

MARKET SUMMARY

| FX | CLOSE(Asia) | CLOSE(NY) | Daily Δ* | Wkly Δ |
|-----|-------------|-----------|----------|---------|
| JPY | 135.81 | 134.71 | ▼1.84 | +1.04 |
| EUR | 1.1034 | 1.1062 | +0.0063 | +0.0021 |
| AUD | 0.6661 | 0.6671 | +0.0008 | +0.0068 |
| SGD | 1.3331 | 1.3303 | ▼0.0044 | ▼0.0052 |
| CNY | 6.9181 | 6.9126 | +0.0000 | ▼0.0154 |
| INR | 81.84 | 81.83 | ▼0.06 | +0.06 |
| IDR | 14692 | 14685 | ▼20 | ▼148 |
| MYR | 4.4526 | 4.4552 | ▼0.0088 | ▼0.0023 |
| PHP | 55.36 | 55.37 | +0.01 | ▼0.27 |
| THB | 34.05 | 34.03 | ▼0.17 | ▼0.17 |

*compared with previous day CLOSE(NY)

| Yields | CLOSE | Daily Δ | Wkly Δ |
|-------------|--------|---------|----------|
| USD (10YR) | 3.336% | ▼8.8 bp | ▼11.3 bp |
| JPY (10YR) | 0.421% | +0.0 bp | ▼4.4 bp |
| EUR* (10YR) | 2.247% | ▼1.1 bp | ▼15.0 bp |
| AUD (5YR) | 3.172% | ▼5.9 bp | +13.8 bp |
| SGD (5YR) | 2.772% | ▼7.6 bp | ▼1.7 bp |
| CNY (5YR) | 2.621% | +0.0 bp | ▼2.2 bp |
| INR (5YR) | 6.944% | ▼5.6 bp | ▼4.6 bp |
| IDR (5YR) | 6.238% | ▼2.9 bp | ▼3.9 bp |
| MYR (5YR) | 3.465% | +1.5 bp | +5.2 bp |
| PHP (5YR) | 5.858% | ▼2.3 bp | +1.4 bp |
| THB (5YR) | 2.132% | ▼1.3 bp | +2.9 bp |

* German bunds

| Equity Indices | CLOSE | Daily Δ | Wkly Δ |
|----------------|-----------|---------|--------|
| DJIA (US) | 33,414.24 | ▼0.80% | +0.34% |
| N225 (JP) | 29,157.95 | +0.00% | +2.61% |
| STOXX 50 (EU) | 4,310.18 | +0.36% | ▼0.86% |
| ASX (AU) | 4,244.29 | +0.20% | ▼0.55% |
| STI (SG) | 3,262.01 | ▼0.61% | ▼0.97% |
| SHCOMP (CN) | 3,323.28 | +0.00% | +1.81% |
| SENSEX (IN) | 61,193.30 | ▼0.26% | +1.48% |
| JSE (ID) | 6,812.72 | ▼0.74% | ▼1.41% |
| KLSE (MY) | 1,425.99 | ▼0.01% | +0.83% |
| PSE (PH) | 6,606.69 | ▼0.99% | +1.02% |
| SET (TH) | 1,533.30 | +0.32% | ▼0.69% |

| Commodity | CLOSE | Daily Δ | Wkly Δ |
|---------------|----------|---------|---------|
| CRB | 256.56 | ▲1.56% | ▲3.16% |
| COPPER (LME) | 8,442.75 | ▲0.56% | ▲1.08% |
| IRON ORE (CN) | 104.50 | ▲0.56% | ▲10.05% |
| GOLD | 2,038.97 | +1.11% | +2.51% |
| OIL (WTI) | 68.60 | ▼4.27% | ▼7.67% |

TODAY'S COMMENTS & FORECAST
Open

| | | | |
|---------|--------|---------|--------|
| USD/JPY | 134.54 | EUR/USD | 1.1069 |
| USD/SGD | 1.3300 | USD/THB | 33.86 |
| JPY/SGD | 0.9885 | USD/MYR | 4.455 |

Forecast

| | |
|---------|-----------------|
| USD/JPY | 134.00 - 136.50 |
| EUR/USD | 1.0960 - 1.1100 |
| AUD/USD | 0.6620 - 0.6700 |
| USD/SGD | 1.3280 - 1.3380 |
| JPY/SGD | 0.9729 - 0.9985 |
| USD/CNH | 6.9000 - 6.9300 |
| USD/INR | 81.50 - 81.90 |
| USD/IDR | 14580 - 14750 |
| USD/MYR | 4.435 - 4.462 |
| USD/PHP | 55.00 - 55.50 |
| USD/THB | 33.85 - 34.10 |

Today's Direction

| | Bull | Bear |
|---------|------|------|
| USD/SGD | 0 | 5 |
| USD/JPY | 2 | 3 |

Three Take-aways:

- 1) The Fed's 25bp hike was a unanimous decision accompanied by guidance for a tentative pause.
- 2) At odds with market bets, the Fed is cautious on further hikes and not panicking about over-tightening.
- 3) The ECB may persist with an upfront 50bp hike as inflation remains unacceptably high.

