

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	131.37	131.32	▼0.39	▼1.54
EUR	1.0952	1.0904	▼0.0049	+0.0060
AUD	0.6713	0.6720	▼0.0031	+0.0036
SGD	1.3249	1.3279	+0.0024	▼0.0013
CNY	6.8793	6.8793	+0.0000	▼0.0102
INR	82.13	82.00	▼0.33	▼0.34
IDR	14931	14925	+25	▼140
MYR	4.3970	4.3995	▼0.0048	▼0.0207
PHP	54.42	54.42	▼0.08	▼0.04
THB	33.87	33.87	▼0.34	▼0.26

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.311%	▼2.8 bp	▼25.3 bp
JPY (10YR)	0.481%	+5.6 bp	+15.7 bp
EUR* (10YR)	2.182%	▼6.7 bp	▼14.7 bp
AUD (5YR)	2.993%	+0.2 bp	▼3.0 bp
SGD (5YR)	2.870%	▼4.4 bp	▼3.9 bp
CNY (5YR)	2.685%	+0.0 bp	+1.4 bp
INR (5YR)	7.142%	▼2.9 bp	▼2.9 bp
IDR (5YR)	6.357%	▼0.4 bp	▼5.5 bp
MYR (5YR)	3.516%	▼3.2 bp	▼0.7 bp
PHP (5YR)	5.760%	▼11.4 bp	▼10.5 bp
THB (5YR)	2.081%	▼1.1 bp	+16.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,482.72	+0.24%	+2.34%
N225 (JP)	27,813.26	▼1.68%	▼0.25%
STOXX 50 (EU)	4,298.36	▼0.39%	+1.59%
ASX (AU)	4,161.56	+0.14%	+1.09%
STI (SG)	3,318.87	+0.23%	+1.73%
SHCOMP (CN)	3,312.56	+0.00%	+2.24%
SENSEX (IN)	59,689.31	+0.99%	+2.98%
JSE (ID)	6,819.68	▼0.20%	▼0.29%
KLSE (MY)	1,429.55	▼0.00%	+0.65%
PSE (PH)	6,488.51	+0.25%	▼2.15%
SET (TH)	1,571.13	▼1.44%	▼2.45%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	272.25	+0.41%	+3.63%
COPPER (LME)	8,784.75	+0.51%	▲2.49%
IRON ORE (CN)	119.53	▲0.66%	▲5.82%
GOLD	2,020.73	+0.02%	+2.85%
OIL (WTI)	80.61	▼0.12%	+10.47%

Three Take-aways:

- 1) ISM services slump, softer ADP fuel bets on dovish shift; with front-end led drag on UST yields.
- 2) But despite this, chances are, rate hikes are not over. Nor is risk aversion/attendant USD backstop.
- 3) RBA's hold was qualified on hikes "not ... (necessarily over) and RBI may need to hike, not pause.

"Not ... Over"

- The *fat lady has not sung*. And it is "not ... over"; regardless of whether with regards to the **global tightening cycle**, latent banking stability risks or wider risks of policy miscalculations (be it economic or geo-political). It is against this backdrop that softer US data is parsed.

- **Further soft spots in US data** comprising a sharp drop in US ISM services (despite being in mildly expansionary territory) alongside ADP employment shortfall, which reinforces the miss in JOLTS, convey worries of US economic slowdown with a distinct jobs market spillover.

- In turn, **invoking dovish bond market reflex** with -6bps drop in 2Y yields to 3.77% (10Y: -4bp to 3.30%) expressing diminished rate hike expectations (May's 25bp hike odds falling to 50%).

- But this looks to be a *case of markets getting carried away with soft data points*. Point being, the Fed is likely follow-through on the 25bp hikes in May as it assesses the depth and durability of softening activity rather than jumping the gun on declaring inflation risks tamed.

