

The Day So Far

All eyes on the FOMC meeting today as Yellen & Co. get another opportunity to kick-start their much-discussed hiking cycle with a 0.25% rise later today. We've been here before of course, as recently as September, when the Fed shocked markets by backing away at the last minute, although we concur with the Fed Funds Futures which are pricing in an 80% chance of a rate rise today. Judging by the reaction of markets this morning, with equities grinding higher as we enter the meat of the 'Santa rally', a dovish hike is largely priced in and much of the focus will be on the 'dot-plot' i.e; the trajectory of where FOMC members see interest rates in the coming years. The dollar has continued to trade on the front foot against sterling in particular with cable testing the 1.50 handle this morning, although some of this could be attributed to a dovish article written in the FT today by BoE Governor Carney.

The raft of PMI data out of Europe generally came in ahead of expectations, which has capped the follow-through to the downside in EUR/USD following yesterday's heavy move lower. We expect the dollar to continue to strengthen as we come closer to 'zero hour' this evening.

The API crude inventories last night showed a build of 2.3 million barrels, bringing last week's surprise drawdown to an abrupt end. The US congress also yesterday agreed to lift the ban on crude exports for the first time since the 1970s, potentially paving the way for a flood of shale oil into the international markets. Do not expect an immediate bearish reaction to this news, as the US remains a net importer of crude and will continue to be one for the foreseeable future. Of more significance in terms of its impact on global supply will be the eventual loosening of the sanctions on Iran next year. For now though, expect prices to oscillate between the 2009 lows and \$40 a barrel level.

The Afternoon View

Understandably, much of today's focus will be in the Fed later but before then we are going with the prevailing trend of equity and dollar strength. The 'Santa' rally looks to be arriving on cue and we expect a little more upside through to Christmas as the Fed calms markets with a 'dovish' hike. For crude we recommend a short from yesterday's highs, also R1 for today, while we look for t-notes to continue to come under pressure as US treasury longs exit their positions before what is expected to be the first Fed rate hike since August 2006. Please note that we do not recommend holding these trades over the FOMC announcement and subsequent press conference this evening.

