

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	157.13	157.64	+0.47	+0.84
EUR	1.0852	1.0801	▼0.0056	▼0.0022
AUD	0.6655	0.6610	▼0.0040	▼0.0010
SGD	1.3490	1.3522	+0.0035	+0.0014
CNY	7.2487	7.2492	+0.0048	+0.0079
INR	83.32	83.34	+0.16	+0.06
IDR	16161	16160	+70	+167
MYR	4.7049	4.7045	+0.0145	+0.0077
PHP	58.48	58.44	+0.47	+0.37
THB	36.73	36.75	+0.11	+0.43

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.612%	+6.2 bp	+19.0 bp
JPY (10YR)	1.085%	+5.5 bp	+7.6 bp
EUR* (10YR)	2.690%	+9.8 bp	+15.6 bp
AUD (5YR)	4.108%	+12.6 bp	+13.4 bp
SGD (5YR)	3.344%	+6.3 bp	+8.5 bp
CNY (5YR)	2.083%	▼0.1 bp	▼3.1 bp
INR (5YR)	7.063%	+2.4 bp	+2.7 bp
IDR (5YR)	6.908%	+3.8 bp	+7.0 bp
MYR (5YR)	3.690%	▼0.4 bp	+0.8 bp
PHP (5YR)	6.419%	+2.3 bp	+1.9 bp
THB (5YR)	2.513%	+2.3 bp	▼2.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	38,441.54	▼1.06%	▼3.10%
N225 (JP)	38,556.87	▼0.77%	▼0.16%
STOXX 50 (EU)	4,963.20	▼1.33%	▼1.23%
ASX (AU)	4,465.63	▼0.91%	▼2.08%
STI (SG)	3,323.20	▼0.21%	+0.46%
SHCOMP (CN)	3,111.02	+0.05%	▼1.50%
SENSEX (IN)	74,502.90	▼0.89%	+0.38%
JSE (ID)	7,140.23	▼1.56%	▼1.14%
KLSE (MY)	1,605.35	▼0.65%	▼1.03%
PSE (PH)	6,411.41	▼1.38%	▼2.96%
SET (TH)	1,349.83	▼0.94%	▼1.53%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	297.63	▲0.87%	+0.81%
COPPER (LME)	10,326.27	▲0.52%	+0.30%
IRON ORE (CN)	117.83	+0.09%	▲1.07%
GOLD	2,338.12	▲0.98%	▲1.71%
OIL (WTI)	79.23	▼0.75%	+2.14%

Three Take-Aways

- Upside inflation surprises dampened risk appetite; denting equities amid long-end led surge in yields.
- USD dominated on real rate shifts despite sharper EZ yield jump; boosted by US exceptionalism.
- Swooning CNH despite property sector hopes casts a long shadow on AXJ. Pre-PCE "risk off" rules.

Deflating on Inflation

- Hotter and stickier than expected global inflation appears to be taking the air out of asset markets. Equities slid (Dow: -1.1%; S&P500: -0.7%) Eurostoxx: -1.3%) and bonds swooned (10Y UST: +6bp to 4.61%; Bunds: +10bp to 3.17%; Gilts: +12bp to 4.40%) and USD swaggered.

- Despite more pronounced pick-up in yields elsewhere in the G10, USD dominated, re-exerting pressures across Majors. EUR is to struggling to stay above 1.08; AUD is trying to keep afloat above 66 cents. The coincidence of higher yields, softer equities, and a stronger USD are hallmarks of "higher for longer" lurching to "too high for too long".

Goldilocks Undone & Keeping it Real

- In other words, "Goldilocks" coming undone. And worries about adverse demand impact from higher rates seeping through. In which case, whether higher yields drove the drop in equities is an academic argument on mechanics, not a revelation of motivation. What's pertinent is that the positive correlation in the sell-off across bonds (higher yields) and equities rules out relative value-driven rotation.

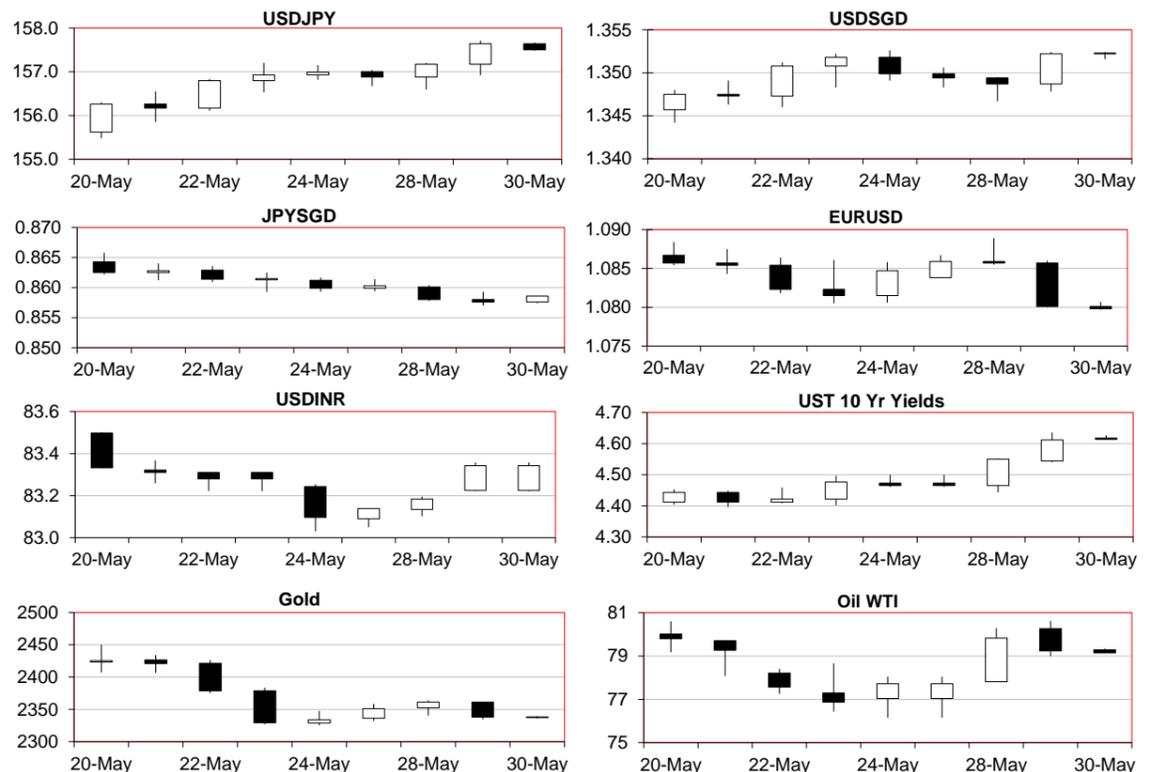
- Instead, it is suggestive of policy-induced "risk off"; but nuanced for the corresponding policy dilemma and inadvertent demand trade-offs. Explains why upside surprise in German and Aussie inflation, have not yielded EUR and AUD advantage. German inflation (harmonized) printed 2.8% re-accelerating more than expected (Mkt: 2.7%; Prev: 2.4%). Down Under, CPI unexpectedly picked up to 3.6% (prev: 3.5%) as opposed to expectations of easing (Mkt: 3.4%).

