

## MARKET SUMMARY

| FX  | CLOSE(Asia) | CLOSE(NY) | Daily Δ* | Wkly Δ  |
|-----|-------------|-----------|----------|---------|
| JPY | 139.56      | 139.40    | +0.48    | ▼0.52   |
| EUR | 1.0776      | 1.0749    | ▼0.0033  | +0.0041 |
| AUD | 0.6723      | 0.6742    | +0.0026  | +0.0132 |
| SGD | 1.3423      | 1.3434    | +0.0007  | ▼0.0069 |
| CNY | 7.1225      | 7.1305    | +0.0187  | +0.0319 |
| INR | 82.45       | 82.47     | ▼0.11    | +0.16   |
| IDR | 14840       | 14840     | ▼55      | ▼153    |
| MYR | 4.6129      | 4.6143    | ▼0.0067  | +0.0378 |
| PHP | 56.04       | 56.04     | ▼0.08    | +0.14   |
| THB | 34.60       | 34.62     | ▼0.20    | +0.08   |

\*compared with previous day CLOSE(NY)

| Yields      | CLOSE  | Daily Δ | Wkly Δ   |
|-------------|--------|---------|----------|
| USD (10YR)  | 3.739% | +2.1 bp | +4.9 bp  |
| JPY (10YR)  | 0.427% | ▼1.1 bp | +1.3 bp  |
| EUR* (10YR) | 2.377% | ▼2.5 bp | +6.5 bp  |
| AUD (5YR)   | 3.794% | ▼5.1 bp | +36.6 bp |
| SGD (5YR)   | 2.994% | +0.0 bp | +8.4 bp  |
| CNY (5YR)   | 2.426% | ▼1.7 bp | ▼2.3 bp  |
| INR (5YR)   | 6.973% | ▼0.2 bp | +8.4 bp  |
| IDR (5YR)   | 5.960% | ▼2.9 bp | ▼6.8 bp  |
| MYR (5YR)   | 3.526% | +0.2 bp | +6.1 bp  |
| PHP (5YR)   | 5.675% | +0.0 bp | +8.6 bp  |
| THB (5YR)   | 2.216% | +1.1 bp | +2.4 bp  |

\* German bunds

| Equity Indices | CLOSE     | Daily Δ | Wkly Δ |
|----------------|-----------|---------|--------|
| DJIA (US)      | 33,876.78 | +0.13%  | +0.34% |
| N225 (JP)      | 32,265.17 | +1.97%  | +2.35% |
| STOXX 50 (EU)  | 4,289.79  | ▼0.18%  | ▼0.78% |
| ASX (AU)       | 4,133.32  | ▼0.42%  | ▼0.53% |
| STI (SG)       | 3,186.97  | +0.01%  | +0.65% |
| SHCOMP (CN)    | 3,231.41  | +0.55%  | +0.04% |
| SENSEX (IN)    | 62,625.63 | ▼0.35%  | +0.13% |
| JSE (ID)       | 6,694.02  | +0.42%  | +0.92% |
| KLSE (MY)      | 1,376.08  | +0.10%  | ▼0.38% |
| PSE (PH)       | 6,507.15  | ▼0.49%  | ▼0.07% |
| SET (TH)       | 1,555.11  | ▼0.28%  | +1.56% |

| Commodity     | CLOSE    | Daily Δ | Wkly Δ |
|---------------|----------|---------|--------|
| CRB           | 260.53   | ▲0.68%  | +0.33% |
| COPPER (LME)  | 8,349.00 | +0.16%  | +1.40% |
| IRON ORE (CN) | 113.75   | +1.73%  | +6.93% |
| GOLD          | 1,961.19 | ▲0.22%  | +0.68% |
| OIL (WTI)     | 70.17    | ▼1.57%  | ▼2.19% |

### Three Take-aways:

- 1) Alongside enlarged T-bill issuances and impending Fed meeting, UST yields surged.
- 2) Hawkish RBA tendencies may have lent traction to the AUD.
- 3) Liquidity stresses, higher risks and credit spreads ought to be closely watched on T-bill issuances.

### Staying High?

- Ahead of this week's G3 central bank decisions, US Treasuries sold off as UST 2Y yields surged 8.1bp last Friday in a further alignment to the often repeated "higher for longer rates higher for longer". **That said, one partial driver is also the enlarged T-bill issuances. (See below).**

- Nonetheless, giving up initial gains, US equities continue to clutch onto remnants of fading highs of Fed pivot cheers to rise 0.1-0.2%.

- In FX, USD recovered some ground as USD/JPY rose towards mid-139 while EUR was sent below mid-1.07. Notably, **against the grind of higher UST yields, soft oil prices as well as subdued China inflation reaffirming economic weakness, AUD edged up** towards mid-67 cents.

