

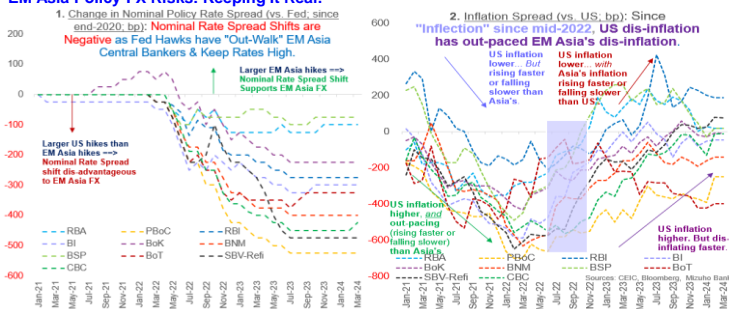
Economic Calendar

Date	Country	Event	Period	Survey*	Prior
01 Apr	US	ISM Mfg/Prices Paid/New Orders	Mar	48.3/52.9/49.8	47.8/52.5/49.2
	JP	Tankan Large Non-Mfg Index/Outlook	1Q	34/27	30/24
	JP	Tankan Large Mfg Index/Outlook	1Q	11/10	12/8
	JP	Tankan Large All Industry Capex	1Q	4.0%	13.5%
02 Apr	US	JOLTS Job Openings	Feb	8775k	8863k
	US	Durable Goods Orders/Nonfed Ex Air	Feb F	1.4%	1.4%
03 Apr	US	ADP Employment Change	Mar	155k	140k
	US	ISM Services Index	Mar	52.8	52.6
	EZ	CPI/Core YoY	Mar	2.5%/3.0%	2.6%/3.1%
04 Apr	US	Trade Balance	Feb	-\$67.0b	-\$67.4b
	US	Initial Jobless/Continuing Claims		215k	210k
	EZ	ECB Account of March Rate Decision			
05 Apr	US	NFP/Unemployment rate	Mar	200k/3.8%	275k/3.9%
	EZ	Retail Sales MoM	Feb	-0.3%	0.1%

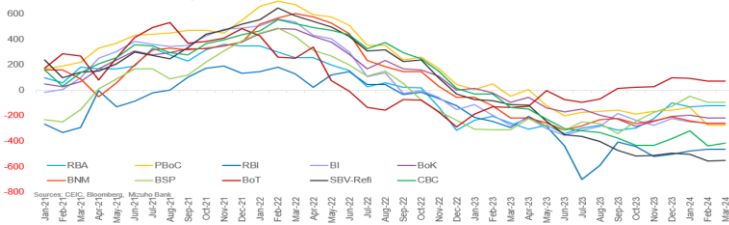
Week-in-brief: Glimmers

- Glimmers of hope have lined the Easter weekend, as *upbeat China PMIs* and *more complaisant US core PCE* (the Fed's preferred inflation gauge) *flattered "Goldilocks" soft-landing scenario*.
- Central to the narrative are; i) *inconveniently sticky inflation is getting out of the way for a Fed pivot by mid-year*; and ii) *a decisive bottom in China* coinciding with *global manufacturing upturn*.
- The *requisite restraint*, holding back Wall St from unfettered rallies, is that *niggling chicken-and-egg balance between economic resilience and anticipated policy boost*.
- For the Fed, notions of *US exceptionalism led by a solid job markets*, means *comfort to delay rate cuts till it has a higher degree of confidence about the (bumpy) dis-inflation path leading to 2%*.
- In fact, *more hawkish Fed views* (such as Fed Waller's) on *slower and shallower cuts may begin to gain currency*. Ironically, this may dampen the optimism from "pivot" priced to perfection.
- What's more, the *resultant elevation of UST yields and USD for longer*, could *inadvertently induce greater stress/pressures on EM Asia's policy and FX risks* (more below).
- In China's case too, sharp trade-offs involved in dishing out policy stimulus would suggest that further signs of economic recovery may allow Beijing to ration stimulus; both scope and size.
- Point being, there *must be some trade off between market optimism based on economic resilience and exuberance premised on anticipated stimulus*.
- More pointedly, if stimulus/policy accommodation accounted for a disproportionate share of pre-existing rallies, the *ability to extend market cheer may be compromised on stronger -than-anticipated economic outcomes*. So, *paradoxically, economic glimmers may erode market glitter*.
- After the solid out-run of China PMIs, US ISM alongside PMIs elsewhere (for corroborating buoyancy), US NFP may maintain a solid 200K+ clip, *underpinning yields and USD*.
- Down Under, *RBA Minutes are likely to maintain data dependence, but with limited boost for AUD*.

