

The Day So Far

The Fed delivered the 'dovish' hike with aplomb last night, announcing as expected a 0.25% rise in interest rates but offsetting what would normally be considered a hawkish move by lowering the 'dot plot' – the FOMC members' projections of where rates will be headed for the next three years. This was a much-hyped event with real potential for a policy error which could stop the 'Santa' equity rally dead in its tracks, but Yellen handled the press conference well and markets were soothed by the dot plot and the downgrade of near-term inflation projections. Equities rallied, the S&P driving back into positive territory for the year, but the biggest move came in fixed income markets as relieved bond investors piled into t-notes and it reversed the losses for the day. Whether this bounce leads to be a more sustainable move higher in treasuries will depend on WTI crude which is flirting with the yearly lows this morning. Without inflation, there is much less pressure on the Fed to hike further. Equities rose, not because a hike is positive per se, but mainly due to the Fed following through with the rhetoric in recent weeks and providing clarity on policy going forward. The dollar initially strengthened on the news before then weakening as the effects of the dovish dot plot took hold, the euro touching the 1.10 handle before moving sharply lower during the conference as Yellen dismissed the impact of persistently low inflation on the potential for further hikes.

The Afternoon View

Our call for yesterday was for a dovish hike to calm the markets; the FOMC delivered on that front and in the process snuffed out any prospect the bears had of disrupting the grind back towards the highs. This month had real potential for an upset, with the ECB, OPEC and the most highly-anticipated FOMC meeting for years now all out the way without much damage being done. Our bias for the day in the S&P is based purely on the fact that we have rallied so strongly all week on the prospect of clarity from the Fed and now there could be a 'buy the rumour, sell the 'news' type of pullback given that we have already climbed 75 points so far this week. We are looking for shorts once again in crude and the euro, while finally long t-notes as the relief rally in fixed income continues.

Key Headlines

Market Sentiment: Bullish

- Fed raise interest rates 0.25%
- Equities rise as FOMC manage 'dovish' hike
- Fed 'dot plot' shows slower pace of rate increases

Major Data Releases

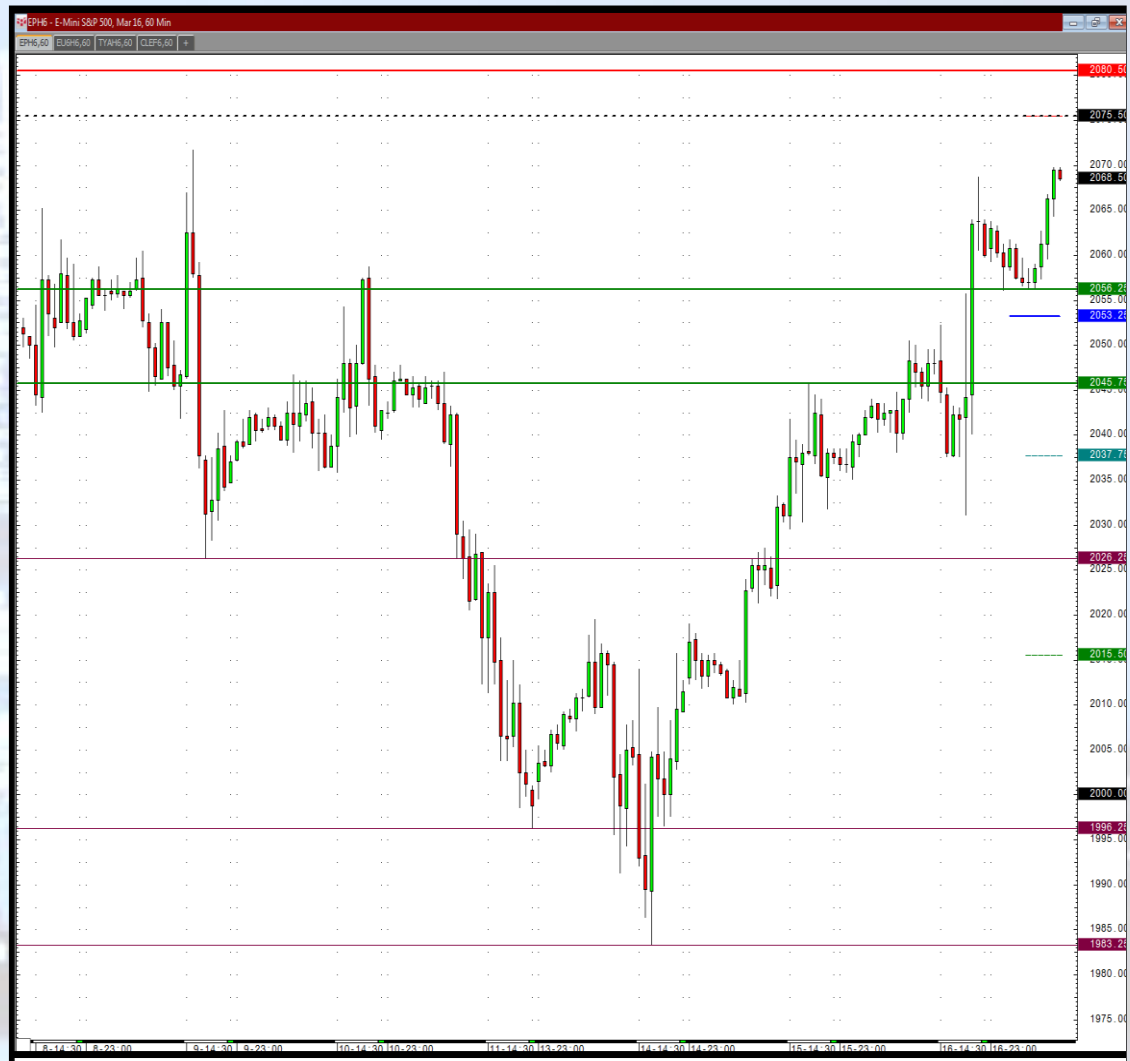
Data	Expected	Previous
Philly Fed Business Outlook (Dec)	+1	+1.9
Initial Jobless Claims	275k	282k

