

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	128.20	127.79	▼0.44	▼0.55
EUR	1.0489	1.0588	+0.0124	+0.0208
AUD	0.6990	0.7049	+0.0094	+0.0193
SGD	1.3883	1.3811	▼0.0109	▼0.0152
CNY	6.7655	6.7125	▼0.0417	▼0.0738
INR	77.70	77.73	+0.15	+0.30
IDR	14719	14733	+45	+136
MYR	4.4070	4.4045	+0.0072	+0.0105
PHP	52.46	52.46	+0.01	▼0.02
THB	34.63	34.56	▼0.05	▼0.16

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	2.837%	▼4.7 bp	▼1.1 bp
JPY (10YR)	0.243%	▼0.2 bp	▼0.5 bp
EUR* (10YR)	0.949%	▼8.1 bp	+10.9 bp
AUD (5YR)	3.053%	▼5.9 bp	▼4.7 bp
SGD (5YR)	2.566%	▼2.0 bp	+3.8 bp
CNY (5YR)	2.535%	+0.4 bp	▼4.0 bp
INR (5YR)	7.162%	+1.2 bp	+3.5 bp
IDR (5YR)	6.688%	▼0.8 bp	▼18.5 bp
MYR (5YR)	3.991%	▼4.9 bp	▼11.4 bp
PHP (5YR)	6.016%	▼1.9 bp	+44.8 bp
THB (5YR)	2.554%	▼2.2 bp	▼11.3 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	31,253.13	▼0.75%	▼1.50%
N225 (JP)	26,402.84	▼1.89%	+2.54%
STOXX 50 (EU)	3,640.55	▼1.36%	+0.75%
ASX (AU)	4,038.94	▼1.74%	+0.98%
STI (SG)	3,190.71	▼1.07%	+0.81%
SHCOMP (CN)	3,096.97	+0.36%	+1.37%
SENSEX (IN)	52,792.23	▼2.61%	▼0.26%
JSE (ID)	6,823.34	+0.44%	+3.39%
KLSE (MY)	1,549.41	▼0.35%	+0.69%
PSE (PH)	6,660.05	▼1.00%	+1.96%
SET (TH)	1,605.98	▼0.89%	+1.35%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	313.75	+1.42%	+3.19%
COPPER (LME)	9,460.50	+2.27%	+3.92%
IRON ORE (CN)	131.03	+0.85%	+0.67%
GOLD	1,841.85	+1.39%	+1.10%
OIL (WTI)	112.21	+2.39%	+5.73%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	127.85	EUR/USD	1.0579
USD/SGD	1.3810	USD/THB	34.45
JPY/SGD	1.0802	USD/MYR	4.396

Forecast

USD/JPY	126.80 - 130.50
EUR/USD	1.0430 - 1.0680
AUD/USD	0.6850 - 0.7100
USD/SGD	1.3750 - 1.3910
JPY/SGD	1.1641 - 1.1851
USD/CNH	6.6500 - 6.8500
USD/INR	77.10 - 78.00
USD/IDR	14600 - 14800
USD/MYR	4.3810 - 4.4200
USD/PHP	52.10 - 52.80
USD/THB	34.40 - 34.80

Today's Direction

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

Not Bottom, Nor Ceiling

- As we pointed to sinking confidence yesterday, this was quickly accompanied by the Phil. Fed Business Outlook plummeting to 2.6, far below market expectations of 15.0
 - This is **unlikely to be rock bottom**, given the tightening of financial conditions ahead as reality may again be harsher than expectations.
 - US equities continued falling across the board (Dow: -0.8%; S&P500: -0.6%; Nasdaq:-0.3%).
 - In contrast, USTs demand remained strong and yields fell (2Y: -6.2bps; 10Y: -4.7bps).
 - Investors continued to look for safety amid an increasingly favourable trade-off between asset classes with outlook for corporate margins souring on rising input costs. Nonetheless, given that **QT action has yet to materialise, yields may not have reached their ceiling**.
 - In FX, the consecutive 2-day decline of UST yields finally weighed on USD as it ceded ground to G10 peers. USD/JPY dropped below 128 while EUR headed up to mid-1.05, AUD reached mid-0.70.
 - In EM-Asia, USD/SGD descended to 1.38 as regional peers look to regain some ground against USD. Nonetheless, **calling a bottom on EM-Asia FX weakness may be pre-mature**. (See below)
 - For now, IDR will look for a boost from lifting of the palm oil export ban (on 23 May).
 - The PHP will hope that the **BSP's rate hike of 25bps to 2.25% provides some backstop**.
 - Governor Diokno cited a rise in inflation expectations and the emergence of second round effects as rationale for normalisation.

