

## MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	154.61	154.39	▼0.33	+1.23
EUR	1.0628	1.0673	+0.0054	▼0.0070
AUD	0.6418	0.6435	+0.0033	▼0.0077
SGD	1.3634	1.3605	▼0.0045	+0.0067
CNY	7.2382	7.2386	+0.0008	+0.0043
INR	83.55	83.54	+0.00	+0.34
IDR	16220	16220	+45	+375
MYR	4.7930	4.7930	▼0.0027	+0.0452
PHP	57.21	57.19	+0.20	+0.70
THB	36.85	36.78	+0.17	+0.41

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.587%	▼8.0 bp	+4.4 bp
JPY (10YR)	0.883%	+1.2 bp	+7.7 bp
EUR* (10YR)	2.465%	▼2.1 bp	+3.0 bp
AUD (5YR)	4.020%	+5.9 bp	+25.7 bp
SGD (5YR)	3.344%	+1.4 bp	+16.0 bp
CNY (5YR)	2.118%	▼0.1 bp	▼3.1 bp
INR (5YR)	7.192%	+0.0 bp	+10.9 bp
IDR (5YR)	6.950%	+8.3 bp	+37.1 bp
MYR (5YR)	3.769%	+2.8 bp	+7.0 bp
PHP (5YR)	6.768%	+4.0 bp	+44.3 bp
THB (5YR)	2.527%	+15.7 bp	+20.4 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	37,753.31	▼0.12%	▼1.84%
N225 (JP)	37,961.80	▼1.32%	▼4.09%
STOXX 50 (EU)	4,914.13	▼0.06%	▼1.73%
ASX (AU)	4,273.02	+0.30%	▼1.54%
STI (SG)	3,154.69	+0.32%	▼2.56%
SHCOMP (CN)	3,071.38	+2.14%	+1.45%
SENSEX (IN)	72,943.68	+0.00%	▼2.79%
JSE (ID)	7,130.84	▼0.47%	▼2.14%
KLSE (MY)	1,540.42	+0.35%	▼0.84%
PSE (PH)	6,450.04	+0.70%	▼4.32%
SET (TH)	1,366.94	▼2.11%	▼2.93%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	294.44	▲0.81%	▲1.15%
COPPER (LME)	9,489.70	+1.44%	+2.70%
IRON ORE (CN)	110.42	+2.74%	+4.80%
GOLD	2,361.02	▲0.92%	+1.16%
OIL (WTI)	82.69	▼3.13%	▼4.08%

### Three Take-Aways:

- 1) A fourth straight drop in the S&P underpinned "risk off"; with Powell's rate cut pushback a bugbear.
- 2) BoE rate cut cues did little to lift the mood, although USD was counter-intuitively dampened
- 3) IMF's US fiscal profligacy warning partly to blame but "our profligacy, your problem" USD checks gains.

