

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.54	140.60	+0.54	+2.62
EUR	1.0741	1.0723	▼0.0002	▼0.0082
AUD	0.6520	0.6517	+0.0012	▼0.0134
SGD	1.3512	1.3522	▼0.0024	+0.0078
CNY	7.0467	7.0640	▼0.0152	+0.0520
INR	82.62	82.57	▼0.17	▼0.09
IDR	14956	14955	+5	+30
MYR	4.6118	4.6003	▼0.0262	+0.0625
PHP	55.79	55.78	▼0.29	+0.11
THB	34.64	34.68	+0.07	+0.30

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.798%	▼1.9 bp	+12.6 bp
JPY (10YR)	0.421%	▼0.6 bp	+2.3 bp
EUR* (10YR)	2.538%	+1.6 bp	+11.0 bp
AUD (5YR)	3.467%	+2.7 bp	+12.5 bp
SGD (5YR)	2.998%	+0.0 bp	+21.6 bp
CNY (5YR)	2.502%	+2.2 bp	▼2.0 bp
INR (5YR)	6.934%	▼0.5 bp	▼1.8 bp
IDR (5YR)	6.095%	+2.0 bp	▼1.6 bp
MYR (5YR)	3.529%	+0.7 bp	+1.2 bp
PHP (5YR)	5.637%	▼6.6 bp	+10.1 bp
THB (5YR)	2.257%	+3.2 bp	+7.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,093.34	+1.00%	▼1.00%
N225 (JP)	30,916.31	+0.37%	+0.35%
STOXX 50 (EU)	4,337.50	+1.59%	▼1.32%
ASX (AU)	4,152.54	+0.59%	▼1.79%
STI (SG)	3,207.39	▼0.01%	+0.15%
SHCOMP (CN)	3,212.50	+0.35%	▼2.16%
SENSEX (IN)	62,501.69	+1.02%	+1.25%
JSE (ID)	6,687.00	▼0.26%	▼0.20%
KLSE (MY)	1,402.98	+0.04%	▼1.79%
PSE (PH)	6,530.20	▼0.46%	▼2.02%
SET (TH)	1,530.84	▼0.30%	+1.05%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	260.70	+0.86%	▲0.55%
COPPER (LME)	8,106.00	+2.42%	▲1.16%
IRON ORE (CN)	104.91	+0.94%	▲2.02%
GOLD	1,946.46	+0.26%	▲1.59%
OIL (WTI)	72.67	+1.17%	+1.57%

Three Take-aways:

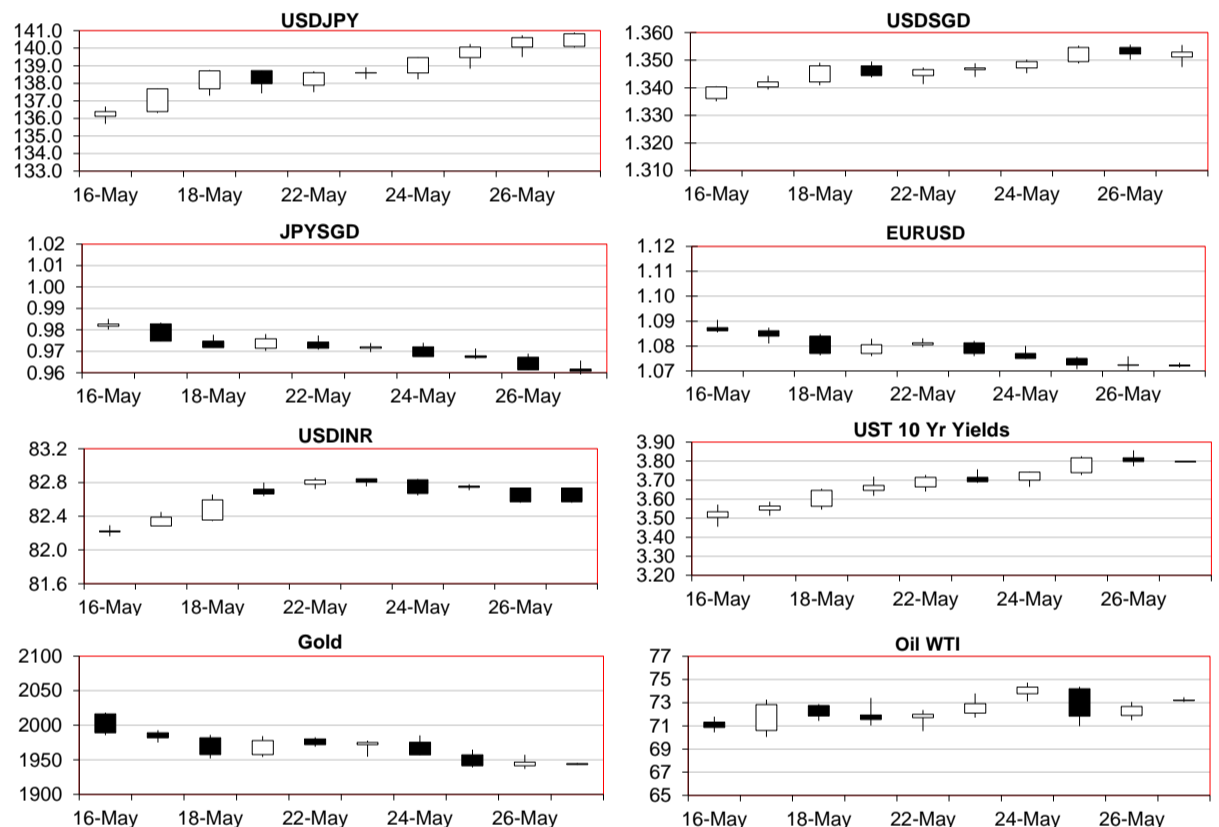
- 1) PCE deflator's acceleration stands in stark contrast to lower survey inflation expectations print.
- 2) Oil price recovery prolongs sticky inflation worries and accentuates policy mistakes.
- 3) Vietnam's dis-inflation may turn out to be more worry than relief amid growth concerns.

Gyrations

- A headline glance at US Treasuries tells of a mild 2.9bp rise in 2Y while 10Y yields ended 1.9bp lower. A deeper look reveals **significant gyrations**.
- With the Fed's official target measure, **the PCE deflator for April printing higher than March and exceeding expectations**, 2Y yields were initially sent soaring more than 10bps.
- Subsequently, the final outturn of Uni of Michigan **survey inflation expectations heading lower** from the preliminary print gave respite to UST bulls and pare back bets on further hikes.
- Surveyed sentiments also turned more upbeat. Similarly, US equities also turned cheery to rise across the board (Nasdaq: +2.2%; S&P500: +1.3%, Dow: +1.0%)
- In contrast, the USD's mixed performance took the middle of the pragmatic road. The consequent openness to hike rates in June as espoused by Cleveland Fed President who stated that **"everything is on the table"** drove the USD to gain against the likes of JPY as USD/JPY is sent above mid-140.
- Meanwhile, Brent crude prices recovery to head back above US\$77 assisted AUD to bounce off 65 cents. Nonetheless, subdued retails sales down under will add caution to the RBA's policy calculus.
- EUR is hovering above 1.07 while USD/SGD remained above 1.35. In EM-Asia, **political uncertainty continue to assert its toll** as USD/THB stayed above 34.6 amid jostling of House Speaker post within the coalition highlight inherent differences.
- While **Malaysia's inflation at 3.3%** does not incite further BNM moves, MYR weakness on CNH spillovers invites unwelcomed imported inflation which may see BNM lean against the wind.