EM Asia Policy-FX Risks: Keeping It Real!



- With the Fed deferring rate cuts, the general sense is that central banks in EM Asia will be more inclined (some may argue, obligated) to *bide their time*, rather than jump the gun.
- This policy caution on the part of EM Asia central banks is *very real* (no pun intended), and is driven by an *aversion to inadvertent macro-FX stability risks from sharp erosion in real rate spreads*.
- Especially as *two sets of real rate differential forces, which disadvantage EM Asia FX*, conspire.
- First, and most conspicuously, the sheer degree to which Fed rate hikes since March 2022 have outpaced and dominated over tightening cycles in EM Asia. Few have come close to matching the Fed's massive 525bp of rate hikes. The brutality of which, means that, *all else equal, change in nominal rate spreads since 2022 induce a staggering rate dis-advantage for EM Asia* (Chart 1).
- The astute observer may be tempted to argue that all else was anything but equal.
- Notably, that as US inflation outpacing EM Asia's inflation, warrants larger rate hikes.
- Granted, but here's the thing. The *US' inflation dis-advantage that had earlier more than offset nominal has mostly, if not more than, dissipated*. Point being, US inflation has not only decelerated faster, catching down with most of EM Asia, but is now lower than in some parts (Chart 2).
- And so, the *unique conditions of much higher US inflation offsetting aggressive US rate hikes*, therefore leaving most EM Asia FX flummoxed, have *now effectively faded*.
- In other words, real rate spreads between US and EM Asia now clearly flag the threat of EM Asia FX being compromised should EM Asia central banks be deemed significantly more dovish than the Fed.
- With the exception of the Bank of Thailand, all other EM Asia central banks are confronted with negative real spreads (Chart 3), to the dis-advantage of domestic currencies.
- And so, *even if growth-inflation balance of risks provide scope for EM Asia central banks to initiate rate* *Real Rate Spread (vs. Fed, bp): EM Asia's Real Rate Spreads Mostly Negative as the Fed's Outsized Hikes Conspire with Rapid US Dis-inflation. Hence, EM Asia Cuts Must Exercise Patience!*

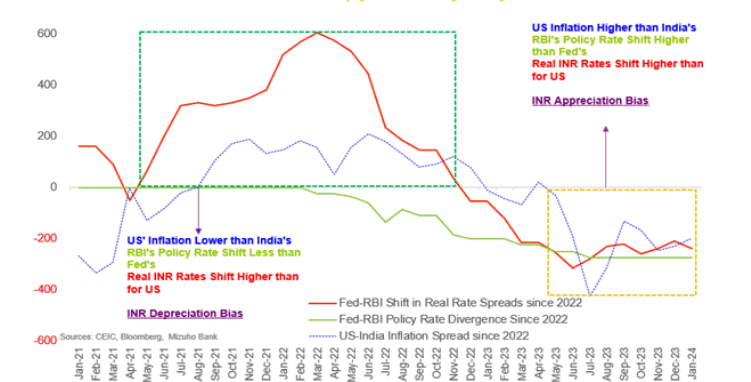


Asia

Date	Country	Event	Period	Survey*	Prior
01 Apr	CH	Caixin China PMI Mfg	Mar	51.0	50.9
	ID	CPI/Core YoY	Mar	2.9%/1.7%	2.8%/1.7%
	PH	Budget Balance PHP	Feb	--	88.0b
		PMI (ID, KR, MY, TH, PH, TW, VN)	Mar	--	
02 Apr	SG	Purchasing Managers/Elect. Sector Index	Mar	--	50.6/50.4
	AU	RBA Minutes of March Policy Meeting			
	KR	CPI/Core YoY	Mar	3.0%/2.4%	3.1%/2.6%
03 Apr	CH	Caixin China PMI Services	Mar	52.7	52.5
04 Apr	AU	Building Approvals MoM	Feb	3.0%	-1.0%
05 Apr	SG	Retail Sales/Ex Auto YoY	Feb	1.7%/--	1.3%/2.1%
	AU	Trade Balance	Feb	A\$10.5b	A\$11.3b
	IN	RBI Repurchase Rate		6.50%	6.50%
	KR	BoP Current Account Balance	Feb	--	\$3045.7m
	TH	CPI/Core YoY	Mar	-0.4%/0.4%	-0.8%/0.4%
	PH	CPI YoY	Mar	3.8%	3.4%