Key Headlines

Market Sentiment: Bullish

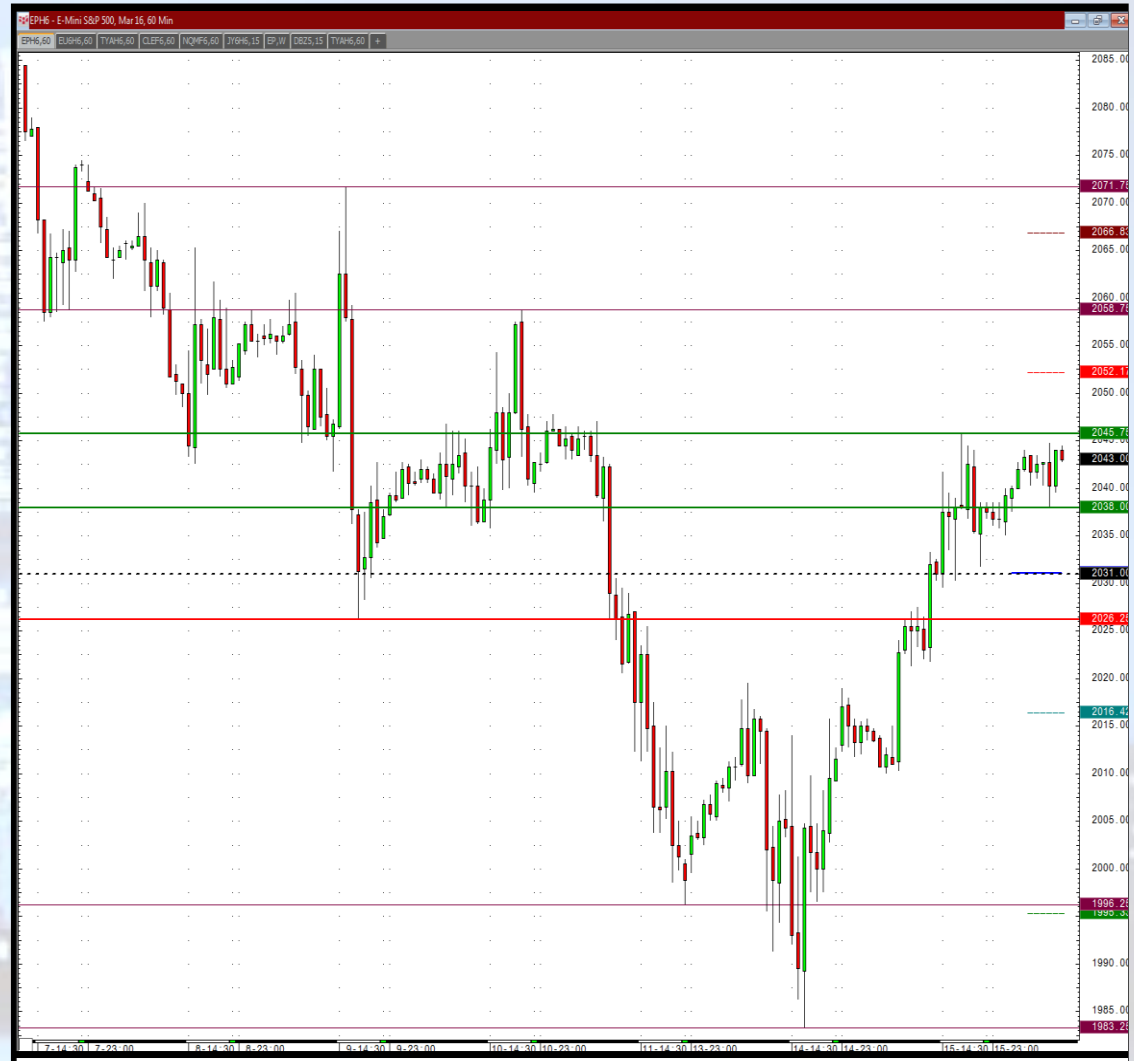
- European PMIs beat expectations
- API crude inventories show build of 2.3 million barrels
- Cable tests 1.50 handle in broad dollar strength ahead of FOMC tonight

Major Data Releases

Data	Expected	Previous
Housing Starts (Nov) m/m	6.60%	-11.00%
Building Permits	-0.70%	4.10%
Industrial Production (Nov) m/m	-0.20%	-0.20%
Manufacturing PMI (Dec P) m/m	52.6	52.8
DOE US Crude Oil Inventories		-3568k

Strategy	Long
Entry	2031.00
1 st Target	2038.00
2 nd Target	2045.75
Stop	2026.25

Key Levels	Comments
2052.25	R1
2045.75	Yesterday's High
2038.00	Today's Low
2031.00	Pivot
2026.25	Low of 9 th
2016.50	S1

