

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	127.57	127.90	+0.02	▼1.26
EUR	1.0601	1.0691	+0.0127	+0.0257
AUD	0.7104	0.7109	+0.0069	+0.0138
SGD	1.3754	1.3734	▼0.0070	▼0.0184
CNY	6.6704	6.6497	▼0.0433	▼0.1364
INR	77.61	77.52	▼0.03	+0.08
IDR	14674	14674	+22	+61
MYR	4.3863	4.3898	+0.0006	▼0.0089
PHP	52.26	52.27	+0.05	▼0.22
THB	34.27	34.18	▼0.09	▼0.61

*compared with previous day CLOSE(NY)

Govt Bond Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	2.851%	+7.0 bp	▼3.1 bp
JPY (10YR)	0.240%	▼0.2 bp	▼0.7 bp
EUR* (10YR)	1.017%	+7.3 bp	+8.0 bp
AUD (5YR)	3.015%	+1.5 bp	▼3.8 bp
SGD (5YR)	2.522%	▼5.0 bp	▼4.4 bp
CNY (5YR)	2.525%	▼0.9 bp	▼4.7 bp
INR (5YR)	7.122%	▼5.5 bp	▼0.5 bp
IDR (5YR)	6.243%	▼35.6 bp	▼58.8 bp
MYR (5YR)	3.802%	▼7.7 bp	▼22.0 bp
PHP (5YR)	6.019%	+0.7 bp	+25.5 bp
THB (5YR)	2.299%	▼9.6 bp	▼32.7 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	31,880.24	+1.98%	▼1.07%
N225 (JP)	27,001.52	+0.98%	+1.71%
STOXX 50 (EU)	3,708.39	+1.40%	+0.63%
ASX (AU)	4,150.28	+1.63%	+0.73%
STI (SG)	3,213.65	▼0.83%	+0.70%
SHCOMP (CN)	3,146.86	+0.01%	+2.38%
SENSEX (IN)	54,288.61	▼0.07%	+2.48%
JSE (ID)	6,840.78	▼1.12%	+3.68%
KLSE (MY)	1,542.53	▼0.43%	▼0.12%
PSE (PH)	6,687.85	▼0.87%	+2.86%
SET (TH)	1,635.28	+0.76%	+3.21%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	315.20	+0.79%	▲0.12%
COPPER (LME)	9,588.50	+1.45%	+3.60%
IRON ORE (CN)	134.29	▲0.05%	+1.35%
GOLD	1,853.59	+0.38%	+1.61%
OIL (WTI)	110.29	▼2.60%	▼3.42%

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	127.84	EUR/USD	1.0683
USD/SGD	1.3744	USD/THB	34.15
JPY/SGD	1.0751	USD/MYR	4.390

Forecast

USD/JPY	126.00 - 128.00
EUR/USD	1.0600 - 1.0720
AUD/USD	0.6950 - 0.7130
USD/SGD	1.3700 - 1.3850
JPY/SGD	1.1641 - 1.1851
USD/CNH	6.6500 - 6.7500
USD/INR	77.00 - 78.00
USD/IDR	14600 - 14800
USD/MYR	4.3800 - 4.4400
USD/PHP	51.00 - 52.80
USD/THB	34.00 - 34.80

Today's Direction

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

Risk Sentiment Improves For Now

- The US equity rally overnight led by big tech and banks (S&P500: +1.86%; NASDAQ: +1.59%; Dow Jones: +1.98%), with a broader sense of improving risk appetite is cause for cheer from the rout of the last few weeks. But it is too early yet to tell if this will sustain.

- Early signs show that risk sentiment, in fact, remains volatile: US equity futures are already un-doing some of the overnight gains; UST yields at the long-end of the curve rose with 10-year yields above 2.85%.

- While the general USD bias eased on Monday allowing for gains across the G10 complex (with the exception of USD/JPY), there were also some country specific factors at play:

- EUR strength followed comments by ECB President Christine Lagarde that the ECB will "exit negative interest rates by the end of the third quarter" and the APP in early Q3; AUD remained in favour after a favourable election result over the weekend.

- Moreover, with the minutes of the Fed meeting (later this week) will in all likelihood show that the Fed remains on an aggressive hiking cycle.

- Within EM Asia, IDR sustained losses versus USD on Monday and could possibly continue to do so if Bank Indonesia (meeting today) continues to prioritise growth over price pressures.

- MYR came under some pressure after the government announced that it will be limiting the export of chickens in order to increase domestic supply and reduce price pressures.

- By contrast, CNY/CNH gained as President Biden suggested reviewing the tariffs imposed on China; also, the 15bp LPR cut by PBoC underscored additional growth support.