- And the RBA perhaps best conveys the measured approach to shifting sands that reveal downside risks to growth. In explaining the pause in April, the RBA revealingly said "the decision to hold rates steady this month does not imply that interest rate increases are over".

- **Not just tightening risks**. Clearly, underlying risk aversion, and latent demand for haven refuge "not ... (decisively) over" either; as evidenced by USD rebound defying softer yields.

Why the RBI will Stick to its (Hawkish) Guns!

- At the April MPC it almost appears like the RBI is being presented with options for the first time in a while. Essentially, the question is "to hike or not to hike".

- For us, the answer is a **resounding "hike"**; with the nuance of a **calibrated 25bp**; conveying that **the RBI is sticking to its Hawkish guns**.

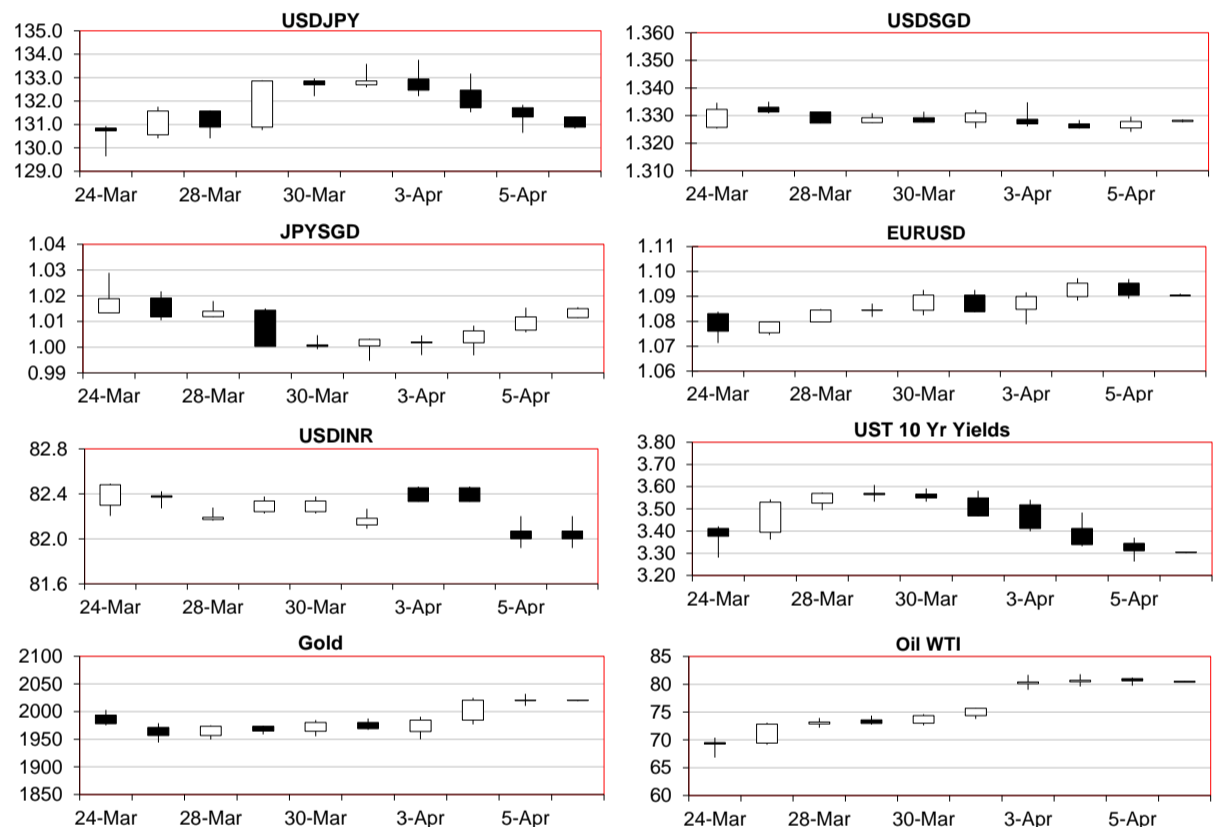
OVERNIGHT RESULTS

(PH) CPI YoY (Mar): 7.6% (Mkt: 8.0%; Feb: 8.6%) | (TH) CPI/Core YoY (Mar): 2.8%/1.8% (Mkt: 3.3%/1.8%; Feb: 3.8%/1.9%)

