MIZUHO DAILY MARKET REPORT

14-May-2024 Tuesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	155.88	156.22	+0.44	+2.30
EUR	1.0775	1.0790	+0.0019	+0.0021
AUD	0.6602	0.6608	+0.0004	▼0.0017
SGD	1.3544	1.3535	▼0.0011	+0.0023
CNY	7.2347	7.2334	+0.0065	+0.0246
INR	83.53	83.53	+0.03	+0.03
IDR	16084	16080	+35	+55
MYR	4.7450	4.7295	▼0.0102	▼0.0098
PHP	57.85	57.87	+0.44	+0.64
THB	36.81	36.82	+0.09	+0.02

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.487%	▼1.0 bp	▼0.1 bp
JPY (10YR)	0.937%	+2.5 bp	+3.6 bp
EUR* (10YR)	2.510%	▼0.7 bp	+4.2 bp
AUD (5YR)	4.014%	▼0.3 bp	▼6.7 bp
SGD (5YR)	3.285%	+4.5 bp	+5.4 bp
CNY (5YR)	2.102%	▼4.5 bp	▼2.4 bp
INR (5YR)	7.120%	▼0.7 bp	+1.4 bp
IDR (5YR)	6.952%	+0.5 bp	+4.6 bp
MYR (5YR)	3.741%	+0.7 bp	▼0.5 bp
PHP (5YR)	6.481%	+1.5 bp	+3.8 bp
THB (5YR)	2.509%	▼1.0 bp	▼3.3 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	39,431.51	▼0.21%	+1.49%
N225 (JP)	38,179.46	▼0.13%	▼0.15%
STOXX 50 (EU)	5,078.96	▼0.12%	+2.46%
ASX (AU)	4,575.33	▼0.24%	+2.38%
STI (SG)	3,303.66	+0.39%	+0.01%
SHCOMP (CN)	3,148.02	▼0.21%	+0.23%
SENSEX (IN)	72,776.13	+0.15%	▼1.51%
JSE (ID)	7,099.26	+0.15%	▼0.51%
KLSE (MY)	1,602.91	+0.14%	+0.35%
PSE (PH)	6,604.25	+1.42%	▼0.73%
SET (TH)	1,372.50	+0.04%	+0.19%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	287.69	▲0.61%	+0.03%
COPPER (LME)	10,082.40	+1.87%	+2.99%
IRON ORE (CN)	117.29	+0.53%	▲1.96%
GOLD	2,336.32	▲1.02%	+0.53%
OIL (WTI)	79.12	+1.10%	+0.82%

Three Take-Aways
1) Pre-US CPI, markets are by the side-lined as evidence of broad-based inflation cooling.
2) Markets can easily turn circumspect about extending risk on or cheer "Goldilocks" no landing.
3) Regardless, EM Asia FX may be compromised as "for longer" Fed conspires with China risks.

