

**MARKET SUMMARY**

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.41	140.06	+0.59	+1.35
EUR	1.0720	1.0725	▼0.0025	▼0.0045
AUD	0.6531	0.6505	▼0.0039	▼0.0117
SGD	1.3530	1.3546	+0.0051	+0.0067
CNY	7.0705	7.0792	+0.0183	+0.0417
INR	82.76	82.74	+0.07	+0.15
IDR	14952	14950	+45	+85
MYR	4.6260	4.6265	+0.0330	+0.0885
PHP	56.07	56.08	+0.29	+0.18
THB	34.67	34.61	+0.07	+0.27

\*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.817%	+7.6 bp	+17.2 bp
JPY (10YR)	0.427%	+1.3 bp	+4.5 bp
EUR* (10YR)	2.522%	+5.0 bp	+7.6 bp
AUD (5YR)	3.440%	+6.8 bp	+20.5 bp
SGD (5YR)	2.998%	+6.9 bp	+26.0 bp
CNY (5YR)	2.480%	▼0.7 bp	▼7.6 bp
INR (5YR)	6.939%	+2.3 bp	+1.6 bp
IDR (5YR)	6.075%	▼0.1 bp	▼0.5 bp
MYR (5YR)	3.522%	+0.4 bp	+2.3 bp
PHP (5YR)	5.703%	+7.1 bp	+17.0 bp
THB (5YR)	2.225%	+1.2 bp	+5.4 bp

\* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	32,764.65	▼0.11%	▼2.30%
N225 (JP)	30,801.13	+0.39%	+0.74%
STOXX 50 (EU)	4,269.64	+0.14%	▼2.24%
ASX (AU)	4,128.33	▼0.69%	▼2.21%
STI (SG)	3,207.72	▼0.20%	+0.79%
SHCOMP (CN)	3,201.26	▼0.11%	▼2.91%
SENSEX (IN)	61,872.62	+0.16%	+0.72%
JSE (ID)	6,704.23	▼0.62%	+0.62%
KLSE (MY)	1,402.48	▼0.51%	▼1.79%
PSE (PH)	6,560.22	▼0.84%	▼1.03%
SET (TH)	1,535.42	▼0.07%	+0.57%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	258.49	▲1.60%	▲1.21%
COPPER (LME)	7,914.75	+0.80%	▲2.63%
IRON ORE (CN)	103.93	+0.02%	▲3.62%
GOLD	1,941.41	▲0.80%	▲0.82%
OIL (WTI)	71.83	▼3.38%	▼0.04%

**Three Take-aways:**

- 1) Resilient labour markets and economic activity sent UST yields soaring to back USD.
- 2) EM-Asia FX looks to be weighed down by yield differentials and growth risks.
- 3) Thought experiment on US debt default see US asset sell-off amid policy differences from 2011 episode.

**Boom or Gloom?**

- US equities turned in a mixed performance with the Nasdaq buoyed by booming Nvidia share price to gain 1.7% while the S&P 500 was similarly supported to rise 0.9%. On the other end, the industrial focused Dow was down 0.1% to underscore broader economic worries.

- With jobless claims heading lower to signal a tight labour market which was congruent with both regional Fed surveys showing higher than expected economic activity and upwardly revised GDP print, stronger economic activity and higher GDP price deflator print brought gloom to UST bulls.

- Specifically, 2Y UST yields soared 15.7bp while 10Y yields rose 7.5bp as markets now price in 50% odds of a 25bps hike and have dialled back on rate cut bets to project around 1 rate cut in end-23/early-24. One ought to brace for further gyrations on the PCE deflator print today.

- USD asserted its dominance across all G10 peers as UST yields pulled higher. USD/JPY broke 140 while EUR sank towards 1.07. Similarly, AUD dropped towards 65 cents while USD/SGD is up to near mid-1.35. Gloom for EM-Asia FX looks set to follow as rate/yield differentials weigh.