- Inevitably, one may ponder if the RBA's hawkishness tendencies have finally assisted the AUD to find a bottom or even turn a corner. Admittedly, hopes surrounding possibility of PBoC rate cuts and/or government support following commercial banks' deposit rate cuts played a part. In EM-Asia, USD/SGD traded sideways between 1.34 and mid-1.34.

### The Post-Debt Ceiling Liquidity Squeeze: Impact of T-bill Issuances

- While resolution of the debt defuses most of the extreme risks of financial failure, part of the (US) credit risks are merely swapped out for liquidity risks.

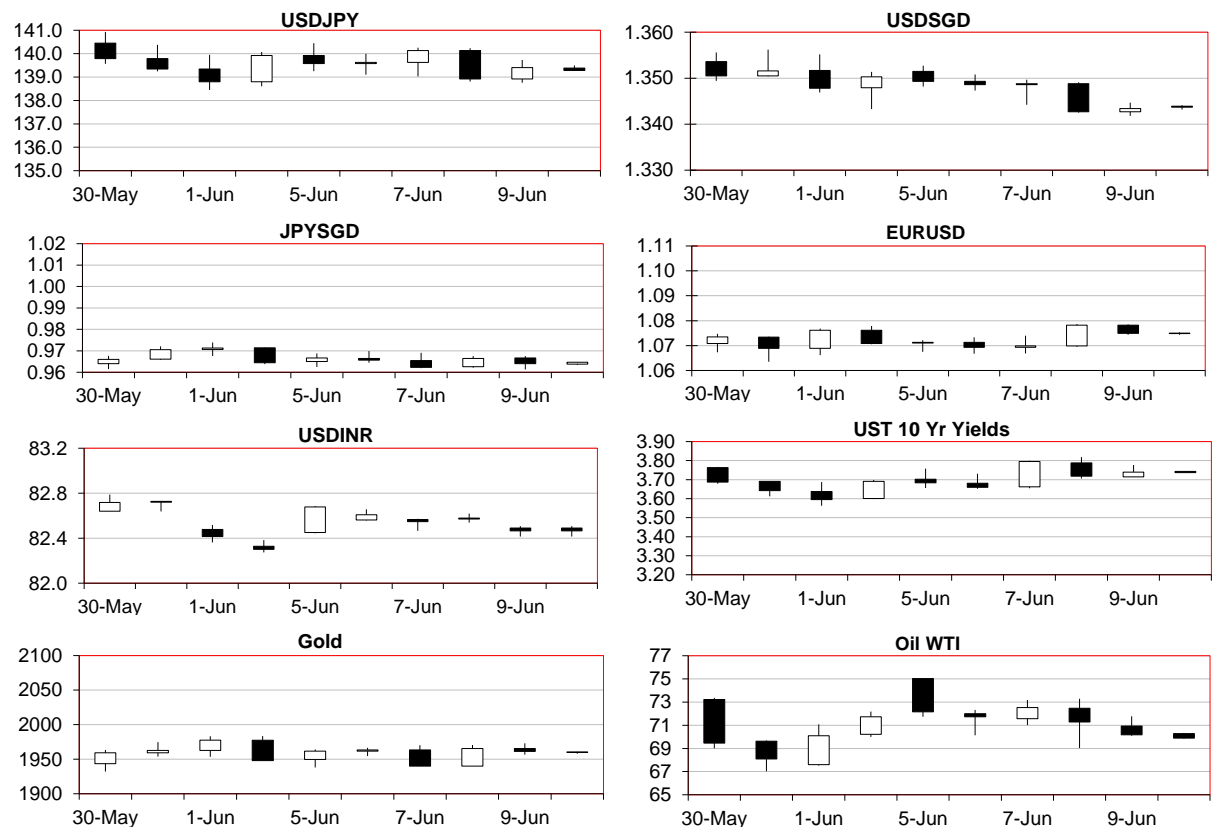
- In particular, the fact that markets will not be able to side-step an acute liquidity squeeze as the US Treasury urgently replenishes its depleted coffers, where cash had fallen to -\$20bn just ahead of resolution, compared to (just 3% of!) \$750bn average for Q2 2022. Consequently, the Treasury will have to issue at least upwards of \$600-800bn in T-bill issuances (markets estimate \$1trln). Either way, an acute liquidity squeeze with sharp consequences for the market.

- The impact would be one of higher yields (as a function of aggregate Treasury paper supply mopping up liquidity), wider (risk) spreads and USD strength from USD funding demand.