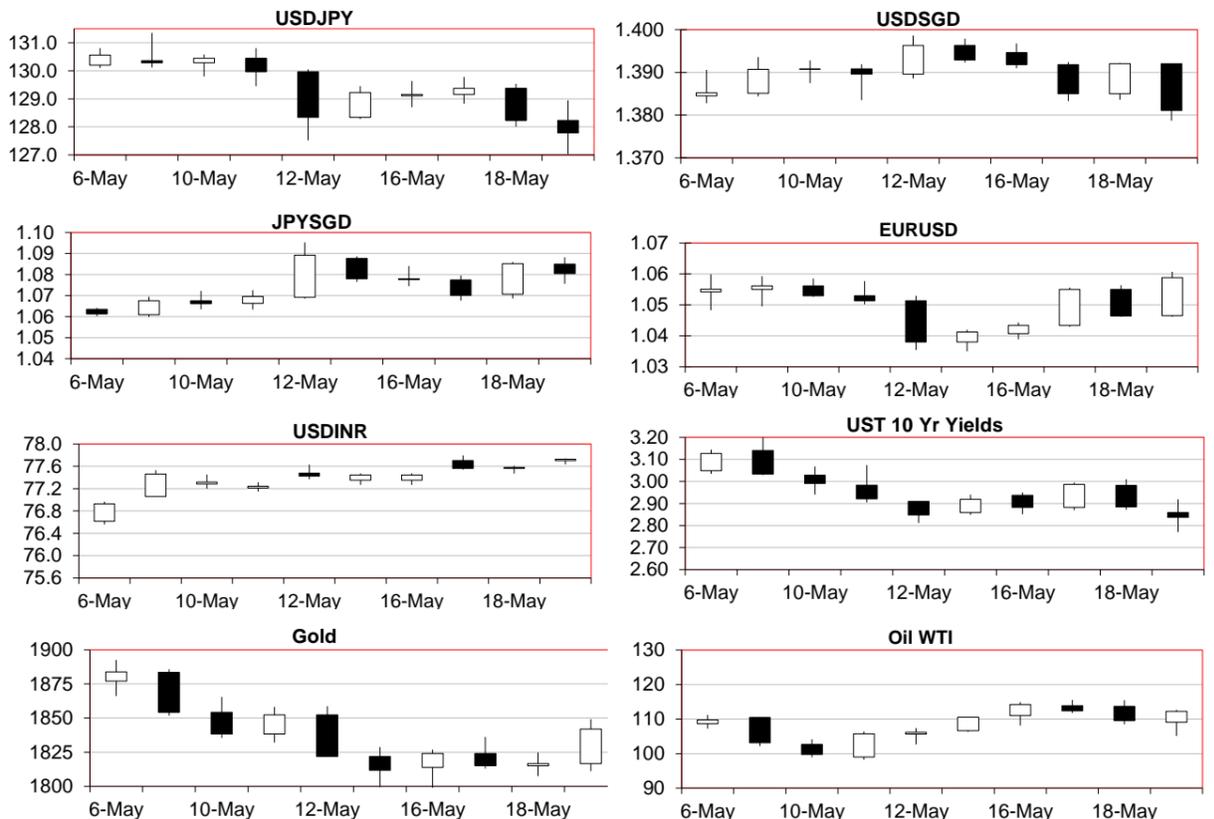
Asia FX Brief: Rising USD & Inflation Tide*

- Pressures on EM Asia FX are likely to be protracted, and possibly deteriorate before turning a corner late this year or in H1 2023. For one, geo-political uncertainty and consequent price pressures are delivering stagflation risks that may unearth greater aversions on EM-Asia.
 - Broad-based USD strength finding more dimensions and greater durability may result in **weakness in EM Asia FX (AXJ) enduring into Q2, but also likely to extend into Q3**. Even if AXJ regains traction into end Q3 as Fed hawks mellow, downside risks in Q3 remain significant.