### Fret

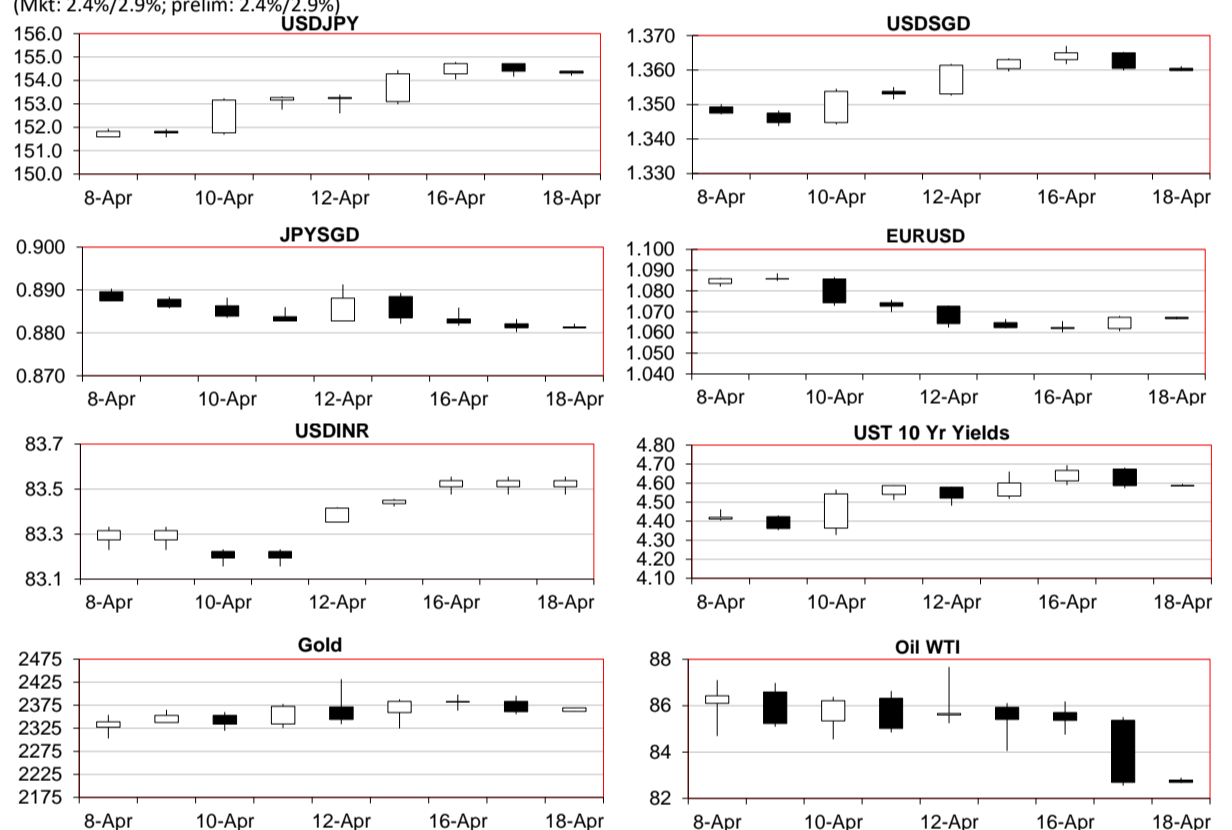
- Markets, ostensibly had much to fret. A *fourth straight drop in S&P500* for the first time this year was a *notable effect* (of "risk off") *turning into cause* (for more caution).
- Fed Chair Jerome Powell also dented risk appetite when he alluded to sticky inflation giving cause to pause longer (before initiating cuts); leaning into growing views off potentially no cuts in 2024, thereby unwinding pivot-driven "risk on".
- The **IMF's 'Fiscal Monitor' report** too gave **another reason to fret** as warned of "*profound (global) effects*" from risks imposed by US and Chinese fiscal profligacy.
- But it is **arguably** the "**US IOU problem**", in particular the perverse "*I owe, you pay*" aspect for global economies that stick out. Partly *explaining mild USD slippage despite "risk off"* and *BoE suggesting leap-frogging Fed rate cuts*; both of which should buoy USD.

### The US IOU Problem

- The **IMF is sounding serious concerns** about **unsustainable, or at least, prohibitively costly, US fiscal path** and attendant debt position. Trouble is, in a parallel to John Connally's (in)famous "*our currency, ... your problem*" remark at the 1971 G10 meeting, this reeks of "*our profligacy, your problem*". Largely because USD is the undisputed global reserve currency, with *USD dominance* in the global trade and finance *accentuated by the prominence of US financial institutions*. In the IMF's 'Fiscal Monitor', "*Fiscal Policy in the Great Election Year*" (a reference to 88 elections covering more than half the global population), the IMF warns of "*significant risks*" to the global economy from **massive US fiscal deficits** and **associated indebtedness**.
- Turns out, it is fiscal/debt problems, and not elections, that are "great". In fact, elections could accentuate fiscal bug bears. Notably, "*remarkably large (US) fiscal slippages*" (2023 deficit: 8.8%) may persist as populist tendencies get solidified. An example of which is the \$5trln cost estimated over a decade if (presumptive Republican nominee) Trump's promise to make the 2017 tax cuts are enacted.