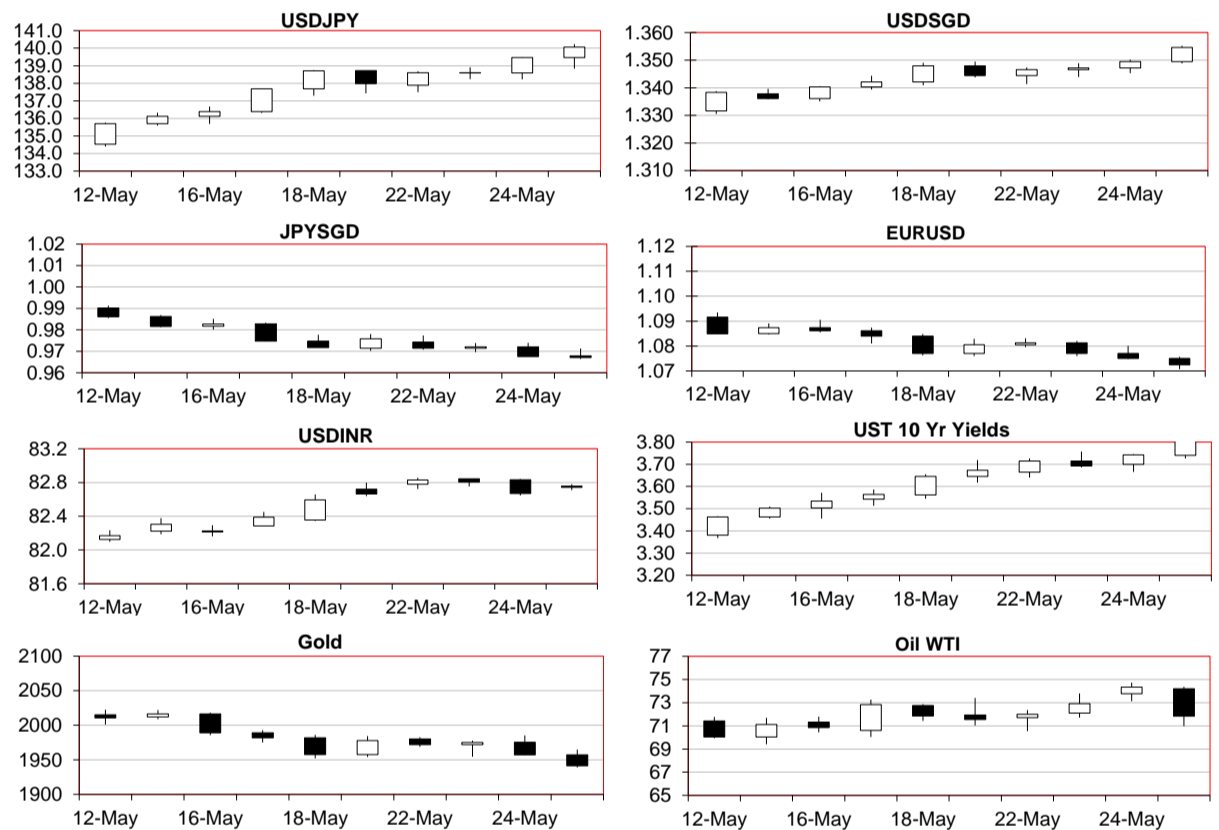
- Both the Bank of Korea and Bank Indonesia expectedly stood pat to hold policy rates. Highlighting growth risks, BoK downgraded their 2023 growth forecast to 1.4% while BI Governor Warjiyo dropped reference to growth "being in the upper end" of their 4.5%-5.3% range. Nonetheless, the BoK's contrast stems from retaining clear optionality for one more hike as 6 out of 7 board members feel that 3.75% ought to be the terminal rate (relative to the current 3.50%).

**A Thought Experiment on US Debt Default**

- Ratings agency Fitch placing US sovereign ratings on 'Negative Watch', flagging a serious downgrade risk within 3 months (and supplanting the 'Stable' outlook), merely resonates market concerns of political miscalculation that trips the debt default wire.