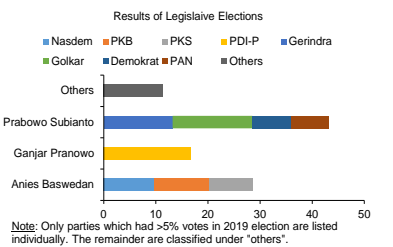
RBI: Improved Position, Not Inflexion Point

- To be sure, *softer inflation across a spectrum of measures*, including headline and core, is *welcome relief* for the RBI. But the RBI's *improved (policy) position is not to be confused for an inflexion point*. Three compelling reasons why.
- First, *despite encouragingly sustained CPI decline*, upside inflation volatility remains a distinct risk. What's more, energy inflation is exceptionally, and unsustainably low/negative; hence unlikely to be a durable inflation dampener. This warns of *some pick-up in inflationary pressures later*.
- In fact, this *counsels against excessive confidence in over-estimating the resultant policy space*.
- Second, *while real rates have turned considerably restrictive* (above neutral), this is not broadly the case. And is *relatively brief* compared to exceptional accommodation earlier.
- So, the RBI may need to commit to "higher (than neutral) for longer".
- Finally, on a real rate spread (vs. US), the RBI is still at a significant dis-advantage.
- And *with Fed pivot expectations pushed out*, and *potentially even diminished*, *implied rupee stability risks effectively tie the RBI's hands* for now.
- Especially as the *costs of rupee stabilization after-the-fact* (of destabilization) *threaten to be prohibitively costly*. Whereas the benefits for an economy that has out-performed expectations is not compelling.



Indonesia: People vs Party; Policies vs Politics

- On 20 Mar, Prabowo was officially declared the winner of Indonesia's presidential election, securing nearly 58.6% of the vote in the three-man race. However, *investor sentiments does not appear to be supportive*. IDR was the underperformer (relative to regional peers) for both the periods i) since the unofficial count on 14 Feb to the official announcement (-0.8%), and ii) the official announcement to the present (-0.5%).
- *Concerns are perhaps not unwarranted*. Point being, potential cabinet rifts and budget efficiency wavers confidence on fiscal prudence and economic direction as we have alluded to previously".



- On the official results, we observe that *there is some disparity between presidential and legislative results*. Despite winning >58% of the votes in the presidential race, Prabowo's coalition is likely to command only ~43% of parliamentary seats. PDI-P, which nominated presidential candidate Ganjar, won the largest number of votes at the legislative election (~16%). In contrast, Prabowo's own party won the third-largest number of votes (~13%).
- But the next government coalition would require a broad majority to ensure political stability, and that key policies are passed through. The *implication is that Prabowo must reach across party lines to form a stronger coalition if he wants to pass potentially difficult and contentious reforms*, such as funding a costly free lunch program and privatising some state-owned enterprises.
- Accordingly, *uncertainty on future policy and economic direction remains elevated*.
- Second, these policy and economic directions would have an *immediate impact on Indonesia's fiscal health*. Just take Prabowo's goal of achieving 8% growth in the next five years - the possibility of large-scale fiscal stimulus is not unforeseeable.
- Moreover, while there have been news of a possible reform on energy subsidies to increase the revenue base, these policies often come at a political cost. Especially so with food inflation in Indonesia still slow to come down and signs of increasingly stretched consumer wallets.
- See Mizuho Flash: Indonesia elections (15 Feb 2024)

Forex Rate

	Close*	Chg [^]	% Chg [^]	Week Forecast	
USD/JPY	151.35	-0.060	-0.04%	148.50	~ 152.00
EUR/USD	1.079	-0.0018	-0.17%	1.070	~ 1.086
USD/SGD	1.3493	0.001	0.05%	1.3410	~ 1.3550
USD/THB	36.39	0.018	0.05%	36.00	~ 36.65
USD/MYR	4.725	-0.0115	-0.24%	4.696	~ 4.760
USD/IDR	15855	75	0.48%	15,700	~ 16,050
JPY/SGD	0.6521	0.001	0.09%	0.882	~ 0.912
AUD/USD	0.6521	0.001	0.09%	0.646	~ 0.658
USD/INR	83.40	-0.021	-0.03%	83.2	~ 83.7
USD/PHP	56.223	-0.063	-0.11%	55.9	~ 56.6

[^]Weekly change.

