

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	131.37	132.16	+0.38	▼0.70
EUR	1.0908	1.0905	▼0.0017	+0.0066
AUD	0.6709	0.6672	+0.0000	▼0.0013
SGD	1.3282	1.3298	▼0.0007	▼0.0011
CNY	6.8774	6.8679	▼0.0051	▼0.0057
INR	81.91	81.90	+0.00	▼0.29
IDR	14927	14913	+0	▼82
MYR	4.4012	4.4015	+0.0035	▼0.0137
PHP	54.42	54.42	+0.00	+0.05
THB	34.08	34.07	+0.20	▼0.13

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.391%	+8.6 bp	▼7.7 bp
JPY (10YR)	0.470%	▼0.2 bp	+11.9 bp
EUR* (10YR)	2.183%	+0.0 bp	▼10.9 bp
AUD (5YR)	2.909%	+0.0 bp	▼13.6 bp
SGD (5YR)	2.821%	+0.0 bp	▼11.4 bp
CNY (5YR)	2.684%	▼0.3 bp	+0.5 bp
INR (5YR)	7.008%	+0.0 bp	▼16.0 bp
IDR (5YR)	6.342%	+0.0 bp	▼4.6 bp
MYR (5YR)	3.505%	+0.6 bp	▼3.4 bp
PHP (5YR)	5.762%	+0.1 bp	▼3.3 bp
THB (5YR)	2.081%	+0.0 bp	+3.4 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,485.29	+0.00%	+0.63%
N225 (JP)	27,518.31	+0.17%	▼1.87%
STOXX 50 (EU)	4,309.45	+0.00%	▼0.13%
ASX (AU)	4,203.91	+0.00%	+1.11%
STI (SG)	3,300.48	+0.00%	+1.28%
SHCOMP (CN)	3,327.65	+0.45%	+1.67%
SENSEX (IN)	59,832.97	+0.00%	+1.43%
JSE (ID)	6,792.77	+0.00%	▼0.18%
KLSE (MY)	1,427.04	+0.15%	+0.31%
PSE (PH)	6,488.51	+0.00%	▼0.17%
SET (TH)	1,577.07	+0.38%	▼1.99%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	271.99	+0.00%	+1.59%
COPPER (LME)	8,806.75	+0.00%	▲2.19%
IRON ORE (CN)	118.50	▲0.92%	▲6.74%
GOLD	2,007.91	+0.00%	+1.96%
OIL (WTI)	80.70	+0.00%	+6.65%

Three Take-aways:

- 1) Markets staring at sticky core inflation and mild recession from FOMC minutes, in short stagflation.
- 2) Weaker US equities, lower UST yields alongside weaker USD portend spillover risks globally.
- 3) "Carry" trades on Fed pivot under-accounts for potential capital loss from EM risk re-pricing.

Being Stuck is No Containment

- Initial cheer from lower US headline inflation print quickly gave way to realisation of sticky core inflation pressures as core inflation came in as expected at 5.6% in March, up from 5.5% in Feb. Admittedly, there is partial relief from lower energy prices and more subdued food inflation.

- Nonetheless, elevated core inflation continued to trouble. Reflecting so, 2Y UST yields' decline of 6.5bp was a comeback from an initial exaggerated -15bp plunge post CPI print. Similarly, 10Y UST yields' 3.6bp drop was a recovery from an early -10bp fall.

- US equities also gave up early gains to end lower across the board (Nasdaq: -0.9%; S&P500: -0.4%; Dow: -0.1%) as the FOMC minutes exerted downward pressures by inciting growth fears.

- Specifically, the Fed staff is now projecting a "mild recession starting later this year" which also engendered haven demand for USTs after the minutes release.

- In addition, while FOMC members "lowered their assessment of Fed funds target rate based on bank sector developments", the implicit warning is that financial stability may re-instate their higher rates.

- While softer UST yields was one of the drivers of weaker USD, the magnitude of decline perhaps spoke of over-played confidence of US growth weakness spillovers being contained leaving peers unscathed as EUR look to test 1.1, AUD edged towards 0.67 and USD/JPY slid toward 133.

