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MIZUHO

DAILY MARKET REPORT

14-Jun-2023 Wednesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	139.49	140.22	+0.62	+0.59
EUR	1.0799	1.0793	+0.0036	+0.0100
AUD	0.6776	0.6767	+0.0016	+0.0096
SGD	1.3406	1.3423	▼0.0013	▼0.0063
CNY	7.1516	7.1662	+0.0198	+0.0486
INR	82.38	82.38	▼0.06	▼0.23
IDR	14862	14860	▼5	+0
MYR	4.6164	4.6150	▼0.0048	+0.0065
PHP	55.94	55.95	▼0.09	▼0.29
THB	34.55	34.55	▼0.05	▼0.25

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.813%	+7.8 bp	+15.3 bp
JPY (10YR)	0.425%	▼0.6 bp	▼0.1 bp
EUR* (10YR)	2.423%	+3.5 bp	+5.1 bp
AUD (5YR)	3.794%	+0.1 bp	+17.7 bp
SGD (5YR)	3.004%	+1.0 bp	+8.8 bp
CNY (5YR)	2.412%	▼1.7 bp	▼2.2 bp
INR (5YR)	6.935%	▼1.6 bp	+2.7 bp
IDR (5YR)	5.909%	▼4.3 bp	▼11.9 bp
MYR (5YR)	3.524%	▼1.0 bp	+3.5 bp
PHP (5YR)	5.668%	▼0.8 bp	+0.0 bp
THB (5YR)	2.260%	+4.4 bp	+6.4 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,212.12	+0.43%	+1.90%
N225 (JP)	33,018.65	+1.80%	+1.57%
STOXX 50 (EU)	4,347.55	+0.72%	+1.22%
ASX (AU)	4,151.46	+0.27%	▼0.38%
STI (SG)	3,189.40	▼0.21%	▼0.02%
SHCOMP (CN)	3,233.67	+0.15%	+1.20%
SENSEX (IN)	63,143.16	+0.67%	+0.56%
JSE (ID)	6,719.01	▼0.05%	+1.51%
KLSE (MY)	1,380.61	▼0.44%	▼0.19%
PSE (PH)	6,507.26	+0.00%	+0.42%
SET (TH)	1,562.40	+0.71%	+2.22%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	260.81	+1.50%	+0.05%
COPPER (LME)	8,450.00	+2.03%	+1.39%
IRON ORE (CN)	113.08	+1.75%	+4.17%
GOLD	1,943.74	▲0.72%	▲1.01%
OIL (WTI)	69.42	+3.43%	▼3.23%

Three Take-aways:
1) US inflation comfort may be hollow on overstated dis-inflation and hot services inflation.
2) Despite a first pause for the Fed, FOMC hawks are yet to retire .
3) PBoC's rate cut unable to impress as credit data tells of private sector confidence deficit.

Three Reasons Why US Inflation Comfort is Hollow

- **"Risk on" trades ahead of the FOMC continued**, arguably spurred on by US (headline) CPI tempered further, ***although caution creeping in at the margins*** to check extent of equity rallies was warranted; especially as UST yields were bumped up (led by the front-end).
- Admittedly, the **drop in US headline inflation to 4.0%** (consensus 4.1%) **leans in to a June FOMC pause** (at today's meeting); ***but*** it **should not be mistaken for hastening a pivot**.
- Fact is, there are **three key reasons why the US dis-inflation falls short** of the bar.
- First, **outright and emphatic energy deflation**, knocking 0.9%-pts off headline CPI **overstates** the **quality of dis-inflation**; being *neither broad, nor* likely *durable (*as underlying dynamics).
- Second, and a related point, **broader services** (*ex-Energy Services*) inflation **remains worrying elevated and hot**, running at a 6.6% annual clip; only cooling slightly from 7.1% March peak.
- Finally, the **Fed's measure of the "inner-most core"** inflation, which is *services excluding shelter (rental)*, is **similarly elevated** contributing 2.2%-points to overall inflation.
- And so the **upshot is that cooling inflation** is certainly a **welcome relief** *to temporarily pass up on unrelenting hikes*, **but uncomfortable "core" hot spots mean it is but hollow comfort.**

