

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	143.51	144.07	+0.56	+2.60
EUR	1.0940	1.0961	+0.0055	+0.0043
AUD	0.6709	0.6686	+0.0011	▼0.0099
SGD	1.3495	1.3492	▼0.0043	+0.0059
CNY	7.2096	7.2242	▼0.0159	+0.0433
INR	82.00	82.03	▼0.01	▼0.09
IDR	14993	14993	▼22	▼7
MYR	4.6645	4.6663	▼0.0087	+0.0258
PHP	55.33	55.33	▼0.38	▼0.23
THB	35.21	35.28	+0.08	+0.53

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.764%	+4.3 bp	+4.3 bp
JPY (10YR)	0.374%	+1.3 bp	▼1.9 bp
EUR* (10YR)	2.356%	+4.7 bp	▼4.9 bp
AUD (5YR)	3.845%	▼2.3 bp	▼7.1 bp
SGD (5YR)	3.097%	+3.7 bp	+0.6 bp
CNY (5YR)	2.466%	+0.0 bp	▼0.3 bp
INR (5YR)	7.012%	▼0.4 bp	+2.3 bp
IDR (5YR)	5.911%	▼2.5 bp	▼2.9 bp
MYR (5YR)	3.587%	▼1.4 bp	+3.4 bp
PHP (5YR)	5.992%	+5.0 bp	+22.0 bp
THB (5YR)	2.318%	▼0.1 bp	▼1.2 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,926.74	+0.63%	▼0.37%
N225 (JP)	32,538.33	▼0.49%	▼2.55%
STOXX 50 (EU)	4,305.26	+0.58%	▼0.87%
ASX (AU)	4,052.97	+0.15%	▼1.76%
STI (SG)	3,205.35	+0.49%	▼0.46%
SHCOMP (CN)	3,189.44	+1.23%	▼1.57%
SENSEX (IN)	63,416.03	+0.71%	+0.14%
JSE (ID)	6,661.88	▼0.04%	+0.02%
KLSE (MY)	1,386.74	▼0.23%	▼0.11%
PSE (PH)	6,502.85	▼0.31%	+0.84%
SET (TH)	1,478.10	▼0.49%	▼3.87%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	259.71	▲1.42%	▲2.88%
COPPER (LME)	8,382.00	▲0.47%	▲1.99%
IRON ORE (CN)	112.80	+0.42%	▲0.59%
GOLD	1,913.69	▲0.50%	▲1.17%
OIL (WTI)	67.70	▼2.41%	▼3.97%

Three Take-aways:

- 1) Blockbuster US consumer confidence flanked by other positive boost is a "half-full" read for now.
- 2) Tough ECB hawkish talk at Sintra is a lift, not a lift-off, for EUR: as stagflation-type risks lurk.
- 3) Vietnam's 2%-pt VAT cut (to 8% from 10%) to soften inflation, firm consumption and support SBV.

"Goldilocks" Confidence

- First for the staggeringly upbeat headline with US Conference Board Consumer Confidence: **US consumers brimming with confidence bring on the bulls**. Equities rallied with S&P500 up 1.2% and Nasdaq surging 1.7%; outstripping 0.6% gains in Europe that checked by ECB hawks.

- Now, for the more sobering nuance: This represents a **"Goldilocks" version of confidence** as the **"hot" US data** (flanked by buoyant home sales, solid durable goods orders and pick-up in Richmond Fed Mfg) have **boosted optimism far more than attendant rate hike risks have dampened**.

- Especially given that central bankers, led by ECB chief Lagarde, flexed hawkish at its symposium at Sintra; with tough talk on ensuring that inflation is anchored.

- Her remarks that **"it is unlikely ... in the near future ... to state with full confidence that peak rates have been reached"** laid bare persistent upside risks to ECB (and global) policy rates.

- In particular, her reference to **"as long as necessary (elevated rates amid) ... catch-up in wages"** further underpins the message that a pause may not quickly segue to a pivot.