"Carry" On, But Calm Not Guaranteed

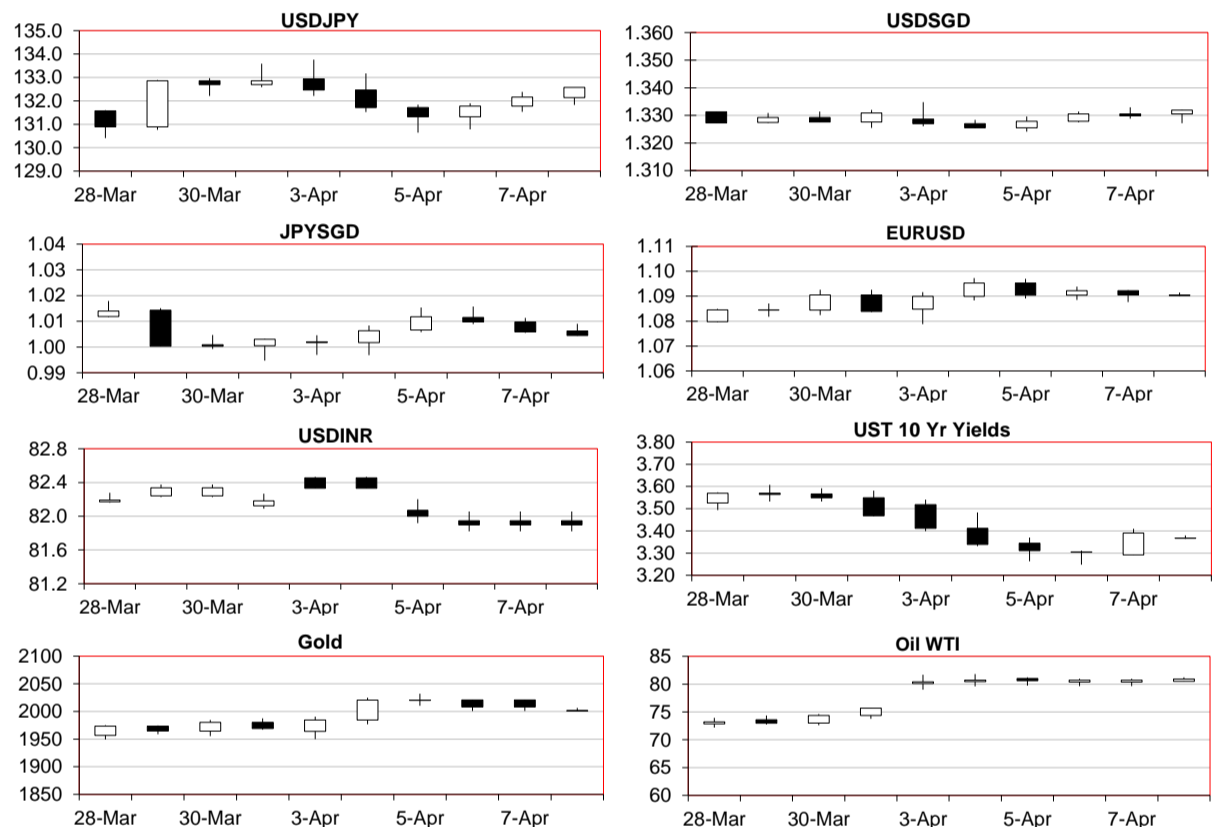
- Expectations of peak Fed rates, and crucially, a "proper" Fed pivot to reverse hikes soon (enough), dangles tantalizing prospects of USD-funded "carry" trades to make a come-back.

- But the warning is that even if "carry" is on, calm is not guaranteed. And this makes for a problematic proposition; as "carry" traders have traditionally hated volatility (the lack of calm) more than they have desired the "carry" (seemingly "free" returns).

