

**MARKET SUMMARY**

| FX  | CLOSE(Asia) | CLOSE(NY) | Daily Δ* | Wkly Δ  |
|-----|-------------|-----------|----------|---------|
| JPY | 129.96      | 129.97    | ▼0.48    | +0.88   |
| EUR | 1.0552      | 1.0513    | ▼0.0016  | ▼0.0109 |
| AUD | 0.6980      | 0.6938    | +0.0000  | ▼0.0322 |
| SGD | 1.3874      | 1.3896    | ▼0.0012  | +0.0154 |
| CNY | 6.7275      | 6.7217    | ▼0.0130  | +0.1132 |
| INR | 77.27       | 77.24     | ▼0.08    | +0.82   |
| IDR | 14557       | 14558     | +1       | +61     |
| MYR | 4.3784      | 4.3775    | ▼0.0053  | +0.0237 |
| PHP | 52.28       | 52.28     | ▼0.10    | ▼0.21   |
| THB | 34.69       | 34.62     | +0.08    | +0.11   |

\*compared with previous day CLOSE(NY)

| Govt Bond Yields | CLOSE  | Daily Δ  | Wkly Δ   |
|------------------|--------|----------|----------|
| USD (10YR)       | 2.921% | ▼7.0 bp  | ▼1.4 bp  |
| JPY (10YR)       | 0.248% | +0.1 bp  | +1.7 bp  |
| EUR* (10YR)      | 0.986% | ▼1.4 bp  | +1.5 bp  |
| AUD (5YR)        | 3.162% | ▼5.8 bp  | ▼14.4 bp |
| SGD (5YR)        | 2.613% | ▼5.5 bp  | +12.2 bp |
| CNY (5YR)        | 2.577% | +0.8 bp  | ▼6.0 bp  |
| INR (5YR)        | 7.103% | ▼7.2 bp  | ▼3.4 bp  |
| IDR (5YR)        | 6.902% | +11.0 bp | +58.0 bp |
| MYR (5YR)        | 4.152% | +3.2 bp  | +24.4 bp |
| PHP (5YR)        | 5.450% | +4.5 bp  | +36.4 bp |
| THB (5YR)        | 2.688% | ▼3.4 bp  | +30.2 bp |

\* German bunds

| Equity Indices | CLOSE     | Daily Δ | Wkly Δ |
|----------------|-----------|---------|--------|
| DJIA (US)      | 31,834.11 | ▼1.02%  | ▼6.54% |
| N225 (JP)      | 26,213.64 | +0.18%  | ▼2.26% |
| STOXX 50 (EU)  | 3,647.87  | +2.62%  | ▼2.07% |
| ASX (AU)       | 4,058.67  | +1.41%  | ▼2.11% |
| STI (SG)       | 3,226.07  | ▼0.25%  | ▼3.68% |
| SHCOMP (CN)    | 3,058.70  | +0.75%  | +0.38% |
| SENSEX (IN)    | 54,088.39 | ▼0.51%  | ▼2.84% |
| JSE (ID)       | 6,816.20  | ▼0.05%  | ▼5.71% |
| KLSE (MY)      | 1,555.93  | +0.09%  | ▼2.78% |
| PSE (PH)       | 6,635.86  | ▼1.27%  | ▼2.45% |
| SET (TH)       | 1,613.34  | ▼0.58%  | ▼2.36% |

| Commodity     | CLOSE    | Daily Δ | Wkly Δ |
|---------------|----------|---------|--------|
| CRB           | 304.89   | +2.63%  | ▲2.98% |
| COPPER (LME)  | 9,358.75 | +1.33%  | ▲1.15% |
| IRON ORE (CN) | 134.20   | +3.02%  | ▲6.02% |
| GOLD          | 1,852.40 | +0.77%  | ▲1.53% |
| OIL (WTI)     | 105.71   | +5.96%  | ▼1.95% |

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

|         |        |         |        |
|---------|--------|---------|--------|
| USD/JPY | 129.86 | EUR/USD | 1.0512 |
| USD/SGD | 1.3903 | USD/THB | 34.64  |
| JPY/SGD | 1.0707 | USD/MYR | 4.373  |

**Forecast**

|         |        |   |        |
|---------|--------|---|--------|
| USD/JPY | 129.30 | - | 132.00 |
| EUR/USD | 1.0400 | - | 1.0600 |
| AUD/USD | 0.6850 | - | 0.7060 |
| USD/SGD | 1.3860 | - | 1.3970 |
| JPY/SGD | 1.1641 | - | 1.1851 |
| USD/CNH | 6.7200 | - | 6.8500 |
| USD/INR | 77.00  | - | 77.90  |
| USD/IDR | 14520  | - | 14650  |
| USD/MYR | 4.3650 | - | 4.4000 |
| USD/PHP | 52.25  | - | 52.80  |
| USD/THB | 34.45  | - | 34.80  |

**Today's Direction**

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

**Sticky Situation**

- The main data event was US headline inflation for April at 8.3% YoY exceeded expectations (7.8%) and making matters worse, **one could no longer pin it on food and energy as core inflation YoY outturns of 6.6% also surpassed consensus (6.0%)**.

- Core inflation drivers include components related to reopening such as airline fares and lodging costs (hotels), recreation and others such as household furnishings.

- Also, the **transition from goods to services demand is keeping inflation rates stickier**, resulting in a **slower than expected easing from 'peak' inflation in March (8.5%)**.

- Following up, Fed's Bostic was supportive of moving 'more', though this subjectivity leans towards **sticking to more 50bps moves** (rather than switch upwards towards 75bps) until neutral rate is reached and he added support for discussion on **direct sales of MBS holdings (instead of run-offs)**.

- The flatter UST yield curve spoke of more 50bps hikes being firmer than more QT as 2Y yields moved up 2.5bps while 10Y yields dropped 7.0bps. Though with a 8bps surge in 10Y breakevens telling of higher inflation expectations, real US yields suffered an overall dip.

- The **situation has also become sticky in Europe** as ECB President Lagarde signalled for July rate hikes as she warned of inflation likely to remain high for some time, in other words, **sticky**.

- All in, USD performance was a mixed bag performance against G10 peers. While USD/JPY slipped below 130 on lower real yields, **EUR could not muster enough to overcome inflation and growth worries even with Lagarde's support** as it dipped slightly to remain below 1.05.

- Elsewhere, AUD stayed flat at the lower end of 0.69 while USD/SGD was just above 1.39.

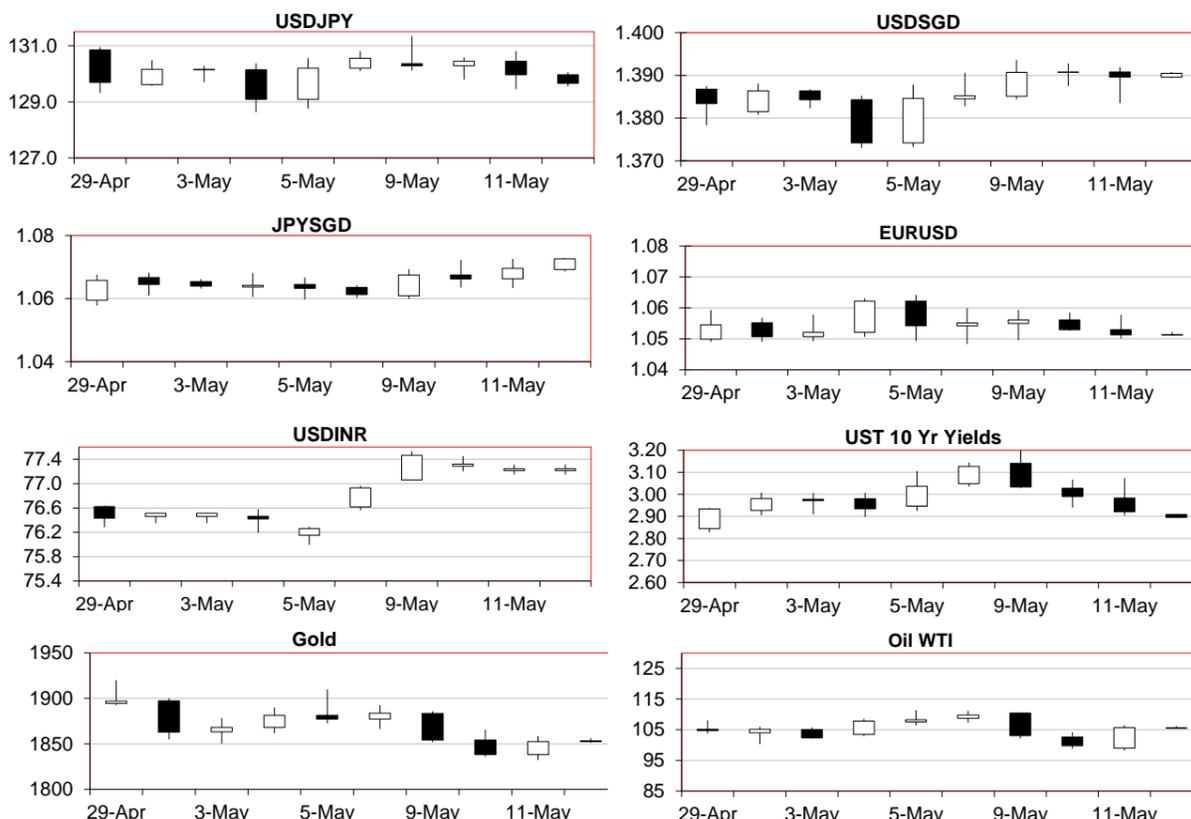
- EM-Asia situation is also sticky as **initial policy convergence by central banks such as the BNM's 25bps hike which we had highlighted, remain a weak backstop for capital outflows**.

**Why Fed Hawk-USD Bulls May Not be Exhausted**

- At first blush, received wisdom about anticipatory markets and past experience appear to concur with the notion that USD strength derived from a hawkish Fed tend to be front-loaded; peaking well before the Fed's policy rates. This is not wholly inaccurate.

**OVERNIGHT RESULTS**

(CH) PPI/CPI YoY (Apr): 8.0%/2.1% (Mkt: 7.8%/1.8%; Mar: 8.3%/1.5%) | (US) CPI YoY/Ex Food & Energy (Apr): 8.3%/6.2% (Mkt: 8.1%/6.0%; Mar: 8.5%/6.5%) | (Central Banks): BNM: 2.00% (Mkt: 1.75%; Prev: 1.75%)

**\* Past Two Weeks Movement \***


- In fact, it is consistent with the logic of Fed rates expectations based projection of USD strength.

- **But** equally, any conclusions about **USD bulls having exhausted** a hawkish Fed risk being **premature**, if not **outright misguided**. In particular, **once appropriate distinctions on the intensity**, extent from the last cycle are drawn.

- First, the **intensity of the Fed's tightening cycle** this time appears to be **under-accounted** for by USD bull sceptics drawing parallels to the early USD peak in the last hiking cycle.

- Crucially, the **coincidence** of aggressive rate hikes and balance sheet run-off (also known as quantitative tightening) is likely to extend and emphasize USD strength. Given near-term inclination for upsized 50bp hikes (June and July FOMC) and a step-up in QT (commencing June) from \$47.5bn per month to \$90bn/mth in three months, Q3 looks primed for further USD strength.

- Second, **peak Fed rates and QT are set to materially exceed the last cycle** (started 2014 and ran through mid-2019). Especially as the Fed warns that high inflation may require policy over-steer.

- Finally, a conspiracy of sharply higher US rates and significant USD liquidity drainage may induce **larger-than-expected self-validating USD strength**.

- This stems from the impact of the rising price (higher rates) and shrinking supply (from QT) of USD feed into, and off, each other. Especially amid a **retrenchment of risk as richly valued asset markets correct amid risk re-pricing**. And **liquidation of assets may reinforce USD (haven) demand**; and hence USD strength.

Click [here](#) to see full report with charts in Mizuho Chart Speak: Mizuho FX Update (May '22)

**FX Daily Outlook**

- EUR/USD: Dips below 1.05 likely as anticipation around ECB's July hike remains a weak backstop.

- USD/JPY: Lower real US yields look to continue fading rallies above mid-130.

- USD/SGD: Mid-1.39 looks to be challenged if EUR and CNH weakens further.

- AUD/USD: Consolidation around 0.69 as commodities backdrop overwhelm by USD strength.

**TODAY'S EVENTS**

(JP) BoP Current Account (Mar): ¥2549.3b (Mkt: ¥1737.5b; Prev: ¥1648.3b) | (JP) Eco Watchers Outlook SA (Apr): (Mkt: 50.1/47.8)

(IN) CPI YoY (Apr): (Mkt: 7.4%; Mar: 7.0%) | (IN) Industrial Production YoY (Mar): (Mkt: 1.3%; Feb: 1.7%)

(PH) GDP YoY (1Q): (Mkt: 6.5%; 4Q: 7.8%) | (US) Initial Jobless Claims: (Mkt: 192k; Prev: 200k) |

(US) PPI/Ex-Food & Energy YoY (Apr): (Mkt: 10.7%/8.9%; Mar: 11.2%/9.2%)

(Central Banks): ECB's De Cos Speaks

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