- And to be sure, this **hawkish flex is not lost on markets as yields have risen in bear flattening fashion** (front-end yields rising more than long-end) on both sides of the Atlantic; and in most cases **deepening yield curve inversion** in both the US and Europe.

- And that **underscores the "Goldilocks confidence" in the US fuelling more emphatic equity market rallies** amid a **slightly softer USD despite higher yields; which smells like "risk on"**.

- EUR is up above mid-1.09 on hawkish ECB, but the pick-up is not quite as forceful as might have been otherwise expected; arguably fretting stagflation-type risks. AUD is also not quite in bullish mode pre-CPI as higher UST/European yields dampen any positioning for RBA-derived AUD boost.

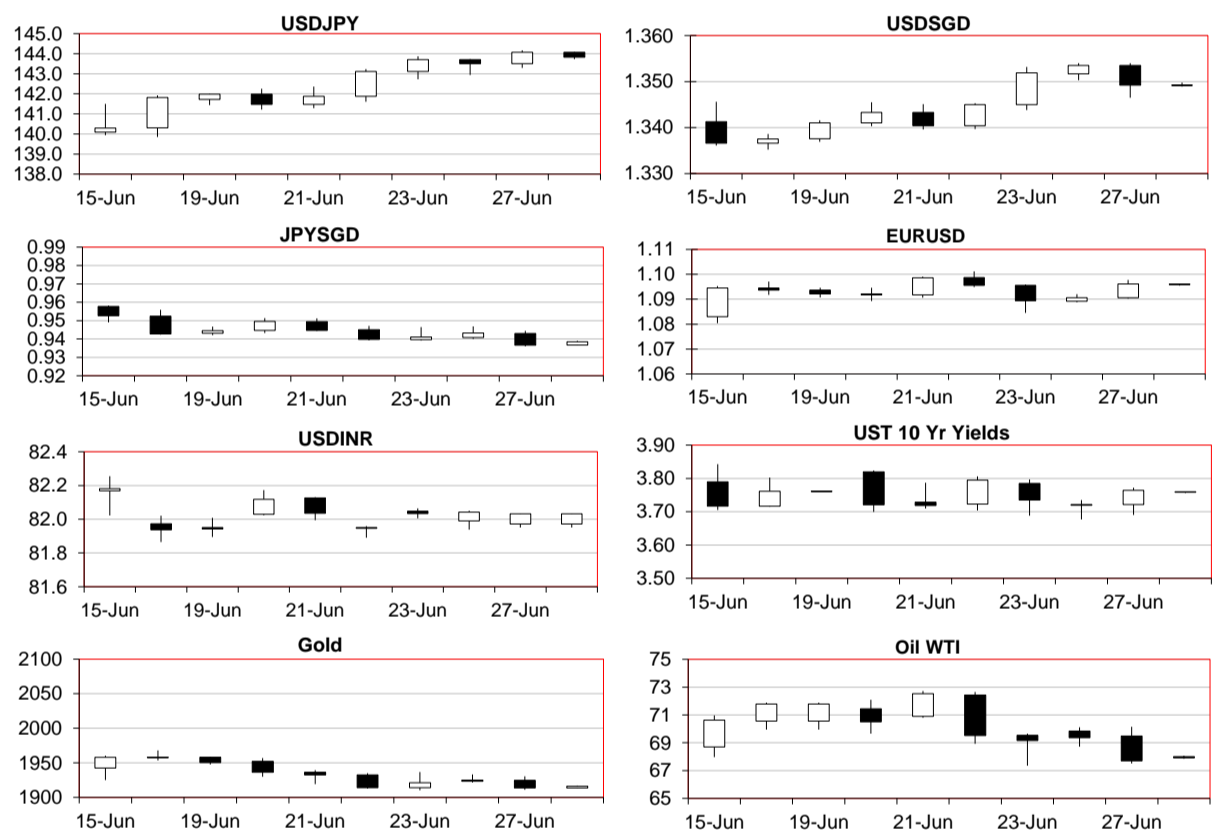
- JPY though is the notable rebel as jawboning by MoF overrides higher UST yields; USD/JPY slipping to sub-144. Alongside this, firmer CNH (and PBoC) fixing have prompted sub-1.35 SGD.

