

MARKET SUMMARY

| FX | CLOSE(Asia) | CLOSE(NY) | Daily Δ* | Wkly Δ |
|-----|-------------|-----------|----------|---------|
| JPY | 129.39 | 129.38 | +0.22 | ▼1.07 |
| EUR | 1.0463 | 1.0550 | +0.0116 | +0.0021 |
| AUD | 0.7010 | 0.7029 | +0.0058 | +0.0091 |
| SGD | 1.3874 | 1.3850 | ▼0.0068 | ▼0.0058 |
| CNY | 6.7527 | 6.7377 | ▼0.0484 | +0.0030 |
| INR | 77.64 | 77.56 | +0.12 | +0.24 |
| IDR | 14647 | 14650 | +37 | +93 |
| MYR | 4.3878 | 4.3907 | ▼0.0080 | +0.0079 |
| PHP | 52.44 | 52.44 | ▼0.06 | +0.06 |
| THB | 34.56 | 34.52 | ▼0.26 | ▼0.02 |

*compared with previous day CLOSE(NY)

| Govt Bond Yields | CLOSE | Daily Δ | Wkly Δ |
|------------------|--------|----------|----------|
| USD (10YR) | 2.986% | +10.4 bp | ▼0.5 bp |
| JPY (10YR) | 0.246% | ▼0.1 bp | ▼0.1 bp |
| EUR* (10YR) | 1.046% | +10.9 bp | +4.6 bp |
| AUD (5YR) | 3.082% | +2.9 bp | ▼13.8 bp |
| SGD (5YR) | 2.562% | ▼0.4 bp | ▼10.6 bp |
| CNY (5YR) | 2.544% | ▼2.8 bp | ▼2.5 bp |
| INR (5YR) | 7.165% | +3.8 bp | ▼1.0 bp |
| IDR (5YR) | 6.768% | ▼6.3 bp | ▼2.4 bp |
| MYR (5YR) | 4.013% | ▼0.9 bp | ▼10.7 bp |
| PHP (5YR) | 5.788% | +2.4 bp | +38.3 bp |
| THB (5YR) | 2.643% | +1.7 bp | ▼7.9 bp |

* German bunds

| Equity Indices | CLOSE | Daily Δ | Wkly Δ |
|----------------|-----------|---------|--------|
| DJIA (US) | 32,654.59 | +1.34% | +1.54% |
| N225 (JP) | 26,659.75 | +0.42% | +1.88% |
| STOXX 50 (EU) | 3,741.51 | +1.52% | +5.25% |
| ASX (AU) | 4,149.88 | +0.72% | +3.69% |
| STI (SG) | 3,201.89 | +0.34% | ▼1.00% |
| SHCOMP (CN) | 3,093.70 | +0.65% | +1.91% |
| SENSEX (IN) | 54,318.47 | +2.54% | ▼0.09% |
| JSE (ID) | 6,644.47 | +0.70% | ▼2.57% |
| KLSE (MY) | 1,548.60 | +0.27% | ▼0.38% |
| PSE (PH) | 6,594.66 | +1.42% | ▼1.88% |
| SET (TH) | 1,614.49 | +1.90% | ▼0.51% |

| Commodity | CLOSE | Daily Δ | Wkly Δ |
|---------------|----------|---------|---------|
| CRB | 315.40 | ▲0.06% | +6.16% |
| COPPER (LME) | 9,386.25 | +1.41% | +1.63% |
| IRON ORE (CN) | 131.58 | ▲0.69% | +1.01% |
| GOLD | 1,815.16 | ▲0.49% | ▲1.26% |
| OIL (WTI) | 112.40 | ▼1.58% | +12.67% |

TODAY'S COMMENTS & FORECAST
Open

| | | | |
|---------|--------|---------|--------|
| USD/JPY | 129.45 | EUR/USD | 1.0548 |
| USD/SGD | 1.3845 | USD/THB | 34.53 |
| JPY/SGD | 1.0696 | USD/MYR | 4.387 |