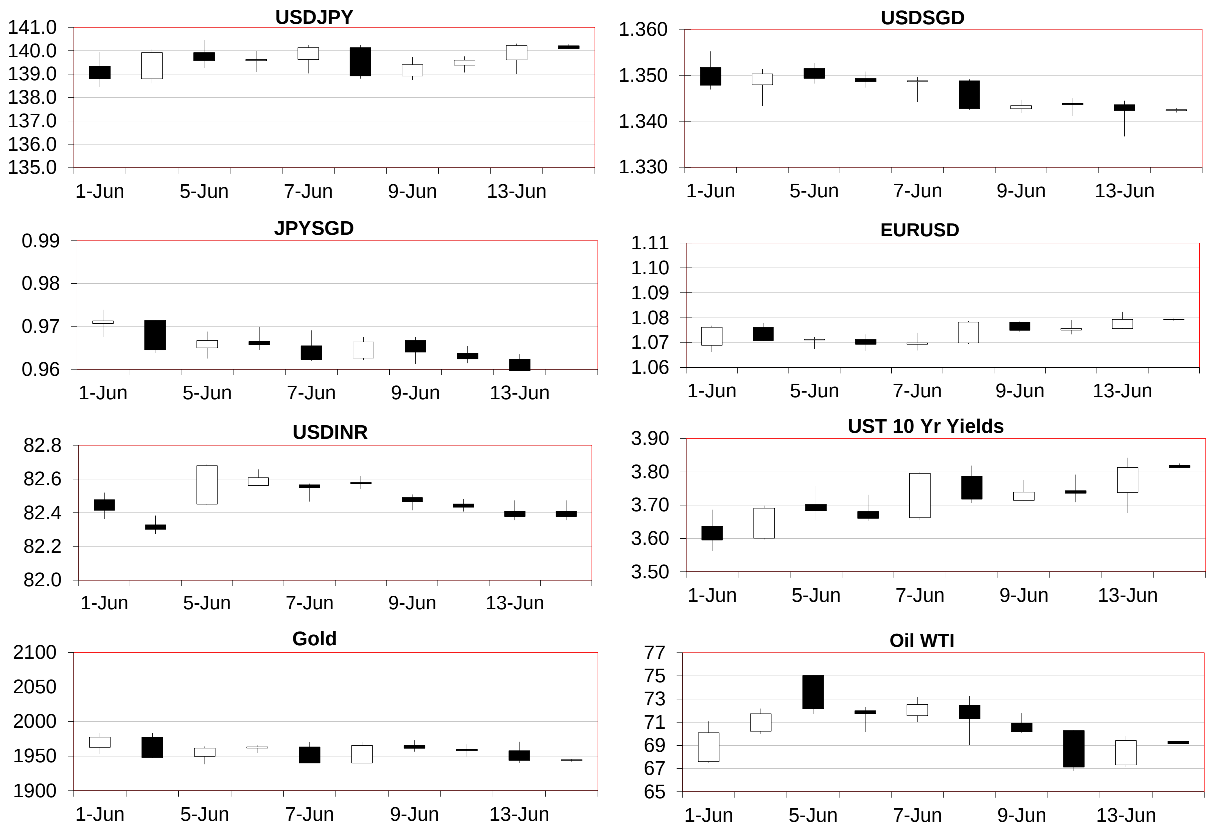
FOMC: Reining in Doves

- Knowing this about inflation, to cut to the chase, **June FOMC** is set for a **hawkish pause**. And to be clear, *emphasis is on 'hawkish'; so as* ***to rein in overly-excited doves****-in-waiting*.
- Point being, this is **not a pause that shifts to neutral gear**, with the Fed assessing symmetric policy options; *equally likely* to *drive on* **with hikes** *or hit the reverse gear* to **embark on cuts.**
- Instead, it's akin to a **traffic-light interruption at which the Fed hawks remains in "drive" gear**; only assessing how much further they have to go with tightening (albeit calibrated).
- Admittedly, **jobs** data have evidence of **soft spots** (from higher unemployment and slower wage pick-up supplemented by higher claims), which may tempt of policy inflection.

