**Fed Insurance Rate Cut in July**

- The Fed votes 8-2 to lower the target range for the federal funds rate by 25 bp to 2.00-2.25%, concluding the balance sheet reduction with effect from 1 August; Fed Chairman Jerome Powell says "it is not the beginning of a long series of rate cuts," but doesn’t rule out more reductions.
- We expect more insurance rate cuts to be delivered by the Fed to sustain the record-long expansion and boost US stock markets by taking into account the importance of the so-called wealth effect.
- While EM Asian currencies are anticipated to weaken temporarily amid a broadly strengthened dollar, they will rally again with major central banks on track for re-expanding their balance sheets later.

**Asia Overview** - EM Asian currencies were mixed versus the dollar during Wednesday’s Asian session. The SGD and JPY dropped 0.3% and 0.2% respectively.

The CNY closed flat while the CNH fell 0.3%. The dollar/yuan is likely to trade in a range of 6.80-6.95 until the US and China make a concrete progress in the trade talks. China’s official manufacturing PMI is likely to rally further after rising to 49.7 in July from 49.4 a month ago. China will step up supervision and risk warning on financing by big real estate companies with a high leverage ratio. The KRW declined 0.1%. USD/KRW will trade between 1,170 and 1,195 for now, following a broader market tone. South Korea and Japan will hold a foreign ministerial meeting on Friday. The KCNA reported that North Korean leader Kim Jong-un guided a test-fire of a "newly-developed large-caliber multiple launch guided rocket system" on Wednesday. The TWD slid 0.1% amid equity outflows. USD/TWD is likely to rally towards 31.2 in the coming sessions.

The INR inched up. USD/INR is expected to rally Thursday amid a broad dollar strength, but the pair will trade lower in the medium term. India’s fiscal deficit for April-June amounted to INR 4.32tn or 61.4% of INR 7.04tn targeted in the budget for FY2019-20. India’s production at eight key industries rose 0.2% yoy in June, the slowest pace since April 2015. The IDR edged up. USD/IDR typically rises in the month of August, but will trade lower again in the medium term with portfolio inflows chasing the high-yielding assets. Indonesia’s finance ministry sold IDR 21.45tn of bonds in a July 30 auction, exceeding a IDR 15tn target.

Regional equity indices diverged on Wednesday. China’s SHCOMP index slid 0.67% amid USD 90.3mn of equity outflows, while SZCOMP index declined 0.68% despite USD 17.7mn of stock inflows. India’s NIFTY50 index rallied 0.29%. South Korea’s KOSPI index slipped 0.69% with foreign investors offloading a net USD 18.9mn of Korean shares. In the meantime, Taiwan’s TWSE index dipped 0.07% as global funds reduced their holdings in local main board shares by USD 160.7mn on Wednesday. Malaysia’s KLCI index ended 0.48% lower. Thailand’s SET index and Indonesia’s JCI index closed up 0.32% and 0.21% respectively.
**EM Asia** • The Fed voted 8-2 to lower the target range for the federal funds rate by 25 bp to 2.00-2.25%, concluding the balance sheet reduction with effect from 1 August. The balance sheet runoff ended two months earlier than previously indicated, which will help maintain dollar liquidity steady. The US central bank also cut Interest Rate on Excess Reserves (IOER) to 2.10% from 2.35%, with the aim of stimulating bank lending and pumping money into the real economy.

According to the implementation note released, the Committee directs the Desk to roll over at auction all principal payments from the Fed's holdings of Treasury securities and to reinvest all principal payments from the Fed's holdings of agency debt and agency mortgage-backed securities received during each calendar month, with effect from 1 August 2019. Principal payments from agency debt and agency mortgage-backed securities up to USD 20bn per month will be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding, while principal payments in excess of USD 20bn per month will continue to be reinvested in agency mortgage-backed securities.

Fed Chairman Jerome Powell said at the press conference that "it is not the beginning of a long series of rate cuts," but didn’t rule out more reductions. His remarks disappointed some market participants who had interpreted the July rate cut as the beginning of an easing cycle, boosting the DXY Index but undermining US stocks. It will raise market fears about US Treasury currency intervention if the DXY Index approaches the 100 mark, in our view.

We expect more insurance rate cuts to be delivered by the Fed to sustain the record-long expansion in the US economy. In our opinion, more Fed monetary easing is needed to reduce both risk-free interest rate and risk premium to boost US stock markets, particularly if taking into account the so-called wealth effect that has a significant implication for US economic expansion. US consumer confidence has been tracking the performance of S&P500 share index well since the beginning of 2008.

While EM Asian currencies are anticipated to weaken temporarily amid a broadly strengthened dollar for now, they will certainly rally again with major central banks on track for re-expanding their balance sheets later. In addition, it seems the US and China have made some progress in the renewed negotiations held in Shanghai on 30-31 July. They will hold "intensive" working-level consultations in August before meeting again in Washington in early September.
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