Forecast

| | |
|---------|-----------------|
| USD/JPY | 128.00 - 132.00 |
| EUR/USD | 1.0400 - 1.0630 |
| AUD/USD | 0.6500 - 0.7100 |
| USD/SGD | 1.3800 - 1.3960 |
| JPY/SGD | 1.1641 - 1.1851 |
| USD/CNH | 6.7100 - 6.8000 |
| USD/INR | 77.10 - 78.00 |
| USD/IDR | 14560 - 14700 |
| USD/MYR | 4.3800 - 4.4100 |
| USD/PHP | 52.00 - 52.80 |
| USD/THB | 34.00 - 34.90 |

Today's Direction

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

Optimism Shining Through

- In characteristically volatile markets, risk sentiment U-turned to being positive yesterday, with global equities getting a boost, despite continued hawkish commentary from ECB and Fed officials.

- European equities closed higher (Stoxx 60: +1.2%) supported by an upside surprise in the advance estimates of Eurozone Q1 GDP, which showed that the region grew 0.3% QoQ SA (Consensus: 0.2%).

- Equity optimism sustained even as Dutch central bank head Klaas Knot suggested that the ECB would be open to a larger 50bp rate hike if necessary.

- European bond yields duly rose led by German Bund yields, with EUR/USD getting a significant boost and climbing close to 1.056 levels.

- With GBP/USD also being boosted by hawkish BoE intentions; and the minutes of the RBA meeting suggesting the potential for larger magnitude of rate hikes giving AUD/USD a leg up, the DXY index dropped for a third consecutive day.

- Meanwhile, US equities (S&P500:+2.0%; NASDAQ:+2.8%; Dow Jones: +1.3%) were undeterred by Fed Chair Powell's hawkish comments, focussing instead on a more positive economic data.

- US April retail sales and industrial production, surprised on the upside, providing market participants with some optimism about the economic recovery.

- UST yields at the long-end of the curve were already on the rise (10 year UST yields approaching 3%) ahead of US Fed Chair Powell's comments reiterating his inflation focus.

- He said that until inflation comes down in a "clear and convincing" manner, the Fed would raise rates underscoring why 50bp is the new 25 (more below).

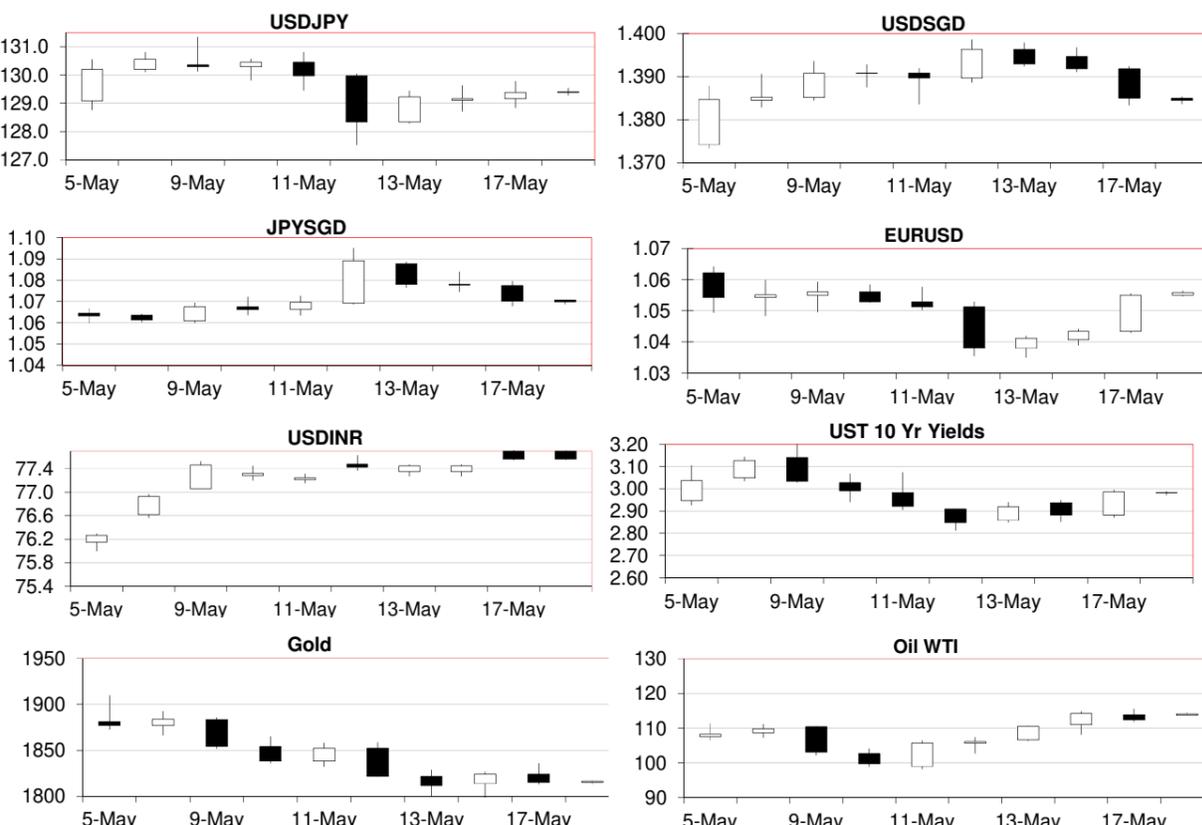
- Powell also said that the Fed would not hesitate to move past "neutral" rate levels.