OVERNIGHT RESULTS

(AU) Retails Sales MoM (Apr): 0.0% (Mkt: 0.3%; Mar: 0.4%) | (SG) Industrial Production YoY (Apr): -6.9% (Mkt: -4.5%; Mar: -4.2%)
 (MY) CPI YoY (Apr): 3.3% (Mkt: 3.3%; Mar: 3.4%) | (US) Uni. of Mich. Sentiment/Current Conditions/Expectations (May F): 59.2/64.9/55.4 (Mkt: 58.0/-/-; Prelim: 57.7/64.5/53.4) | (US) PCE/Core Deflator YoY (Apr): 4.4%/4.7% (Mkt: 4.3%/4.6%; March: 4.2%/4.6%) | (US) Durable Goods/Non-def Ex Air MoM(Apr P): 1.1%/1.4% (Mkt: -1.0%/-0.1%; Mar: 3.2%/-0.6%) | (US) Uni. Of Mich. 1yr/5Yr Inflation (May F): 4.2%/3.1% (Mkt: 4.5%/3.1%; Prelim 4.5%/3.2%)

*** Past Two Weeks Movement ***

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	140.88	EUR/USD	1.0722
USD/SGD	1.3530	USD/THB	34.76
JPY/SGD	0.9604	USD/MYR	4.611

Forecast

USD/JPY	139.00 - 141.00
EUR/USD	1.0700 - 1.0780
AUD/USD	0.6460 - 0.6600
USD/SGD	1.3480 - 1.3560
JPY/SGD	0.9560 - 0.9755
USD/CNH	7.0600 - 7.1000
USD/INR	85.50 - 82.90
USD/IDR	14900 - 15000
USD/MYR	4.555 - 4.650
USD/PHP	55.60 - 56.20
USD/THB	34.45 - 34.85

Today's Direction

	Bull	:	Bear
USD/SGD	7	:	1
USD/JPY	6	:	2

- For this week, given a negotiated debt ceiling deal, the focus turns to its safe passage in Congress. While awaiting Congress approval is the base case, **already buoyed sentiments may inevitably give in to marginal anxieties on both deal delays and details (spending cuts)**.

Vietnam CPI: Disinflation Amid Deflationary Fears

- **Vietnam's headline inflation is expected to continue to decline further.**
- The **drags** would continue to come from **declining transportation cost** from lower petrol prices as well as **on-going adjustments on education fees**.
- While **manufactured goods** may continue to experience **dis-inflation** on subdued demand, extreme weather conditions may have added upward pressures to food prices.
- **Utilities charges is likely to have risen** as retail electricity tariffs were adjusted upwards by 3% by the state operator EVN (amid a build-up of rising costs earlier absorbed).
- On one hand, given the on-going tourism sector recovery, services inflation on accommodation cost, recreation and eating out might prove sticky.
- But on the other, weak economic growth, services providers could **generate price competition** as they seek to grab a bigger share of tourist inflows.
- What's more, a sharp slowdown in industrial activity, which arguably is the main driver of wages (and hence consumption), the overarching risk appears to be aligned to industrial sector dent.
- It is in this context that the **SBV has just cut refinancing by 50bp**; as the **policy concerns are trained on a deflationary economic collapse**, not upward wage/growth-price spirals.

FX Daily Outlook

- EUR/USD: Sideways around 1.07 is the case as large hikes stay out of sight.
- USD/JPY: Double whammy from oil and short end UST yields to see 141 tests.
- USD/SGD: Mid-1.35 cautiously tested as CNH complex set to reflect geo-political tensions.
- AUD/USD: Bounces but no rallies as mid-65 cents still a high bar.

TODAY'S EVENTS

(JP) Coincident/Leading Index (Mar F): (Prelim: 97.7/98.8) | (VN) CPI YoY (May): (Mkt: 2.6%; 2.8%) | (VN) Trade Balance (May): (Mkt: -\$160m; Apr: \$1510m) | (VN) Retail Sales YoY (May): (Apr: 11.5%)
 (VN) Industrial Production YoY (May): (Apr: 0.5%)
 Central Banks: **ECB's Lane Speaks**

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