### OVERNIGHT RESULTS

(S&P) **Two Weeks Movement\*** (Mar): -20.7%/-9.4% (Mkt: -7.2%/-; Feb: -0.2%/5.2%) | (EZ) CPI/Core YoY (Mar F): 2.4%/2.9% (Mkt: 2.4%/2.9%; prelim: 2.4%/2.9%)



## TODAY'S COMMENTS & FORECAST

### Open

USD/JPY	154.34	EUR/USD	1.0669
USD/SGD	1.3604	USD/THB	36.78
JPY/SGD	0.8814	USD/MYR	4.785

### Forecast

USD/JPY	153.50 - 155.00
EUR/USD	1.0580 - 1.0720
AUD/USD	0.6360 - 0.6480
USD/SGD	1.3550 - 1.3680
JPY/SGD	0.8742 - 0.8912
USD/CNH	7.2200 - 7.2650
USD/INR	83.40 - 83.80
USD/IDR	15850 - 16300
USD/MYR	4.765 - 4.800
USD/PHP	56.80 - 57.30
USD/THB	36.55 - 36.90

### Today's Direction

	Bull	Bear
USD/SGD	2	4
USD/JPY	2	4

- Inevitably, the "*flow*" risks of fiscal deficits will snowball as the "*stock*" problem of debt.
- The IMF has flagged that outstanding **US debt** of ~\$26.2trln (~97% of GDP) as at end-2023 may well be on course to hit **post-WWII debt records of 116% by 2029**. Already, the US Congressional Budget Office (CBO) estimates that net US interest payments alone will surpass \$1trln after 2026, which in turn further challenges fiscal consolidation.
- Looking ahead the **litany of US-led global fiscal risks** are **daunting**. First, in the very near-term, **continued fiscal profligacy** (>7% of GDP deficit sustained) may turn out to be **initially re-inflationary**, in turn complicating monetary policy. And **ultimately**, posing the **threat of stagflation-type** of global **malaise**. On a sustained path, the **problem of debt monetization**, which **entrenches inflation** and **debases the currency**, becomes the **elephant in the room**. What's more, the adverse, self-reinforcing inflation-debasement circularity problem threatens to be dire. But this "US IOU" problem has profound impact for the global economy and markets.
- **Yields**: First, it may translate as **higher global financing costs** as **structurally higher US yields** (due to higher debt and issuances) has a **knock on impact on global rates**.
- **Term Premium**: Given **debt financing risks**, consequent **bump-up** in structural inflation risks and **accentuated uncertainty**, **term premium is primed to rise**.
- **FX**: **term Accentuated USD** (and attendant global FX) **volatility near-term**, with **longer-term sharp USD decline risks** set to harden. Markets are **notoriously bad at timing and quantifying "US IOU" problem** partly given **elevated uncertainty**. But crucially, also due to "**tipping point**" **dynamics** necessitated by the lack of viable alternatives to USD dominance.

### FX Daily Outlook

- EUR/USD: Traction likely to fall short ahead of 1.07 as policy differentials and risk weigh.
- USD/JPY: 155 test deferred by both a slip back in UST yields and a softer USD. Intervention risks too.
- USD/SGD: Firmer CNH could help test sub-1.36. But dips may be shallow on caution.
- AUD/USD: Pick-up on UST yield relief limited for now, with 65 cents breach unlikely

### TODAY'S EVENTS

(AU) Unemployment Rate (Mar): (Mkt: 3.9%; Feb: 3.7%) | (US) Initial Jobless Claims: (Mkt: 215k; prev: 211k) | (US) Philadelphia Fed Business Outlook (Apr): (Mkt: 2.3; Mar: 3.2) | (EZ) ECB Current Account SA (Feb): (Jan: 39.4b) | (JP) Tertiary Industry Index MoM (Feb): (Mkt: 0.5%; Jan: 0.3%)

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