### OVERNIGHT RESULTS

(CH) CPI/PPI YoY (May): 0.2%/-4.6% (Mkt: 0.2%/-4.3%; Apr: 0.1%/-3.6%) | (MY) Ind Pdn YoY (Apr): -3.3% (Mkt: 2.0%; Mar: 3.1%) | (PH) Trade Bal (Apr): -\$4531m (Mkt: -\$4700m; Mar: -\$4928m) | (PH) Unemployment Rate (Apr): 4.5% (Mar: 4.7%)

### Past Two Weeks Movement



## TODAY'S COMMENTS & FORECAST

### Open

|         |        |         |        |
|---------|--------|---------|--------|
| USD/JPY | 139.37 | EUR/USD | 1.0751 |
| USD/SGD | 1.3435 | USD/THB | 34.60  |
| JPY/SGD | 0.9640 | USD/MYR | 4.614  |

### Forecast

|         |                 |
|---------|-----------------|
| USD/JPY | 138.60 - 140.00 |
| EUR/USD | 1.0710 - 1.0810 |
| AUD/USD | 0.6700 - 0.6800 |
| USD/SGD | 1.3400 - 1.3490 |
| JPY/SGD | 0.9571 - 0.9733 |
| USD/CNH | 7.1200 - 7.1550 |
| USD/INR | 82.35 - 82.75   |
| USD/IDR | 14800 - 14960   |
| USD/MYR | 4.596 - 4.628   |
| USD/PHP | 55.85 - 56.25   |
| USD/THB | 34.50 - 34.80   |

### Today's Direction

|         | Bull | Bear |
|---------|------|------|
| USD/SGD | 4    | 1    |
| USD/JPY | 3    | 2    |

- **Higher Yields:** Front-end yields would be most acutely impacted given the likelihood of most of the liquidity being mopped up by T-bill issuances. This will of course transmit across the curve, but will be dampened at the 2Y insofar as approaching Fed (peak) rate expectations temper; and even more so at the longer end by recession risks being priced incrementally.

- **Risk Spread:** With the US Treasury mopping up liquidity, risk re-pricing though may be more accentuated, with widening credit spreads more discernibly amid a liquidity squeeze.

- Especially as rising yields on "safe" US bills compete with, and displace, risk assets; further accentuated by the Fed's on-going QT that is effectively draining \$95bn/mth from markets.

- **Banking Risks/Credit Spreads:** What's more, insofar that the US Treasury bill issuances compete for USD funding in the money markets, banks could also unevenly feel the liquidity squeeze. This will in turn accentuate credit premiums across USD funding capability, organic cash-flow strength and risk beta (should this re-trigger US regional bank jitters).

- **USD Strength:** Finally, the rush for USD funding will boost USD strength, accentuated by "risk off" from (T-bill induced) liquidity squeeze; even as post-debt ceiling short squeeze fades.

- The silver-lining is that insofar that the liquidity squeeze is widely anticipated, the resultant response of precautionary positioning will mitigate pain and tail risks. Crucially, spare liquidity in reverse repo (some \$2.5trln) may be tapped on to avert an all-out financial calamity.

- Nonetheless, a bumpy path in coming weeks amid heightened liquidity stress remains par for the course; with volatile yields entailing 50-100bps of upside, dented risk assets, smaller/less well-funded banks subject to USD funding risks and a strong USD cutting risk currencies.

### FX Daily Outlook

- EUR/USD: Caution may restrain strength to test 1.08 as Fed skip relents to elevated yields.
- USD/JPY: UST yields impart buoyancy off mid-138 even as both BoJ and Fed look to hold.
- USD/SGD: Weakening CNH restrain sub-1.34 slips. Watch for rallies on higher UST yields.
- AUD/USD: Eyes on AUD turnaround as the pair may attempt mid-67 cents consolidation.

### TODAY'S EVENTS

(JP) PPI YoY (May): (Apr: 5.8%) | (JP) Machine Tool Orders YoY (May P): (Apr: -14.4%) |

12-15 June: (CH) New Yuan Loans/Aggregate Financing CNY (May): (Mkt: 1500b/1800b; Apr: 718.8b/1217.1b) |

(CH) FDI YTD YoY CNY (May): (Apr: 2.2%) | (ID) Consumer Confidence Index (May): (126.1) | (IN) CPI YoY (May): (Apr: 4.7%) |

(IN) Industrial Production YoY (Apr): (Mkt: 0.9%; Mar: 1.1%)

**Important Information**

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

**Singapore:** Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

**Japan:** Mizuho is authorised and regulated by the Financial Services Agency of Japan.

**United Kingdom / European Economic Area:** In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**United States:** This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd.