

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	137.83	138.60	+0.62	+2.48
EUR	1.0808	1.0813	+0.0008	▼0.0061
AUD	0.6635	0.6653	+0.0002	▼0.0047
SGD	1.3451	1.3466	+0.0022	+0.0105
CNY	7.0291	7.0320	+0.0200	+0.0803
INR	82.83	82.83	+0.16	+0.53
IDR	14891	14890	▼35	+90
MYR	4.5500	4.5492	+0.0114	+0.0520
PHP	55.83	55.84	+0.16	▼0.24
THB	34.48	34.45	+0.07	+0.67

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.715%	+4.2 bp	+21.3 bp
JPY (10YR)	0.393%	▼0.5 bp	▼1.4 bp
EUR* (10YR)	2.459%	+3.1 bp	+15.0 bp
AUD (5YR)	3.332%	▼1.0 bp	+17.7 bp
SGD (5YR)	2.826%	+4.4 bp	+11.4 bp
CNY (5YR)	2.522%	+0.0 bp	▼1.9 bp
INR (5YR)	6.871%	▼8.1 bp	▼9.3 bp
IDR (5YR)	6.109%	▼0.2 bp	▼0.2 bp
MYR (5YR)	3.509%	▼0.8 bp	+4.7 bp
PHP (5YR)	5.541%	+0.5 bp	▼10.8 bp
THB (5YR)	2.192%	+0.5 bp	+2.2 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,286.58	▼0.42%	▼0.19%
N225 (JP)	31,086.82	+0.90%	+4.93%
STOXX 50 (EU)	4,385.63	▼0.22%	+1.60%
ASX (AU)	4,234.14	+0.14%	▼0.07%
STI (SG)	3,211.09	+0.27%	▼0.11%
SHCOMP (CN)	3,296.47	+0.39%	▼0.43%
SENSEX (IN)	61,963.68	+0.38%	▼0.61%
JSE (ID)	6,729.65	+0.43%	+0.27%
KLSE (MY)	1,419.00	▼0.67%	+0.12%
PSE (PH)	6,620.83	▼0.66%	+1.50%
SET (TH)	1,529.24	+0.95%	▼0.79%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	261.58	▲0.21%	▲0.03%
COPPER (LME)	8,061.53	▲1.70%	▲1.91%
IRON ORE (CN)	106.33	▲0.69%	▲0.71%
GOLD	1,971.86	▲0.30%	▲2.21%
OIL (WTI)	71.99	+0.61%	+1.24%

Three Take-aways:

- 1) The slew of Fed comments suggest that any pause in June will be distinctly hawkish.
- 2) Resumption of debt ceiling talks may be hopeful, but watch for brinkmanship and blame-shifting.
- 3) Sharp CNH drop rubbing off on AXJ is not despite, but because, of re-opening; amid BOP drag.

Hawkish Pause & Bullish Resumption?

- In the absence of other major headlines data, the **resumption of debt ceiling negotiations spurred some hopes despite distinct risks of brinkmanship and blame-shifting** remaining on the cards. But without real action on that front, **hawkish Fed speak has some sway on markets**.

- In particular, Fed's Bullard saying he is "**thinking two more (25bp moves) this year**", and Fed's Kashkari adding that while he is **undecided between a pause or a hike for June**, it is **imperative to signal that the Fed is not done**. and that rates might have to eventually end up "**north of 6%**".

- Fed's Bostic alluded to "**starting to see tightness emerge**" as the "**lag is starting to play out**".

- Crucially, Bostic concluded that, "**absent a big change**", **patience to "just look and see"** for the time being **might be appropriate**. And that might be the main take-away for markets.

- That June FOMC is shaping up to be an **unmistakably hawkish pause** (expect some flex), **with a higher** (than in May) **bar for an imminent hike**. As such, the bump-up in UST yields (2Y: +5bp to 4.31%; 10Y: 3.5bp to 3.71%) has been fairly modest, with only mild flattening.

