

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	129.32	128.23	▼1.15	▼1.74
EUR	1.0519	1.0464	▼0.0086	▼0.0049
AUD	0.7012	0.6955	▼0.0074	+0.0017
SGD	1.3861	1.3920	+0.0070	+0.0024
CNY	6.7520	6.7542	+0.0165	+0.0325
INR	77.56	77.58	+0.02	+0.34
IDR	14693	14688	+38	+130
MYR	4.3954	4.3973	+0.0066	+0.0198
PHP	52.46	52.46	+0.02	+0.17
THB	34.63	34.61	+0.09	▼0.01

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	2.884%	▼10.2 bp	▼3.7 bp
JPY (10YR)	0.245%	▼0.1 bp	▼0.3 bp
EUR* (10YR)	1.030%	▼1.6 bp	+4.4 bp
AUD (5YR)	3.112%	+3.0 bp	▼5.0 bp
SGD (5YR)	2.586%	+2.4 bp	▼2.7 bp
CNY (5YR)	2.531%	▼1.3 bp	▼4.6 bp
INR (5YR)	7.150%	▼1.5 bp	+4.7 bp
IDR (5YR)	6.696%	▼7.2 bp	▼20.6 bp
MYR (5YR)	4.040%	+2.7 bp	▼11.2 bp
PHP (5YR)	6.035%	+24.7 bp	+58.5 bp
THB (5YR)	2.576%	▼6.7 bp	▼11.2 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	31,490.07	+1.34%	▼1.08%
N225 (JP)	26,911.20	+0.42%	+2.66%
STOXX 50 (EU)	3,690.74	+1.52%	+1.18%
ASX (AU)	4,110.49	+0.72%	+1.28%
STI (SG)	3,225.35	+0.34%	▼0.02%
SHCOMP (CN)	3,085.98	+0.65%	+0.89%
SENSEX (IN)	54,208.53	+2.54%	+0.22%
JSE (ID)	6,793.41	+0.70%	▼0.33%
KLSE (MY)	1,554.91	+0.27%	▼0.07%
PSE (PH)	6,727.60	+1.42%	+1.38%
SET (TH)	1,620.33	+1.90%	+0.43%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	309.37	▲1.91%	+1.47%
COPPER (LME)	9,250.10	▲1.45%	▲1.16%
IRON ORE (CN)	129.92	▲1.26%	▲3.19%
GOLD	1,816.60	+0.08%	▲1.93%
OIL (WTI)	109.59	▼1.58%	+12.67%

TODAY'S COMMENTS & FORECAST
Open

USD/JPY	127.93	EUR/USD	1.0473
USD/SGD	1.3914	USD/THB	34.64
JPY/SGD	1.0877	USD/MYR	4.395

Forecast

USD/JPY	127.00 - 131.00
EUR/USD	1.0400 - 1.0630
AUD/USD	0.6700 - 0.7100
USD/SGD	1.3820 - 1.3960
JPY/SGD	1.1641 - 1.1851
USD/CNH	6.7100 - 6.8500
USD/INR	77.10 - 78.00
USD/IDR	14600 - 14700
USD/MYR	4.3810 - 4.4300
USD/PHP	52.20 - 52.80
USD/THB	34.40 - 34.90

Today's Direction

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

Sinking Confidence

- The silver of optimism proved teetering on the edge as signs of **sinking confidence were displayed across markets.**

- For one, capitulation in equities was clear as Nasdaq sank 4.7% while the S&P and Dow dropped 4.0% and 3.6% respectively, with major US retailer Target tumbling on rising cost eroding margins.

- In USTs, the yield curve's bull flattening display (2Y:-3.1bps; 10Y:-10.2bps) showed both the Fed's technical influence and investors' increasing safety needs.

- While the Fed's policy retained a stronger influence over front-end 2Y yields and hence provide **relative anchoring** on broad sinking yields, the overall decline in yields tell of markets' caution and skepticism surrounding the growth outlook resulting in haven demands.

- These haven needs also dovetailed with lower UST yields and brought about gains for the JPY and CHF as the USD/JPY slipped below mid-128.

- Notably, none of other G10 peers could muster any ground against USD on lower US yields.

- EUR slipped back towards 1.05, as bigger hikes in the face of rising inflation remains a **compulsion and not confidence** in the growth outlook. Similarly, broader growth worries surrounding China quickly dialled back AUD optimism on bigger RBA hikes as AUD fell back below 0.70 again.

- In Korea, with Governor Rhee placing the option of big-step hike on the table, **BoK's own '50 is the new 25'** lent support to KRW appreciation against USD in contrast to mild weakening of EM-Asia peers, though 50bps is **not the base case for now**, and a similar fate may await the KRW.

- Unsurprisingly, USD/SGD rose above 1.39 alongside CNH weakening. Today's attention will turn to the BSP to see if some compulsive hawkish tendencies have set in following BNM's hike last week.