Fed: Why 50 is the New 25

- The starting point for the title proposition is that inflation has hijacked the policy agenda, and the Fed need to walk the talk on its "sooner and faster" mantra on tightening.

OVERNIGHT RESULTS

(IN) Trade Balance (Apr): (Mkt: -\$20b; Mar: -\$18.5b) | (US) U. of Mich. Sentiment (May P): (Mkt: 63.8; Apr: 65.2) | (EZ) Industrial Production WSA YoY (Mar): (Mkt: 0.5%; 2.0%)

*** Past Two Weeks Movement ***


- With just five meetings left for 2022, and policy rate of 0.75-1.00% (after the 50bp May hike) quite some way off the 2.50-3.50% neutral rate that the Fed wants to get to quickly, the necessity for doubling down with 50bp move is evident.

- Especially given that front-loading is a critical part of the policy strategy to tame 40-year high inflation. And possibly the need to overshoot on the hikes given real rates will remain deeply negative with inflation (now at 8.3%) likely to remain elevated (4-6%) into year-end.

- Accordingly, OIS markets are now pricing in 50bp hikes at the next three FOMC meetings (June, July and even September), making for four successive 50bp hikes starting May; and it appears that "50 is the new 25" for the Fed's rate hike path.

- This provides context, as well as validation, for our view that Fed Chair Powell talking down the likelihood of, or the necessity for, a 75bp hike is no reason for a dovish relief.

- Fact is, with back-to-back mid-year FOMC meetings (May, June July) providing opportunity for a fairly quick series of hikes, there is no sense in sensationalism.

- Whereas a series of "steady-handed" series of 50bps hikes are arguably optimally suited to convey the same inflation-taming chops price pressures. And crucially, avert the risk of suddenly having to dial-back aggressive hikes and step down a 75bp rate hikes (to a 25bp hike or even a pause) resulting in sub-optimal policy signals.

- And with 50 the new 25, a 25bp hike in June or July - or possibly even September - could feel like rather dovish outcomes; with pullback in front-end yields and the USD par for the course, if so.

FX Daily Outlook

- EUR/USD: Outsized July rate hikes from ECB pushing the Fed-ECB divergence in favour of EUR.

- USD/JPY: Convincing breaks below 129 may still not be on the cards as UST volatility persists.

- USD/SGD: Positive risk sentiment and prospects of China's lockdown easing helping pair.

- AUD/USD: That a 40bp hike was considered at the May meeting set AUD bulls on the prowl.

TODAY'S EVENTS

(JP) GDP Deflator YoY (Q1 P): -0.4% (Mkt: -1.0%; Prev: -1.3%) | (JP) GDP SA QoQ/Annualized QoQ (Q1 P): -0.2%/-1.0% (Mkt: -0.4%/-1.8%; Prev: 1.1%/3.8%) | (JP) Industrial Production MoM/YoY (Mar F): (Prev: 0.3%/-1.7%) | (US) Housing Starts (Apr): (Mkt: 1760k; Mar: 1793k) | (EZ) CPI/Core YoY (Apr F): (Mkt: 7.5%/3.5%; Prelim: 7.4%/3.5%)

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