private Sector Credit MoM	Oct	0.4%		0.4%	med-high
08:30	AU	CREDIT	Private Sector Credit YoY	Oct	4.6%		4.6%	med-high
~09:00	KR	BOK	BoK 7-Day Repo Rate	Nov 30	1.75%		1.50%	high
09:00	CN	PMI	Official Manufacturing PMI	Oct	50.2		50.2	high
09:00	CN	PMI	Official Non-manufacturing PMI	Oct	53.8		53.9	med-high
10:00	SG	CREDIT	Bank Loans and Advances YoY	Oct			4.5%	med
15:30	TH	DATA	Foreign Reserves	Nov 23			\$202.6bn	med
15:30	TH	DATA	Forward Contracts	Nov 23			\$32.9bn	med
15:30	TH	TRADE	Exports YoY	Oct			-5.5%	med
15:30	TH	TRADE	Imports YoY	Oct			14.3%	med
15:30	TH	TRADE	Trade Balance	Oct			\$1963mn	med
15:30	TH	BOP	Current Account Balance	Oct	\$2000mn		\$2369mn	med-high
16:00	TW	GDP	GDP YoY	Q3 F	2.30%		2.28%	med
16:30	HK	DATA	Retail Sales Value YoY	Oct	3.6%		2.4%	med
16:30	HK	DATA	Retail Sales Volume YoY	Oct	2.8%		1.4%	med
19:00	IN	DATA	Fiscal Deficit, INR	Oct			34.41bn	med-high
19:30	IN	DATA	Eight Infrastructure Industry Growth YoY	Oct			4.3%	med-high
20:00	IN	GDP	GDP YoY	Q3	7.5%		8.2%	high
20:00	IN	GDP	GVA YoY	Q3	7.3%		8.0%	high
	HK	DEPOSIT	Offshore Yuan Deposits, RMB	Oct			600.33bn	med

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