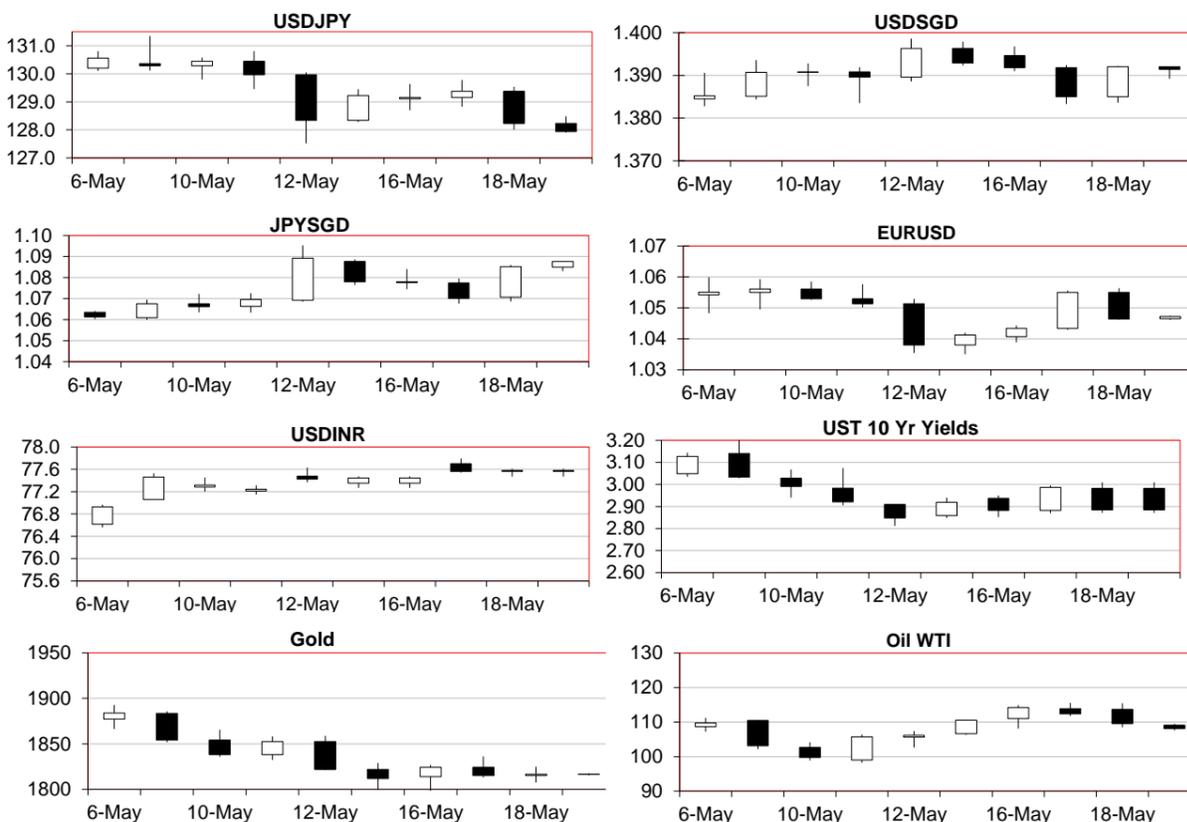
BSP: Primed For Policy Normalisation

- **Recent data make a compelling case for the hike to be brought forward to today's meeting**, even if Governor Diokno indicated that BSP would "consider" a rate increase in June.

- With Q1 GDP growth at 8.3% YoY from an upwardly revised 7.8% in Q4, **economic activity is now back at pre-Covid levels.**

OVERNIGHT RESULTS

(JP) Industrial Production MoM/YoY (Mar F): 0.3%/-1.7% (Prev: 0.3%/-1.7%) | (US) Housing Starts (Apr): 1724k (Mkt: 1760k; Mar: 1793k) | (EZ) CPI/Core YoY (Apr F): 7.4%/3.5% (Mkt: 7.5%/3.5%; Prelim: 7.4%/3.5%)

*** Past Two Weeks Movement ***


- This clearly dents the argument that ultra loose monetary policy, necessitated by the pandemic, is still needed to support growth.

- **Importantly, the recovery at least on the domestic front is looking less uneven.** Domestic final demand, supported by private consumption and investment spending, contributed 10.3 percentage points (pp) to headline GDP growth. Consistent with this, strong import growth led to net export abstracting 3pp while inventory restocking added 1.7pp.

- **This trend was also underscored on the supply side** as growth in the manufacturing and services sectors were solid, more than offsetting weaker agriculture output.

- **The improving growth picture alongside above target headline inflation puts pressure on the BSP to normalise policy sooner rather than later** and to BSP's credit, it has acknowledged this by bringing forward its timeline on rate hikes from H2 to H1.

- **However, there is no material information between the May and June meeting that will change BSP's mind in terms of policy direction, in our view.**

- Additional data points will be May CPI (7 Jun) and Apr unemployment (10 Jun); the latter came down sharply in Mar to 5.8% from 6.4% in Feb pointing to a normalisation within the labour market.

- May CPI will likely confirm BSP's view on building price pressures but global cues should already validate this trend.

- As such, **we expect BSP will commence its policy normalisation this afternoon with a 25bp rate hike.** We expect another 50bp in hikes in H2 with the risks of more hikes rather than less.

FX Daily Outlook

- EUR/USD: Attempts towards 1.05 may remain feeble as growth sentiments weaken.

- USD/JPY: Combination of haven demand and lower US yields may help the pair trade below 129.

- USD/SGD: Weaker CNY/CNH see mid-1.39 challenged though rallies may fade.

- AUD/USD: AUD to remain submerged below mid-0.70 as China easing remains a mirage.

TODAY'S EVENTS

(JP) Core Machine Orders YoY (Mar): 7.6% (Mkt: 3.3%; Feb:4.3%) | (JP) Trade Balance (Apr): -¥839b (Mkt: -¥1150b; Mar: -¥414b)

(AU) Employment Change (Apr): (Mkt: 30.0k; Mar: 17.9k) | (AU) Unemployment Rate (Apr): (Mkt: 3.9%; Mar: 4.0%)

(MY) Trade Balance MYR (Apr): (Mkt: 22.25b; Mar: 26.7b) | (US) Initial Jobless Claims (14-May): (Mkt: 200k; Prev: 203k)

(US) Phi. Fed. Business Outlook (May): (Mkt: 15.0; Apr: 17.6) | (US) Leading Index (Apr): (Mkt: 0.0%; Mar: 0.3%)

Central Banks: **BSP Monetary Policy Meeting**

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