Tentative Pause, Not Teetering on Pivot

- The key take-away from Fed Powell's press conference, despite overdone excitement about an implied pause from the statement, is that the **Fed is still assessing if additional tightening is necessary**. In other words, the Fed is merely assuming a **tentative pause** that is data dependent, but still **with a measured tightening bias**; and **not teetering on reversing rate hikes (pivot proper)** in H2, which is what bond/rates markets are doubling down on.

- Point being, **dovish market bets have over-indulged** in the statement edit that substitutes; **"The Committee anticipates that some additional policy firming may be appropriate to attain a stance ... that is sufficiently restrictive"** for; **"determining the extent to which additional policy firming may be necessary"**.

- Fed Funds futures have significantly drummed up rate cut bets for H2; i) advancing the likelihood of the first cut to no later than Sep FOMC, and; ii) baking in **75-100bp of cuts by end-2023**, with **100-125bp of cuts by Jan 2024**. Whereas the wider point is that the **Fed's guidance** accompanying a unanimous 25bp hike to 5.00-5.25% is merely more **contemplative**;

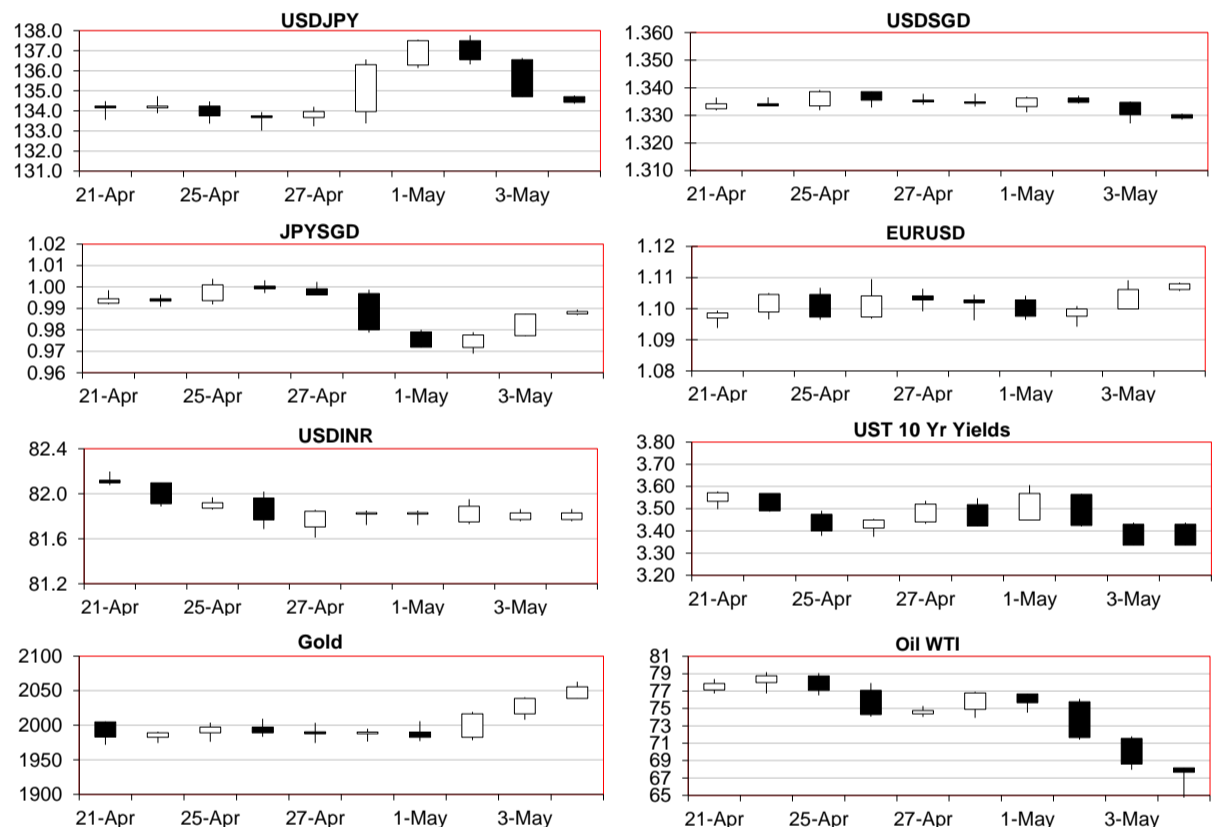
- **cautious about further hikes, not unduly panicked about having over-tightened**.