OVERNIGHT RESULTS

(AU) Emp. Change (Apr): 4.0k (Mkt: 30.0k; Mar: 17.9k) | (AU) Unemp. Rate (Apr): 3.9% (Mkt: 3.9%; Mar: 4.0%) | (US) Initial Jobless Claims (14-May): 218k (Mkt: 200k; Prev: 203k) | (US) Phi. Fed. Business Outlook (May): 2.6 (Mkt: 15.0; Apr: 17.6) | (US) Leading Index (Apr): -0.3% (Mkt: 0.0%; Mar: 0.3%) | **Central Banks: BSP 25bp hike**

* Past Two Weeks Movement *



- Point being, this brand of USD strength, steeped in a hawkish Fed with lagging and less compelling EM Asia central bank tightening (resulting in persistent policy gaps), has a tendency to hit EM Asia currencies/assets hardest insofar that it stirs capital outflow risks.
 - Especially if rising US/global rates hit greater levels of indebtedness and feed off, and into, adverse balance sheet effects of stronger USD (inflating USD-denominated liabilities and diminishing returns of unhedged foreign investments in local currency assets).
 - The most extreme iteration, would be "reflexivity", whereby EM Asia FX losses turn into a self-fulfilling spiral. This time, inflation "inversion reversion" exacerbates capital outflow risks as real returns fall sharply. Mainly due to the exceptional, almost unprecedented, case of higher US inflation vis-a-vis EM Asia, set to reverse out quickly into H2; as US inflation peaks and the reversion in EM Asia picks up amid ongoing food and energy shocks filtering through.
 - Vulnerabilities are likely to be most pronounced in currencies exposed to twin deficit risks (e.g. PHP, INR & IDR) as elevated energy prices collide with a hawkish Fed, exposing weak external positions and also exerts pressures on stretched fiscal positions after COVID exhaustion.
 - In addition, commodity- (AUD, IDR, MYR), China's supply-chain (KRW, TWD) and zero COVID border restriction (THB, PHP) may induce more downside AXJ volatility. Finally, upside risks to inflation and attendant monetary policy responses will differentiate outcomes into Q3.
 - IDR may be vulnerable unless BI walks back on "patience", AUD will hinge on the extent of RBA's hawkish pivot, while BoT, BNM and BSP are watched for propensity to calibrate judiciously.
 For country specific details and FX forecasts, click here for: Mizuho Asia Strategy Brief

FX Daily Outlook

- EUR/USD: Lower US yields look to provide mild support above 1.06, slippage risks remain high.
 - USD/JPY: While policy divergence endures, weaker US yields may help consolidate around 128.
 - USD/SGD: Rising to mid-1.38 with China worries further ignited by insufficient policy support.
 - AUD/USD: 0.71 looks a high bar, barring outsized and clear China support.

TODAY'S EVENTS

(JP) CPI/Ex-Fresh Food, Energy YoY (apr): 2.5%/0.8% (Mkt: 2.5%/0.7%; Mar:1.2%/-0.7%) | (KR) PPI YoY (Apr): 9.2% (Mar:8.8%)
 (CH) 1-Yr/5Yr Loan Prime Rate: (Mkt: 3.65%/4.58%; Apr: 3.70%/4.60%)
 (ID) BOP Current Account Balance (1Q): (Mkt: \$918m; 4Q:\$1400m)
 (EZ) Consumer Confidence (May A): (Mkt: -21.5; Mar: -22.0%)
 Central Banks: ECB's de Cos Speaks

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