- In short, the US is assumed to have greater comparative growth resilience in "higher for longer" conditions. Hence, the Greenback is ascribed real yield advantage over EUR and AUD.

OVERNIGHT RESULTS

(AU) CPI YoY (Apr): 3.6% (Mkt: 3.4%; Mar: 3.5%) | (VN) Trade Balance (May): -\$1000m (Mkt: -\$700m; Apr: \$680m) | (VN) Retail Sales YoY (May): 9.5% (Apr: 9.0%) | (VN) Industrial Production YoY (May): 8.9% (Apr: 6.3%) | (VN) CPI YoY (May): 4.4% (Mkt: 4.6%; Apr: 4.4%) | (US) Richmond Fed Mfg Index (May): 0 (Mkt: -7; Apr: -7)

* Past Two Weeks Movement *



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	157.61	EUR/USD	1.0801
USD/SGD	1.3521	USD/THB	36.84
JPY/SGD	0.8579	USD/MYR	4.706

Forecast

USD/JPY	156.50 - 158.50
EUR/USD	1.0740 - 1.0880
AUD/USD	0.6550 - 0.6680
USD/SGD	1.3470 - 1.3600
JPY/SGD	0.8498 - 0.8690
USD/CNH	7.2600 - 7.3000
USD/INR	83.10 - 83.70
USD/IDR	16000 - 16500
USD/MYR	4.690 - 4.760
USD/PHP	58.00 - 59.00
USD/THB	36.60 - 37.30

Today's Direction

	Bull	:	Bear
USD/SGD	2	:	2
USD/JPY	1	:	3

Appetite & Aversion

- What's more, USD dominance also reflects the distinction between softer appetite (for UST issuance) and sharper (policy risk) aversion. Specifically, USD advantage despite higher marginal yield lift across the Atlantic reflects real European yield advantage compromised by inflation upside. Whereas, weak appetite for \$44bn of 7-yr UST auction was the main lever lifting US yield, with presumably less comparative real yield erosion.

- All else equal, this tends to accentuate Greenback support vis-à-vis EUR (and other Majors). Even more so in the context of the appetite for the narrative of US exceptionalism; at least comparatively so. Underpinning this is the run of upside surprise in US Conference board consumer sentiments and resilience embedded in the Fed's Beige Book. In contrast, the ECB is struggling between demand headwinds from "higher for longer" and "not low enough" inflation.

Pre-PCE Apprehension

- Against a theme of global dis-inflation set-back, apprehension, possibly even "risk off" outright, is likely to prevail heading into US PCE (Fri). For one, markets will remain nervous about "higher for longer" Fed proposition hardening if US PCE is also hotter and/or stickier than expected. Equally, better news on dis-inflation not stalled from the US could accentuate "Goldilocks US" and mounting policy trade-offs elsewhere. This sets USD up nicely for a "heads I win, tails you lose" taunt aimed at EUR and wider FX markets. And with CNH languishing despite property rescue glimmers, EM Asia FX (AXJ) are even more likely to be compromised.

FX Daily Outlook

- EUR/USD: Could durably trade below 1.08 levels on higher UST yields and ECB's expected June cut.
- USD/JPY: Oscillations around mid-157; volatility watch on intervention risks
- USD/SGD: Buoyant above 1.35 levels on softer CNH.
- AUD/USD: Sticky inflation could temper declines below mid-65 cents.

TODAY EVENTS

(AU) Building Approvals MoM (Apr): -0.3% (Mkt: 1.8%; Mar: 2.7%) | (US) Initial Jobless Claims: (Mkt: 217k; prev: 215k) | (US) GDP Annualized QoQ (1Q S): (Mkt: 1.3%; prelim: 1.6%) | (US) Wholesale Inventories MoM (Apr P): (Mkt: 0.1%; Mar: -0.4%) | (EZ) Consumer Confidence (May F): (prelim: -14.3) | (EZ) Unemployment Rate (Apr): (Mkt: 6.5%; Mar: 6.5%)

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