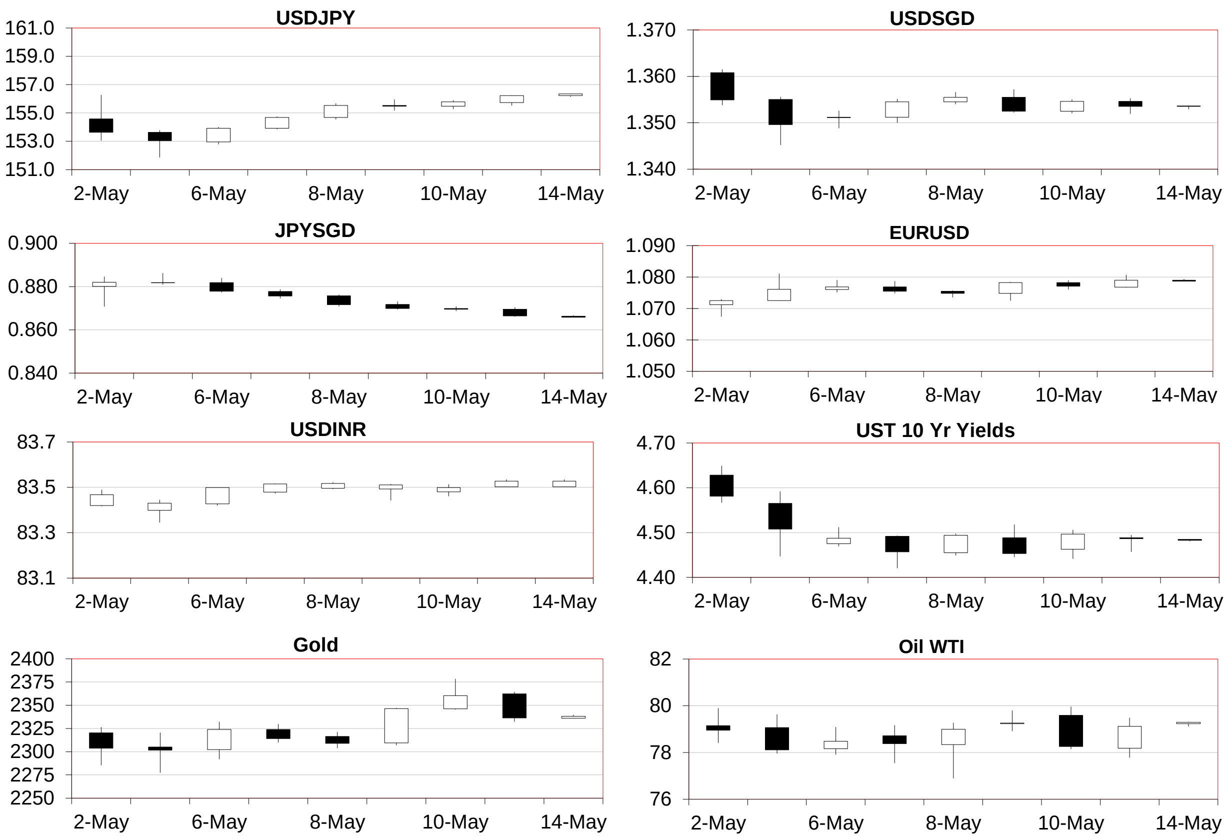
Of Inflation & Infatuation

- So it may not quite be unqualified infatuation. Nonetheless, there is **no denying that markets are obsessing over CPI**, respectfully taking to the side-lines in the run up. **After the early-2024 pick-up** in inflation that interrupted the dis-inflation path, **markets are** scrutinizing the underlying trajectory. Specifically, **trying to gauge if** the **early-2024 inflation bump turns out to be a pedestrian blip in**, *or* a ***provocative*** and ***persistent break from*, dis-inflation**.
- To be sure, am emphatic case of the latter could turn out to be undesirable for risk appetite.
- But for now, **infatuation has gotten the better of equity bulls and bond bears** alike. **Equity bulls** looking to extend rallies *interpret "sticky" inflation as evidence of a "hot", "no landing" economy that can still deliver bumper earnings*. **Bond bears** meanwhile grasp at least d*eferred, if not materially dampened scope for, rate cuts;* with more extreme bets on higher neutral rates. That said, it is **unclear** a priori **whether "Goldilocks"** assumptions (of "risk on despite higher rates) **will endure post-CPI**. Fact is, **markets could** just as easily either *adopt circumspection to trim risk or cheer the state of risk appetite unfettered by higher rates*. And reasons for either (circumspection or cheer) abound.