Strategy	Short
Entry	2075.50
1 st Target	2056.25
2 nd Target	2045.75
Stop	2080.50

Key Levels	Comments
2075.50	R1
2056.25	Overnight Low
2053.25	Pivot
2045.75	High of 15 th
2037.75	S1
2026.25	Low of 9 th

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Strategy	Short
Entry	1.0933
1 st Target	1.0900
2 nd Target	1.0859
Stop	1.0954

Key Levels	Comments
1.0965	Pivot
1.0954	Low of 10 th
1.0933	Low of 15 th
1.0900	Handle Resistance
1.0890	S1
1.0859	Overnight Support

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Strategy	Long
Entry	125.240
1 st Target	126.035
2 nd Target	126.090
Stop	125.185

Key Levels	Comments
126.170	R2
126.090	Low of 10 th
126.035	R1
125.240	Pivot
128.120	Yesterday's Low

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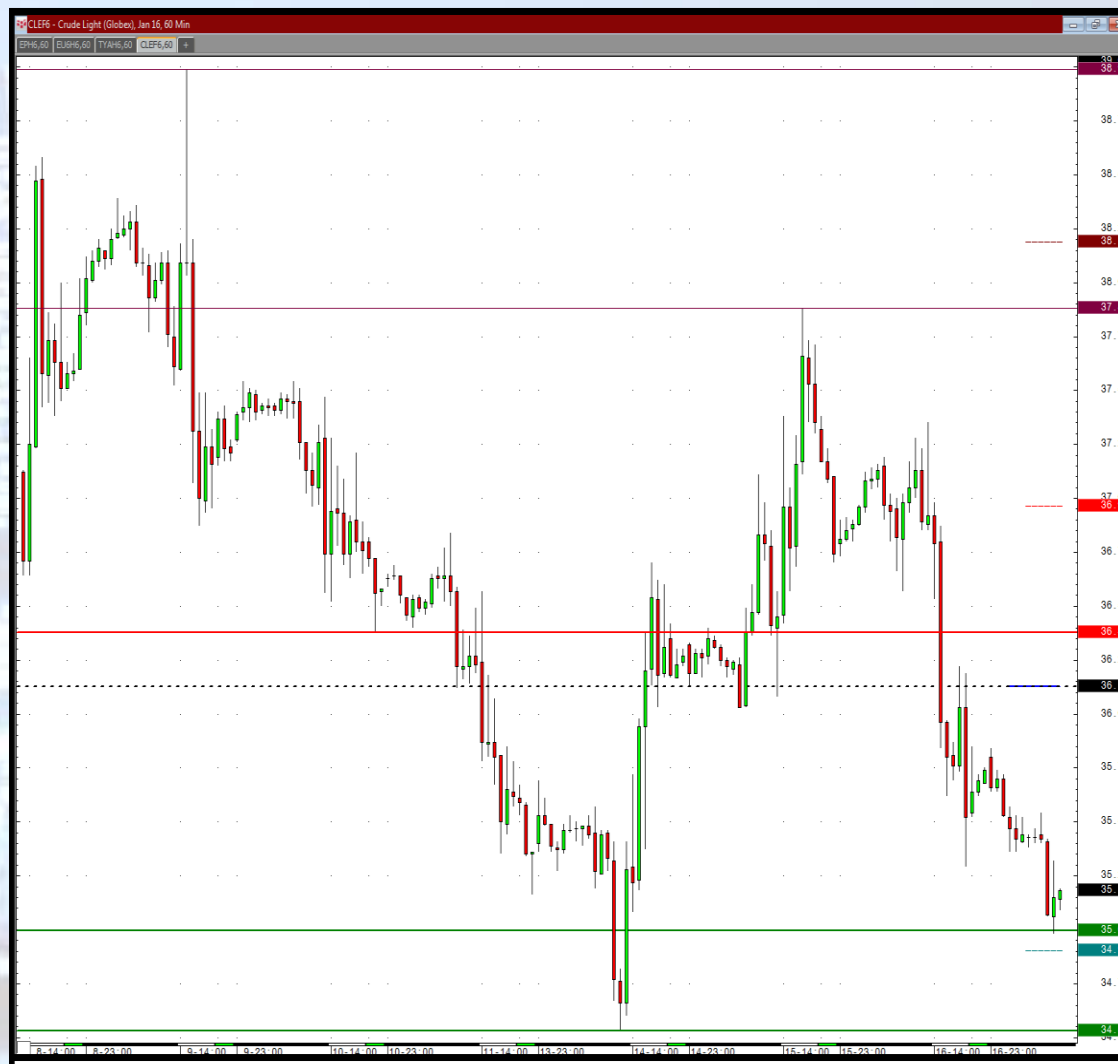


Strategy	Short
Entry	36.13
1 st Target	35.00
2 nd Target	34.53
Stop	36.38

Key Levels	Comments
36.96	R1
36.38	Support on 10 th
36.13	Pivot
35.00	Handle Support
34.90	S1
34.53	Low of 14 th

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