Bank Indonesia: Painful Divergence

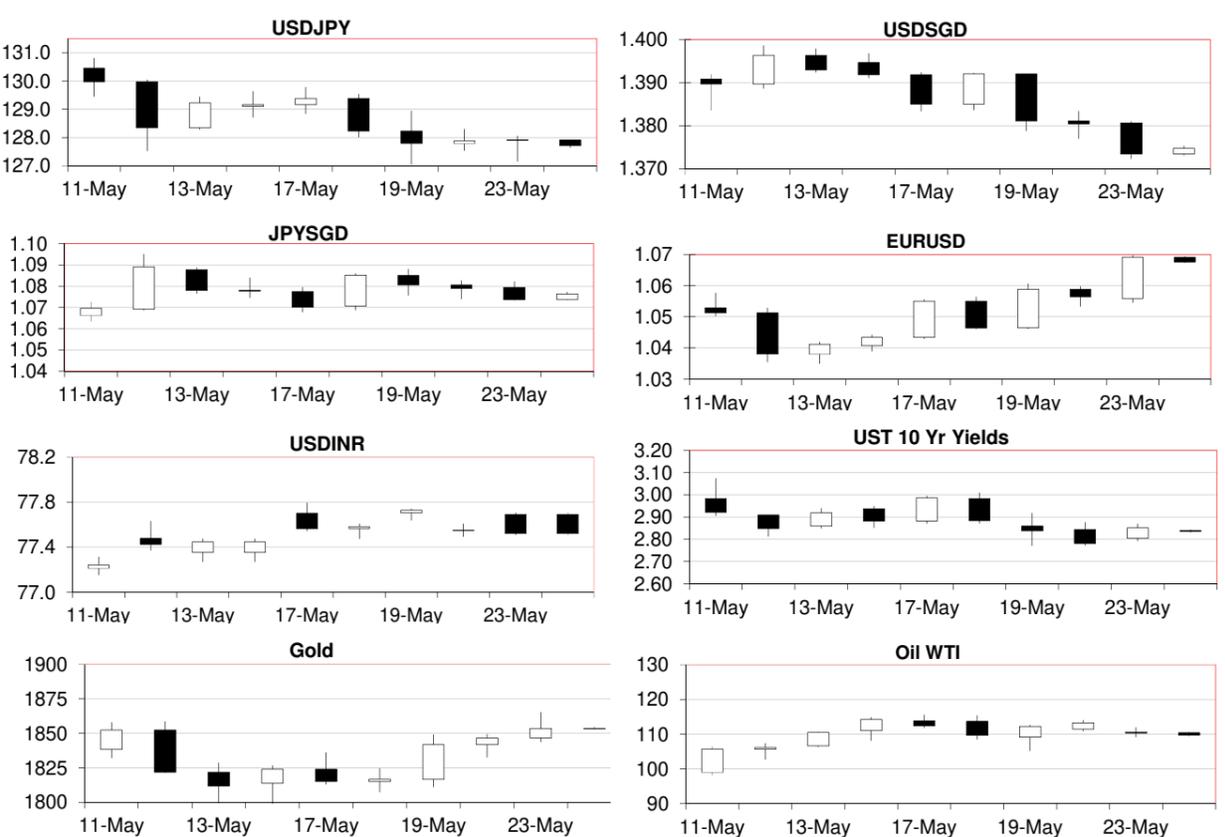
- BI's focus on growth, while justified to some extent given the lackluster recovery, and within target headline inflation, albeit against a backdrop of rapidly suppressed domestic price pressures, suggests a longer runway to start the process of monetary policy normalisation.

- For now, our forecast is for BI begin this process only in Q3; maintaining its policy rate 3.50% at its 17 May meeting.

OVERNIGHT RESULTS

(SG) CPI/Core YoY (Apr): 5.4%/3.3% (Mkt: 5.6%/3.4%; Mar: 5.4%/2.9%) | (US) Chicago Fed Nat Activity Index (Apr): 0.47 (Mar: 0.44) | (GE) IFO Current Assessment/Business Climate (May): 99.5/93.0 (Mkt: 97.3/91.0; Apr: 97.3/91.9) | (GE) IFO Expectations (May): 86.9 (Mkt: 85.5; Apr: 85.8)

Past Two Weeks Movement *



- Even the record trade surplus in April will not be enough to convince BI that a more sustainable recovery is underway.

- In fact, we suspect the sharp pick-up in April export growth was supported by strong price effects rather than volume effects; and that part of the boost was from a front-loading of palm oil export ahead of the embargo on 28 April.

- Although the ban has been revoked from 23 May and could allow for a normalisation in palm oil exports, albeit to the degree that export quotas allow, it will be unable to compensate for the broader global growth slowdown expected in H2.

- Moreover, the government has significantly increased the subsidy budget for fuel and electricity, to maintain retail prices, delaying the fiscal consolidation agenda (even with commodity revenue backstops) and potentially diverting spending away from capex.

- This rising penchant towards protectionist policies will worsen the 'twin deficits'; and combined with BI's stance diverging from its hawkish regional peers (BNM and BSP), IDR depreciation against USD and relative currency underperformance versus peers will likely sustain in the near-term.

- Sustained upward moves in USD/IDR, from aggressive US Fed rate hikes and a deterioration in interest rate differentials, could force BI to walk back on its "patience" and start hiking rates.

- The unintended consequence of such an outcome would be BI's diminished credibility and a setback to the nascent domestic demand recovery.

FX Daily Outlook

- EUR/USD: ECB's aggressive hiking path as suggested by Lagarde will keep EUR supported.

- USD/JPY: Range bound 10-year USTs yields are reflecting onto the pair trading 127-128 levels.

- USD/SGD: Easing of USD bias buoying pair at 1.372 levels; bias for pair remains upwards.

- AUD/USD: Some fading from post-election normalisation; breaks below 0.70 unlikely.

TODAY'S EVENTS

(US) New Home Sales (Apr): (Mkt: 750k; Mar: 763k) | (US) Richmond Fed Manufact. Index (May): (Mkt: 10; Apr:14) | (EZ) Manufacturing/Services PMI (May P): (Mkt: 54.7/55.2; Apr: 59.2/55.6) | (JP) Manufacturing/Services PMI (May P): 53.2/51.7 (Prev: 53.5/50.7) | Central banks: Bank Indonesia meeting

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