Three Reasons for Circumspection
1) "Buy the Rumour, Sell the Fact": With a **resumption of dis-inflation** in April **almost universally expected, perceptions of inadequate dis-inflation may trigger a retrenchment of risk.**
2) Elevated (Inflation) Expectations: What's more, even if there is some cooling in inflation pressures, the recent read of **elevated inflation expectations** from UoM survey, with distinctly higher upside inflation extremes, **may trigger understandable caution.**
3) Inflationary Geo-politics: Finally, a conspiracy of geo-political risks from **threats of supply disruptions due to conflict** to **mounting trade tensions** with the risk of escalatory tit-for-tat tariffs **point to problematic inflationary risks.**

OVERNIGHT RESULTS
(IN) CPI YoY (Apr): 4.8% (Mkt: 4.8%; Mar: 4.9%)

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	156.23	EUR/USD	1.0793
USD/SGD	1.3530	USD/THB	36.80
JPY/SGD	0.8661	USD/MYR	4.730

Forecast

USD/JPY	154.00	-	156.50
EUR/USD	1.0720	-	1.0820
AUD/USD	0.6510	-	0.6640
USD/SGD	1.3490	-	1.3570
JPY/SGD	0.8620	-	0.8812
USD/CNH	7.2100	-	7.2500
USD/INR	83.40	-	83.60
USD/IDR	15900	-	16100
USD/MYR	4.728	-	4.750
USD/PHP	57.40	-	57.80
USD/THB	36.70	-	37.00

Today's Direction

	Bull		Bear
USD/SGD	1	:	2
USD/JPY	2	:	1

Three Reasons for Cheer
1) Blip Not Outburst: Yet, underlying inflation, despite bumpiness, appears set to cool further, and perhaps durably. Especially as slower moving components such as rentals as well as one-off lagged administrative adjustments start to ease.
2) Wage-Price Spiral Risks Contained: Crucially, **cooling wage pressures** are **poised to** interact with signs of loosening jobs (lower quit rates, openings and rising claims) to **further, and substantially dampen wage-price spiral risks**; the critical inflation "coolant" for the Fed.
3) (Fed's) Response, Not Read: Finally, and above all, it is the **Fed's response to,** and not a naked read of, in-coming **data that drives risk sentiments**. On that count, **cooling wage-price dynamics** alongside the runway of "higher for longer" rates ought to nudge the Fed towards a cut soon enough - a matter of "when".

EM Asia: Looking for Love in the Wrong Places

- ***Regardless*** of which way risk appetite swings post-CPI, the warning is that **EM Asia may not be in pole position one way or another**. In other words, **US CPI** (and specifically relief on signs of dis-inflation resumed) **may be the wrong place to look for love for EM Asia assets** and **currencies**. Especially as, *geo-politics* (including and particularly, US-China trade tensions), *Fed speak backing "for longer" peak rate* and *remarks from the US Treasury discouraging FX intervention* all suggest **propensity for pressures in EM Asia FX** to persist. Point being, nothing in US CPI data is likely to distract from USD advantage from "for longer" or spill-over underlying fragilities from wider China/CNH risks. All of which point to **vulnerabilities in EM Asia FX**. And worryingly, it is ***sometimes currency that drives wider policy, macro and market risks.***

FX Daily Outlook

- EUR/USD: Case for restrained rallies persist as UST yields remain elevated.
- USD/JPY: Intervention risk remain live to aid caution towards mid-156.
- USD/SGD: Rangebond around 1.35-mid-1.35 as CNH provide little relief.
- AUD/USD: Cautious consolidation around 66 cents ahead of US CPI.

TODAY EVENTS
(JP) PPI YoY (Apr): 0.9% (Mkt: 0.8%; Mar: 0.8%) | (IN) Wholesale Prices YoY (Apr): (Mkt: 1.1%; Mar: 0.5%) | (US) PPI Final Demand/Ex Food and Energy MoM (Apr): (Mkt: 0.3%/0.2%; Mar: 0.2%/0.2%) | (JP) Machine Tool Orders YoY (Apr P): (Mar: -3.8%) | (GE) ZEW Survey Current Situation/Expectations (May): (Apr: -79.2/42.9)

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