**OVERNIGHT RESULTS**

(US) Initial Jobless Claims: 229k (Mkt: 245k; Prev Week: 242k) | (US) GDP Price Index (1Q S): 4.2% (Mkt: 4.0% Prev: 4.0%) | (US) GDP Annualised QoQ (1Q S): 1.3% (Mkt: 1.1%; Prev: 1.1%) | (US) Kansas City Fed Manf. Activity (May): -1 (Mkt: -9; Apr: -10.0) | (US) Chicago Fed National Activity Index (Apr): 0.07 (Mkt: -0.2; Mar: -0.2)

**Past Two Weeks Movement**

**TODAY'S COMMENTS & FORECAST**
**Open**

USD/JPY	140.03	EUR/USD	1.0724
USD/SGD	1.3549	USD/THB	34.76
JPY/SGD	0.9676	USD/MYR	4.623

**Forecast**

USD/JPY	138.50 - 140.40
EUR/USD	1.0700 - 1.0780
AUD/USD	0.6460 - 0.6600
USD/SGD	1.3480 - 1.3560
JPY/SGD	0.9601 - 0.9791
USD/CNH	7.0800 - 7.1000
USD/INR	82.60 - 82.90
USD/IDR	14900 - 15000
USD/MYR	4.610 - 4.650
USD/PHP	56.00 - 56.30
USD/THB	34.45 - 34.85

**Today's Direction**

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

- To be sure, this is not an unfamiliar scene, invoking memories of the S&P's one-notch cut to US credit ratings back in May 2011 (which had been preceded by a Outlook downgrade to 'Negative' in April 2011).

- Familiarity however does not mean that markets will be unfazed. What's more, neither the high likelihood of narrowly averting a default nor the eventual relief that negative ratings action are unlikely to effectively compromise the credit standing of the US (upon resolution) are consolation enough to dismiss the potential for market upheavals on the rocky road (littered with brinksmanship and blame-shifting) to resolving the debt ceiling crisis.

- A thought experiment about the ripples from a US debt default (at least acute risks related to) reveals a sharp retrenchment of US assets and accompanying tumble in USD (as in 2011). But unlike in 2011, UST yields/rates may surge across the curve this time (imaginably most pronounced at the very short-end).

- Diametrically opposed Fed policy of 2011 QE (\$600bn unleashed during the debt crisis) in contrast to (\$95bn/mth) QT by a hawkish, Fed now account for the difference. In addition, and similar to back in 2011, and equities/risk assets are also expected to swoon and slide.

- Uneven reversal of "debt ceiling brace" is likely on resolution; led by USD rebound, with yield pullback checked by a hawkish Fed. And equities/risk assets though could struggle to fully recoup losses and/or re-establish bullish momentum amid pre-existing geo-economic/policy risks and lingering liquidity constraints. All said, debt ceiling risk convulsions ought to pass; but unevenly segue to pre-existing risks.

Click here for full report Mizuho Flash: A Thought Experiment on US Debt Default

**FX Daily Outlook**

- EUR/USD: Pair may attempt to find bottom at 1.07 as UST yields weigh.
- USD/JPY: Crossing 140 may find worries surrounding BoJ interventions to restrain rallies.
- USD/SGD: CNH and regional FX weakness set to see the pair remain buoyed above 1.35.
- AUD/USD: Slipping oil prices and weakening CNH to see the pair suppressed below mid-0.65.

**TODAY'S EVENTS**

(AU) Retail Sales MoM (Apr): (Mkt: 0.3%; Mar: 0.4%) | (SG) Industrial Production YoY (Apr): (Mkt: -4.5%; Mar: -4.2%) | (MY) CPI YoY (Apr): (Mkt: 3.3%; Mar: 3.4%) | (US) Uni. of Mich. Sentiment/Current Conditions/Expectations (May F): (Mkt: 58.0/--/--; Prelim: 57.7/64.5/53.4) | (US) PCE/Core Deflator YoY (Apr): (Mkt: 4.3%/4.6%; March: 4.2%/4.6%) | (US) Durable Goods/Non-def Ex Air MoM(Apr P): (Mkt: -1.0%/-0.1%; Mar: 3.2%/-0.6%) | Central Banks: ECB's Lane Speaks

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