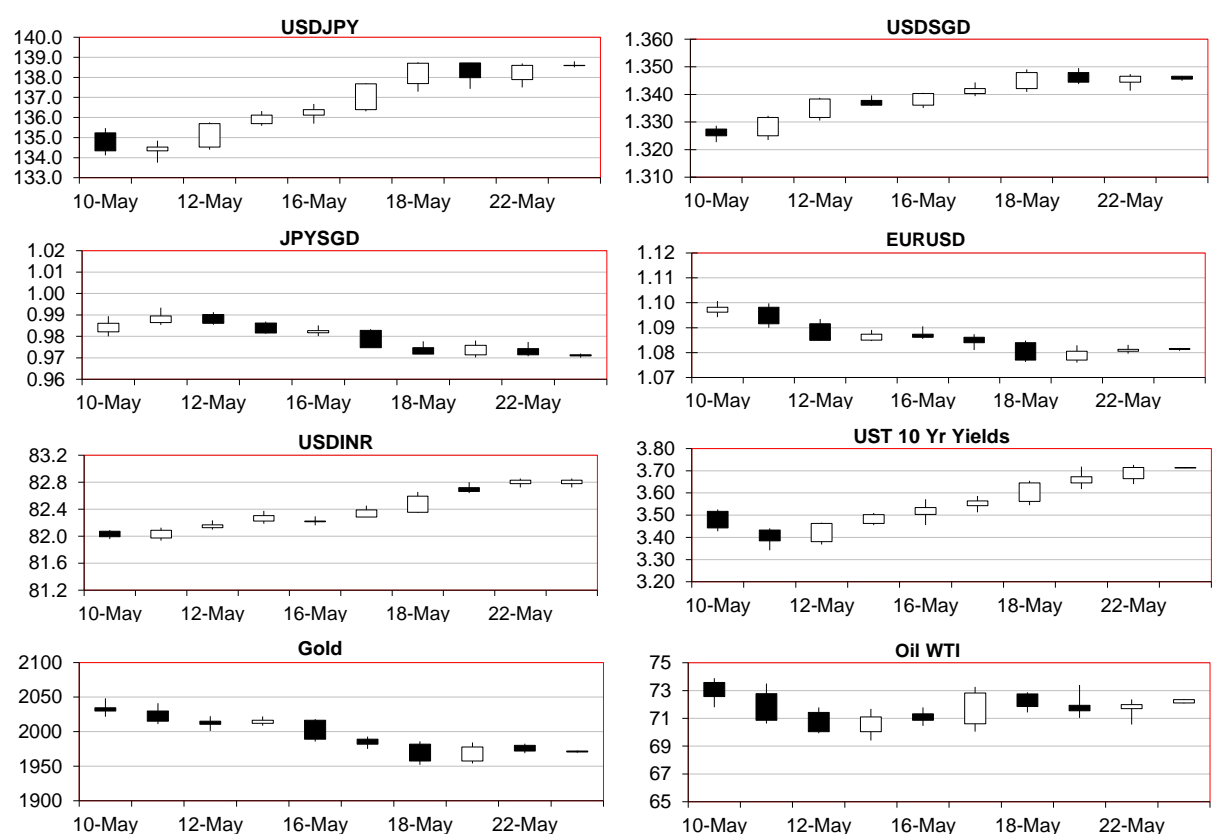
- Accordingly, USD is firm, not outrageously bullish (USD index holding above 103). Although USD strength is uneven. EUR at 1.08 is (nly mildly lower than mid-1.08 a week ago; with AUD also down to mid-0.66 from 0.67. Whereas USD/JPY has shot up from 136 to mid-138. USD/SGD is up from mid-1.33 to above mid-1.34 as CNH has slumped (6.96 to 7.05) during this time.

CNH: Re-Opening Bears

- **Sharp bouts of CNH weakness** were especially accentuated last week with the USD/CNH notably crossing 7, hence psychologically **instigating latent instability fears**.

- More so as CNH tumble was not merely a reflection of tyrannical USD dominance hopes, but crucially also as **by-product of CNH specific concerns** stemming from underwhelming run of China data (from imports to credit to industrial production); consistent with overdone re-opening cheer.