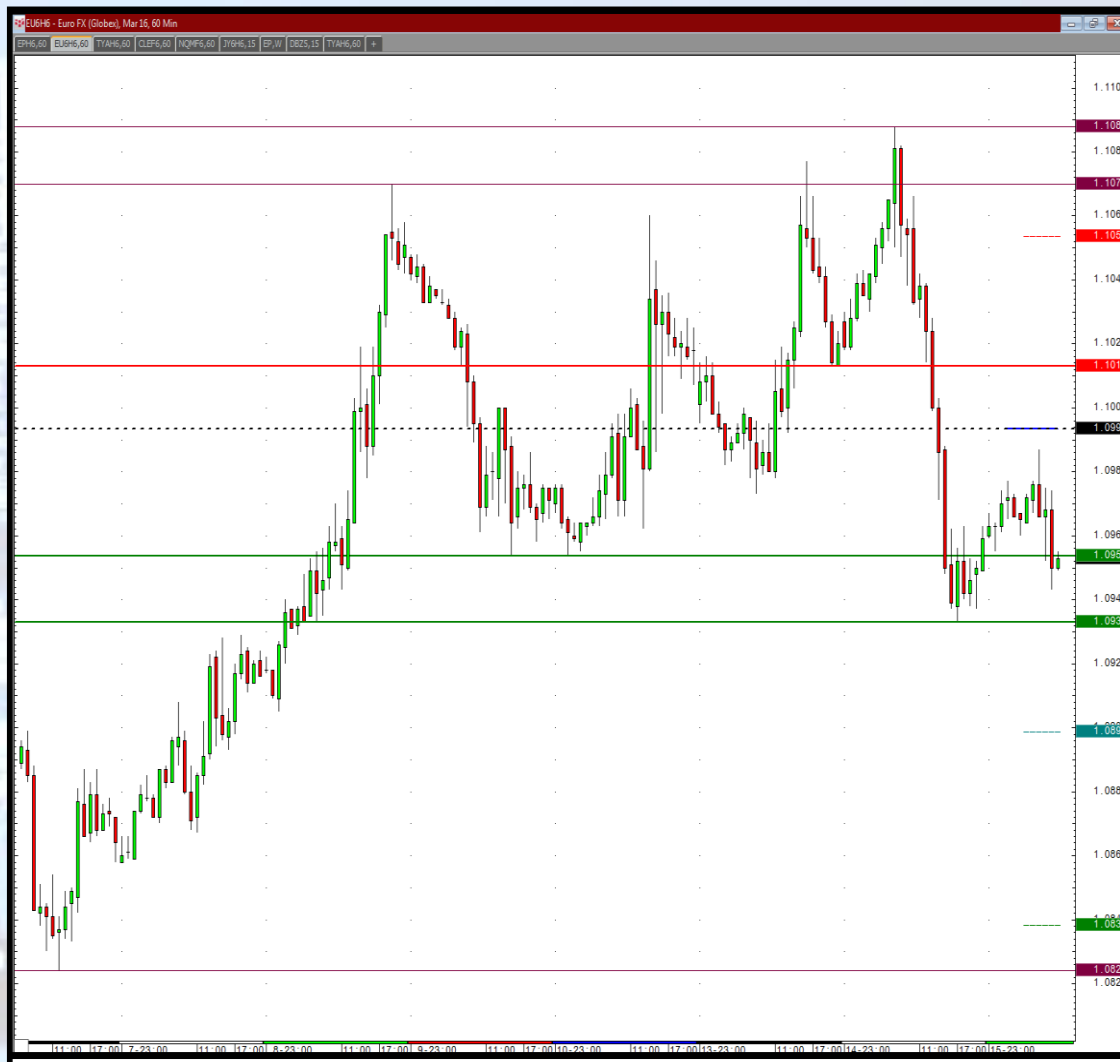


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Please see page 5 for more information

Strategy	Short
Entry	1.0993
1 st Target	1.0954
2 nd Target	1.0933
Stop	1.1013

Key Levels	Comments
1.1054	R1
1.1013	PM Low of 14 th
1.1000	Handle Resistance
1.0993	Pivot
1.0954	Low of 10 th
1.0933	Yesterday's Low



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Strategy	Short
Entry	126.090
1 st Target	126.035
2 nd Target	125.295
Stop	126.120

Key Levels	Comments
126.160	R1
126.120	Low of 14 th
126.090	Low of 10 th
126.065	Pivot
126.035	Low of 9 th
125.295	Today's Low
125.255	S1