OVERNIGHT RESULTS

(IN) CPI YoY (Mar): 5.7% (Mkt: 5.7%; Feb: 6.4%) | (IN) Industrial Pdtn YoY (Feb): 5.6% (Mkt: 5.0%; Jan: 5.2%) | (US) CPI/Core YoY (Mar): 5.0%/5.6% (Mkt: 5.1%/5.6%; Feb: 6.0%/5.5%) | (US) Real Avg Hourly Earnings YoY (Mar): -0.7% (Feb: -1.3%)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	132.10	EUR/USD	1.0913
USD/SGD	1.3307	USD/THB	34.18
JPY/SGD	1.0074	USD/MYR	4.402

Forecast

USD/JPY	132.50 - 134.00
EUR/USD	1.0880 - 1.1030
AUD/USD	0.6600 - 0.6700
USD/SGD	1.3220 - 1.3330
JPY/SGD	0.9866 - 1.0060
USD/CNH	6.8650 - 6.8960
USD/INR	81.90 - 82.40
USD/IDR	14800 - 15030
USD/MYR	4.385 - 4.418
USD/PHP	54.80 - 55.40
USD/THB	34.10 - 34.35

Today's Direction

	Bull	Bear
USD/SGD	3	5
USD/JPY	5	3

- To be sure, "carry" returns derived from higher-beta/commodity/EM currencies have inherently always entailed non-linear, and often abrupt and sporadic, outbursts of volatility.

- So the counter-argument may be that resumption of "carry" ought to be unfettered by inherent volatility because latent volatility has always been the name of game. Hence, Fed rates poised to go lower is in fact a legitimate catalyst for astute, positioning for "carry".

- Trouble is, since 2022, USD-funded "carry" has ubiquitously declined; sharply at that in some cases. So, unless "carry" is restored to pre-2022 levels, "risk-adjusted" returns may not justify "carry" trades. In fact, negative (nominal) USD-funded carry for CNY, MYR, THB, SGD, AUD and KRW, leave only INR, IDR, PHP and NZD as viable options in the current state of play.

- Ardent optimists will however dismiss current impediments in favour of deep Fed rate cut expectations, consistent with substantially boosted USD-funded "carry" returns.

- But that is precisely why there ought to be a higher uncertainty quotient ("calm not guaranteed") attached to the "carry" proposition motivated by Fed rate cut bets.

- First, it assumes that the Fed is wrong about a gradual glide-path to neutral rates over 2024-25 (and beyond), instead betting on sharp rate cuts forced on to a wrong-footed Fed.

- Second, and more perilous is that risk of dislocations entailing capital loss (sharp currency depreciation) on risk-re-pricing are also under-accounted for at current suppressed "carry".

- Finally, a lower nominal carry is masked by the aberration of higher US inflation vis-a-vis EM Asia. But as this tide turns, nominal "carry" shortfall will be starker yet in real terms.

- The upshot is that as tempting as it may be to "carry", the risks may prove painful to bear.

FX Daily Outlook

- EUR/USD: 1.10 will be a stern test especially as growth risks spillovers are re-considered.
- USD/JPY: Softer UST yields keep pair restrained below 134 though Ueda's dovish buoyancy holds 133.
- USD/SGD: MAS volatility and CNH gains may keep pair from slips below mid-1.32.
- AUD/USD: Consolidation at 0.67 par for the course as rallies remains weak.

TODAY'S EVENTS

(AU) Employment Change (Mar): (Mkt: 20.0k; Feb: 64.6k) | (AU) Unemployment Rate (Mar): (Mkt: 3.6%; Feb: 3.5%)
(CN) Trade Balance (Mar): (Mkt: 42.0b; Jan: 77.6b) | (US) Initial Jobless Claims (8-Apr): (Mkt: 235k; Prev Week: 228k)
(US) PPI Final Demand/Ex food and Energy YoY (Mar): (Mkt: 3.0%/3.5%) |
(EZ) Industrial Production WDA YoY (Feb): (Mkt:1.6; Jan:0.9%)

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