- We are however not surprised by the bout of CNH weakness. Instead, we are **cleared eyed that the weak data merely unleashed sentiment-driven CNH retrenchment**.

Past Two Weeks Movement *

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	138.68	EUR/USD	1.0811
USD/SGD	1.3463	USD/THB	34.47
JPY/SGD	0.9708	USD/MYR	4.554

Forecast

USD/JPY	137.70 - 139.40
EUR/USD	1.0760 - 1.0860
AUD/USD	0.6620 - 0.6700
USD/SGD	1.3420 - 1.3500
JPY/SGD	0.9627 - 0.9804
USD/CNH	7.0200 - 7.0780
USD/INR	82.55 - 83.05
USD/IDR	14850 - 15000
USD/MYR	4.532 - 4.560
USD/PHP	55.68 - 56.05
USD/THB	34.35 - 34.65

Today's Direction

	Bull	Bear
USD/SGD	4	1
USD/JPY	1	4

- Fact is, as counter-intuitive as it might initially appear, **underlying CNH drag was not set off despite, but precisely because, of the re-opening boost**.

- Particularly as unintended effects of re-opening conspire to significantly diminish China's Current Account (C/A) surplus, amid Financial Account drag; both undermining cash-flow support for CNH.

- Specifically, **China's record good surplus run during COVID** (when consumption was predominantly all directed at goods) that has boosted the C/A to records, is in fact **set to be significantly reduced** by the re-opening that is bound to accentuate the global post-COVID goods-to-services re-balancing.

- What's more the concurrent, sharp reduction in China's services deficit, **most of which was owed to closed borders stopping the outflow of tourist spending offshore**, is also set to be reversed (possibly quite rapidly) as Chinese tourists head back out with the re-opened borders.

- Depending on the "vengeance" factor of Chinese tourists, the **services deficit can substantially jump** (in 2019 net Chinese tourists spending was 1.7% of China's GDP), accentuating C/A drag.

- Finally, **overhang from the uncertainties and wealth preservation anxieties incited by 'Common Prosperity'** could keep financial/capital outflows elevated; especially with re-opened borders.

- And intensifying US-China tensions could worsen this impetus for capital outflows.

- The upshot is that **despite the positive macro sentiment impact of re-opening for China, the irony is that CNH prospects may be compromised**, if not undermined.

- And so bouts of USD strength, and worse, **episodes of US-China geo-political friction could see CNH pushed further on the back foot despite "peak USD" bets**.

FX Daily Outlook

- EUR/USD: Firm UST yields and hawkish Fed giving USD bid pre-Minutes; to dampen above mid-1.08.

- USD/JPY: Hawkish Fed and buoyant UST yields lifting the pair; cautious on break of/above 139.

- USD/SGD: Slippery CNH and USD boosted by hawkish Fed/yields buoy around/above mid-1.34.

- AUD/USD: Struggling for a test back at 67 cents as China concerns weigh; alongside hawkish Fed.

TODAY'S EVENTS

(KR) Consumer Confidence (May): 98.0 (Apr: 95.1) | (JP) PMI-Mfg/Svcs/Comp. (May P): 50.8/56.3/54.9 (Apr: 49.5/55.4/52.9)

(AU) PMI-Mfg/Svcs/Comp. (May P): 48.0/51.8/51.2 (Apr: 48.0/53.7/53.0) | (SG) CPI/Core YoY (May): (Mkt: 5.5%/4.7%; Apr: 5.5%/5.0%)

(ID) Current Account (Q1): (Mkt: \$2.50b; Q4: \$4.30b) | (EZ) PMI - Mfg/Svcs/Comp. (May P): (Mkt: 46.0/55.5/53.5; Apr: 45.8/56.2/54.1)

(EZ) Current Account (Mar): (Feb: €24.3b) | (US) Philly Fed Non-Mfg (May): (Apr: -22.8) | (US) Richmond Fed Mfg (May): (Mkt: -8; Apr: -10)

(US) New Homes Sales (Apr): (Mkt: 665K; Mar: 683K) | Central Banks: ECB's Guindos, Muller & Villeroy speak | ECB's Gui

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