- To be sure, Powell's press conference admittedly is not at odds with a Fed pause from here on; **but only if data square with decelerating inflation**. However, by inference, the Fed appears willing to bite the bullet on a mild recession, if that is deemed necessary to tame inflation.

- Moreover, insofar that financial sector risks are assessed to be reasonably ring-fenced, the case for compensatory rate cuts are also not yet convincing. While it is harder to quantify the **gap between markets' dovish gambit** at this juncture, **and a steadier** (if not "higher for longer") **Fed guidance**, this **gap appears to have blown out wider**.

OVERNIGHT RESULTS

(TH) CPI/Core YoY (Apr): 2.7%/1.7% (Mkt: 2.7%/1.7%; Mar: 2.8%/1.8%) | (SG) PMI-Mfg/Electronics (Apr): 49.7/49.2(Mar: 49.9/49.4) | (IN) PMI - Svcs/Comp. (Apr): 62.0/61.6 (Mar: 57.8/58.4) (EZ) Unemployment rate (Mar): (Mkt: 6.6%; Feb: 6.6%) | (US) ADP Chg (Apr): 296k (Mkt: 150K; Mar: 145K) | (US) ISM Services/Prices Paid (Apr): 51.9/59.6 (Mkt: 51.8/-; Mar: 51.2/59.5)

*** Past Two Weeks Movement ***


- And that potentially sets the stage for **greater, not diminished, volatility** heading into the June FOMC (on quantifying 'Dot Plot'-market divergence) and Q3 Fed potential pivot disappointments. **Uncharacteristically**, the usually more upbeat-on-pivot equities appear to have been more restrained with prematurely cheering a "pivot", slipping 0.5-0.8%.

- And that may be reflecting the **reservations about adverse demand impact checking, if not offsetting, relief of a Fed pause**. Whereas UST yields have pulled back in discernible but flattening fashion (2Y: -16bp to 3.8%; 10Y: -9bp to 3.34%) to acknowledge the rate cut bets.

- The Greenback took middle ground, it appears, slipping on softer yields, but not by as much as one might have anticipated on pivot cheer.

ECB: 50 & 50-50

- A **50bp hike** (to take the deposit/refinancing rates to 3.50%/4.00%) at this meeting is a given amid elevated and "sticky" inflation, which the ECB has characterized as unacceptably high.

- What's more, surge in services PMI, suggesting a wider spillover of the re-opening recovery across a broader range of sectors, also ups the risks of "second round" effects; thereby necessitating an upsized and upfront move. But **after tonight, calls become more "50-50"**.

- Both with regards to **whether to persist with outsized 50bp moves**, especially as the QT aspects of policy start to bite; as well as to **how much higher to go with rate hikes**. The bias for the former is that further hikes beyond May, if required, are likely to be calibrated 25bp moves.

- As for the latter, one more 25bp rate hike in Q3 beyond the 50bp hike at this meeting may be the base case. Although arguments for more may persist as inflation remains stickier, amid second-order effects; contingent on risk to growth and financial stability being checked.

FX Daily Outlook

- EUR/USD: Testing 1.11 on ECB decision though clouded policy outlook deters durability.

- USD/JPY: Lower oil prices and UST yields likely to keep pair pressured below 136.

- USD/SGD: Mild slippage below 1.33 as regional peers enjoy tailwinds.

- AUD/USD: Remains trapped below 67cents as commodity backstop weakens.

TODAY'S EVENTS

(AU) Trade Balance (Mar): (Mkt: A\$13.0b; Feb: A\$13.9b) | (CH) PMI - Mfg (Apr): (Mkt: 50.0; Mar: 50.0) |

(EZ) PPI YoY (Mar): (Mkt: 5.9%; 13.2%) | (US) Initial Jobless Claims (29 Apr): (Mkt: 240K; Prev Week: 230K) |

(US) Trade Balance (Mar): (Mkt: -\$69.4b; Feb: -\$70.5b)

Central Banks: **ECB Decision**

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