OVERNIGHT RESULTS

(US) CPI/Core YoY (May): 4.0%/5.3% (Mkt: 4.1%/5.2%; Apr: 4.9%/5.5%) | (US) Real Avg Hourly Earning Yoy (May): -0.7% (Apr: -1.2%) |
(GE) ZEW Survey Expectations/Current (Jun): -8.5/-56.5 (Mkt: -13.1/-42.0; May: -10.7/-34.8)

*** Past Two Weeks Movement ***



- But these **merely validate peak, not pivot**. That's to say, the Fed is **nearing the peak of its tightening cycle**, *not on the cusp of an alarmed and sharp reversal of policy tightening*.
- Especially **as coincident stickiness in inflation**, which remains uncomfortably elevated, gets in the way of the Fed shifting gears decisively. Specifically, despite headline inflation coming in a tad softer than expected, the underlying services inflation remains uncomfortably sticky.
- And certainly **not inconsistent with the need for policy to remain at least as restrictive**, possibly with more calibrated tightening; *coinciding with significant odds of one more hike in Q3*.
- The **upshot is that hawks have yet to decisively retire**. And the **bar is high** for current pace of **softening in jobs** (and moderation in inflation) **to flip the policy switch** the other way.
- Instead, **pipeline tightening in credit conditions over the next 3-6 months** is likely tosupplant jobs and/or inflation as **decisive policy catalyst for policy inflection (to explicit easing)**.
- Although, that is a **data-driven, conscious, "opt-in" policy that will take time**, and **not an 'opt-out' pre-set policy** course set for more imminent **shift to easing**.
- Thus, **effectively reining in doves**, *even as the Fed pulls off its first pause in 15 months*, poses a *challenge to appropriately nuancing* the *statement* and *press conference take-aways*.

Why PBoC Cut Does Not Cut It

- The PBoC cut the Reverse Repo by 10bp to 1.90%; clearly signalling a desire for policy stimulus to offset signs of re-opening stall. But markets were justifiably unimpressed as credit data details suggest a worrying private sector confidence deficit that is likely to diminish run-of-the-mill stimulus efforts. Save for a more comprehensive stimulus plan that may necessarily imperil financial stability, it looks like PBoC rate cuts may just not cut it.

FX Daily Outlook

- EUR/USD: Likelihood of 1.08 consolidation increases while further rallies remain subdued.
- USD/JPY: Yield imparted buoyancy set to hold as the Fed skips not halt.
- USD/SGD: PBoC cut imbued a further sense of backstop for the pair as CNH propspect dim.
- AUD/USD: Traction off mid-67 cents retained to set up cautious challenge for 68 cents.

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	140.17	EUR/USD	1.0789
USD/SGD	1.3423	USD/THB	34.68
JPY/SGD	0.9577	USD/MYR	4.619

Forecast

USD/JPY	138.60	-	140.50
EUR/USD	1.0730	-	1.0820
AUD/USD	0.6740	-	0.6840
USD/SGD	1.3400	-	1.3490
JPY/SGD	0.9537	-	0.9733
USD/CNH	7.1500	-	7.1800
USD/INR	82.35	-	82.75
USD/IDR	14800	-	14960
USD/MYR	4.610	-	4.630
USD/PHP	55.90	-	56.25
USD/THB	34.48	-	34.70

Today's Direction

	Bull		Bear
USD/SGD	4	:	3
USD/JPY	6	:	1

TODAY'S EVENTS

(KR) Unemployment Rate SA (May): 2.5% (Mkt: 2.7%; Apr: 2.6%) |(IN) Wholesale Prices YoY (May): (Mkt: -2.5%; Apr: -0.9%) |
(US) PPI Final DD/Ex Food and Energy YoY (May): (Mkt: 1.5%/2.9%; Apr: 2.3%/3.2%) |
(EZ) Industrial Production WDA YoY (Apr): (Mkt: 0.7%; Mar: -1.4%)
14-18 June: (PH) Overseas Cash Remittances YoY (Apr): (Mar: 3.0%)
Central Banks: FOMC Decision

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