(SG) Retail Sales/ex-Autos YoY (Feb): 12.7%/11.7% (Jan: -0.8%/2.1%) | (US) ADP Emp. Chg (Mar): 145KM (Mkt: 210K; Feb: 261K)

(US) ISM Services/Prices Paid/Employment/New Orders (Mar): 51.2/59.5/51.3/52.2 (Mkt: 54.4/-/-/-; Feb: 55.1/65.6/54.0/62.6)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	130.93	EUR/USD	1.0904
USD/SGD	1.3283	USD/THB	33.96
JPY/SGD	1.0147	USD/MYR	4.400

Forecast

USD/JPY	130.40 - 131.80
EUR/USD	1.0820 - 1.0970
AUD/USD	0.6660 - 0.6780
USD/SGD	1.3220 - 1.3330
JPY/SGD	1.0030 - 1.0222
USD/CNH	6.8650 - 6.8960
USD/INR	81.90 - 82.50
USD/IDR	14800 - 15030
USD/MYR	4.385 - 4.413
USD/PHP	54.25 - 54.65
USD/THB	33.78 - 34.08

Today's Direction

	Bull	Bear
USD/SGD	3	6
USD/JPY	2	7

- The reasons why it appears that the RBI has scope to pause, are that;

- i) the *worst fears of resurgent inflation* have been *assuaged*, and;
- ii) perceived elevation in *downside risks to growth* inflamed by the *threat of a banking crisis/contagion* (with attendant demand destruction)

- But **neither clear the bar for the RBI to pause, much less suspend**, on-going **tightening** yet.

- On the first (i), while inflation appears to be peaking, and crucially does not pose the threat of an upward spiral, price pressures are still too elevated and sticky.

- The upshot is that **inflation remains well above the 6% upper limit of the RBI's inflation target** (at -6.5%), and sticky components could stall the moderation despite signs of peaking.

- And so, the RBI may have to **tighten a little further to positive real rates territory** so as to anchor inflation expectations (and to demonstrate its price stability mandate unequivocally).

- As for (ii) adverse economic impact from global banking sector risks, this is ironically a case for the RBI not to double down, not dial back, price stability commitments.

- Reason being, **financial shocks may initially impact via adverse capital outflows**, and doubts about inflation anchor will inadvertently amplify macro-stability and rupee sell-off risks.

- And the economic devastation from capital (out)flows induced-macro-rupee stability risk spiral will likely be far greater than economic relief from a rate pause (or even cuts).

- Hence it makes sense to endure with **at least one more (measured 25bp) rate hike to insure against macro-stability risks while re-assuring lingering inflation concerns**.

FX Daily Outlook

- EUR/USD: As expected, softer UST yields have not resulted in buoyant EUR given underlying risks.

- USD/JPY: Softer UST yields (and underlying caution) both weigh on the USD/JPY; but 130 support.

- USD/SGD: Caution and CNH restraint will likely limit the SGD's upside.

- AUD/USD: RBA's intent in infusing rate hike odds ahead has not buoyed AUD; 0.67 traction is thin.

TODAY'S EVENTS

(AU) Trade Balance (Feb) : (Mkt: A\$11.2b; Jan: A\$11.7b)

(CH) Caixin PMI Services/Composite (Mar): (Mkt: 55.0/-; Feb: 55.0/54.2)

(US) Initial Jobless Claims (1-Apr): (Mkt: 200k; Prev wk: 198k)

Central Banks: **RBI Monetary Policy Decision** | **Fed's Bullard Speaks**

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