OVERNIGHT RESULTS

(JP) Coincident/Leading Index (Apr F): 97.3/96.8 (Apr P: 99.4/97.6) | (US) Richmond Fed Manufact. Index (Jun): -7 (Mkt: -12; May: -15)

(US) New Home Sales (May): 763K (Mkt: 675k; Apr 680k) | (US) Consumer Confidence (Jun): 109.7 (Mkt: 104.0; May: 102.5)

(US) Durable Goods Orders/Nondef Ex Air MoM (May P): 1.7%/0.7% (Mkt: -0.9%/0.1%; Apr F: 1.2%/0.6%)

Past Two Weeks Movement

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	143.88	EUR/USD	1.0957
USD/SGD	1.3496	USD/THB	35.29
JPY/SGD	0.9385	USD/MYR	4.660

Forecast

USD/JPY	143.10 - 144.30
EUR/USD	1.0890 - 1.0990
AUD/USD	0.6650 - 0.6740
USD/SGD	1.3450 - 1.3655
JPY/SGD	0.9321 - 0.9542
USD/CNH	7.2150 - 7.2440
USD/INR	81.90 - 82.25
USD/IDR	14950 - 15070
USD/MYR	4.650 - 4.677
USD/PHP	55.20 - 55.65
USD/THB	35.10 - 35.35

Today's Direction

	Bull	:	Bear
USD/SGD	3	:	2
USD/JPY	3	:	2

Vietnam VAT: Making the Cut?

- Vietnam has announced **VAT cut from 10% to 8%** effective 1st July. Presumably, the intent is to **alleviate inflation** and **boost private consumption**; albeit *at a fiscal cost*.

- Arguably, the **fiscal fillip (and trade-off) is warranted**. Although **efficacy** may be **dampened by adverse wealth** effects from property and **confidence eroded** by impacted industrial jobs.

- First things first. The VAT cut ought to translate into a **direct, generalized offset to inflation**.

- Admittedly, **VAT exemptions** (to finance, IT, real estate and refined petroleum), may **augment the finer details**. But substantial inflation weights elsewhere (food, apparel, non financial/real estate services, etc.) suggest a **0.4-0.7%-point knock down in headline CPI** is not outlandish.

- If so, headline inflation is set to moderate to near-2% in H2 2023, **blunting the SBV's policy dilemma/trade-off**; and **possibly even validating more cuts to shore up stumbling growth**.

- And so, the **best cut** (pun intended) of this VAT cut is that it **legitimizes more policy cuts**, allowing monetary stimulus to accentuate gains from price elasticity of consumption.

- **But it will cost!** With **VAT revenues cut** by some VND24trln (0.3% of GDP), *if the consequent fiscal deterioration is not recouped from consumption boost multipliers*, public expenses elsewhere will be strained, and worryingly **macro/VND-stability risks may be accentuated**.

- All said, **whether the VAT cut makes the cut** or not is **dependent on reviving confidence**, and crucially, **buying sufficient time** by alleviating imminent pressures **until global headwinds turn into a tailwind**. Specifically, enabling key manufacturing recovery on the back of global demand.

FX Daily Outlook

- EUR/USD: Hawkish ECB at Sintra falls short of fuelling 1.10.
- USD/JPY: Jawboning MoF Challenges 144+ ... could slow further upside.
- USD/SGD: Firmer CNY fix by PBoC and attendant CNH traction helps with sub-1.35 slip.
- AUD/USD: CPI could inspire some buying, but higher yields elsewhere hamper path to 67 cents.

TODAY'S EVENTS

(US) Wholesale Inventories MoM (May P): (Mkt: -0.1%; Apr F: -0.1%)

(CH) Industrial Profits YTD YoY (May): (Mkt: -; Apr: -20.6%)

(AU) CPI YoY (May): (Mkt: 6.1%; Apr: 6.8%)

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