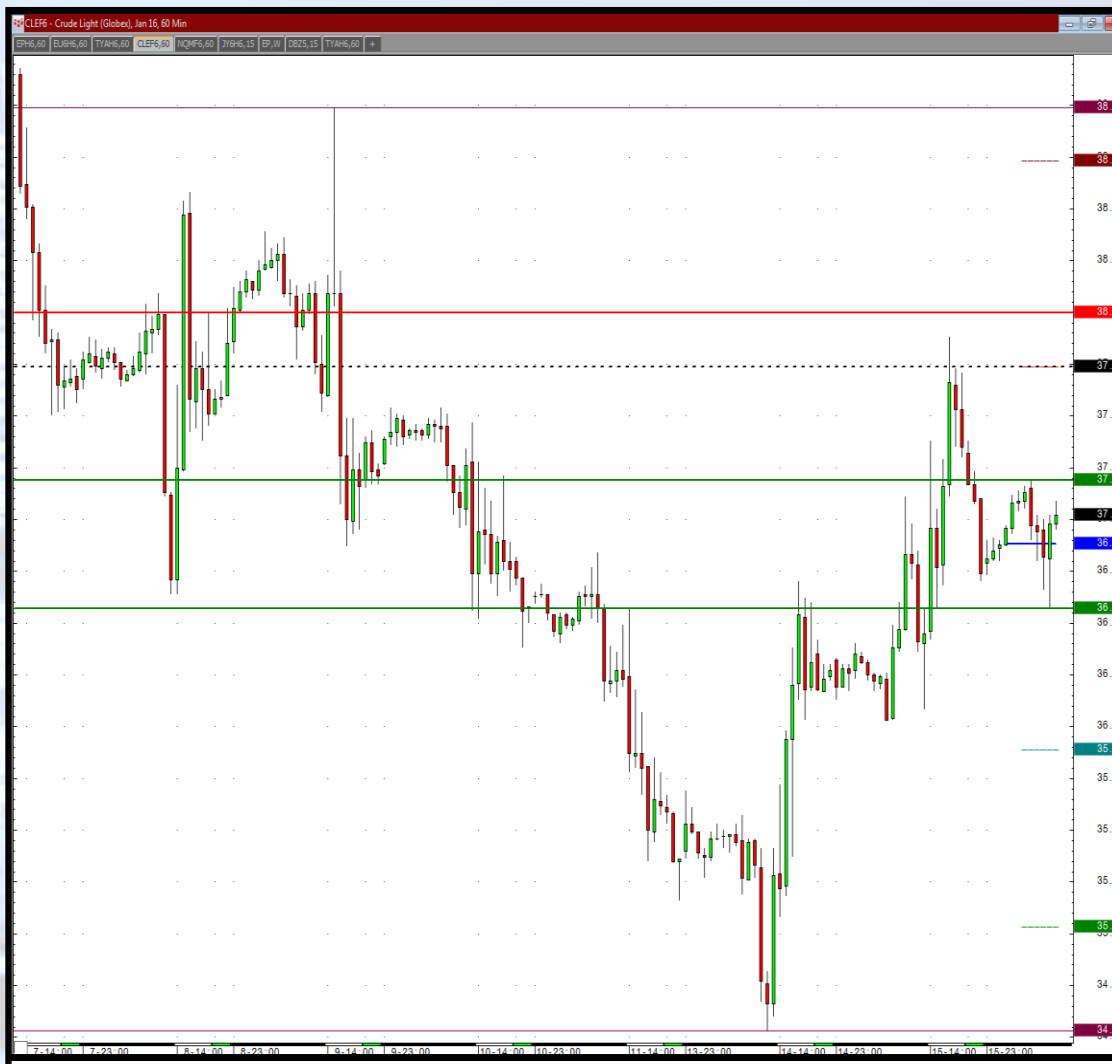
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Strategy	Short
Entry	37.74
1 st Target	37.19
2 nd Target	36.57
Stop	38.00

Key Levels	Comments
38.00	Handle Resistance
37.74	R1
37.19	Today's High
36.88	Pivot
36.57	Today's Low
35.89	S1



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