FX Outlook: Harsh Realities

- Emerging optimism about China is real. And could gain traction, it is substantiated by corresponding optimism elsewhere in Asia that dovetails with an upturn in global manufacturing.
- But to extrapolate this as unfettered "risk on" flanked by unbridled surge in EM Asia FX, led by CNH, borders on departure from the reality of fairly harsh FX setting involving: US exceptionalism, persistent strains from tight Fed policy and the fast evolving threats from US politics (Trump 2.0).
- The upshot being, relief from China PMI rebound are welcome, but far from a decisive trigger for sustained rallies in EM Asia FX (that requires more sustained USD pullback).
- In fact, insofar that softer US inflation is deemed to be a more emphatic cue for Fed rate cuts, the real policy advantage for EM Asia FX is dampened (as Fed cut is offset by softer US inflation).
- So barring an even sharper pullback in EM Asia inflation (vis-a-vis the US), scope for EM Asia FX to rally may be initially restrained.
- Especially if EM Asia central banks embark of a fairly quick succession of rate cuts as well.
- What's more, China risks are not unequivocally diminished. Not only because economic rebound remains nascent rather than solidly entrenched. But also due to conflicting political objectives domestically and headwinds geo-political from outside continue to compromise China's turnaround.
- The resultant spill-over risks, expressed via CNH, therefore remains a bugbear for EM Asia FX.
- Finally, Trump 2.0 poses not just an indirect risk from China but entail head-on threats for EM Asia economies that run a large bi-lateral trade surplus. Vietnam, Thailand, Singapore, Korea, Taiwan Japan, to name a few, have all been mentioned in the US Treasury report. And so, the uncertainty factor involved will make for fairly tumultuous path up for EM Asia FX even as Fed pivot is watched.
- For this week though, another solid US jobs data print could keep USD and yields underpinned.
- Especially if the more hawkish leaning camp of the Fed (such as Waller) double down on fewer and shallower rate cuts due to tighter than expected conditions.
- The harsh reality is that sharp trade-offs will be imposed on markets re-balancing economic optimism against policy stimulus hopes.

JPY: Jawboning, Tongue Biting

- JPY bears may have had a field day last week with the USD/JPY surging past 151.
- The worry for JPY bulls early this week may stem from expectations from built up optimism from the Tankan survey turning out to be grounds for BoJ dovishness and drive long USD/JPY bets.
- That said, there ought to be justifiable fears about pushing the USD/JPY towards 152 given substantial jawboning from the MoF last week.
- All in, barring US economic soft spots to send UST yields lower, the USD/JPY looks to sustain buoyancy above 149.

EUR: Earlier Start, Faster Pace

- With ECB's Stournaras stating the possibility of four rate cuts alongside ECB's Holzmann who espoused of the ECB cutting before the Fed (likely marginally), the EUR's recovery prospects after last week's dismal performance look bleak.
- Even with a surprise upside in EZ CPI print, EUR surges are likely to be restrained below 1.09 as economic worries duly retained.
- Should the unemployment rate take a turn for the worse, slippage below mid-1.07 remains par for the course. All in, we expect trading range of mid-1.07-1.09 with downside bias.

SGD: Overhang

- Weak CNH overhang saw USD/SGD trading around mid-1.34 to mid-1.35 levels last week, and would likely to continue to temper any SGD rally in the coming week. In particular, more evidence on improving economic activity would be required to lift sentiments, especially in the absence of any new policy stimulus.
- Meanwhile, a weak EUR on rate cut expectations could add further pressure on the SGD, especially with EZ CPI and retail sales due this week, which could corroborate a managed dis-inflation with downside growth risks story.
- All in, we continue to expect USD/SGD to trade within a similar 1.34 to mid-1.35 band for the week ahead, with some volatility expected on US second-tier data releases as markets digest the durability of US exceptionalism.

AUD: Minute Impetus?

- To be fair, there could be quite a bit of information on the RBA's thinking to be gleaned off the RBA Minutes for the March meeting.
- But that is unlikely to provide much impetus for the AUD.
- In particular, sustained bullish cues from RBA Minutes, if any, are likely to be minute.
- Point being, the Fed's comfort to defer cuts suggests that RBA patience in terms of biding time before cutting provides diminished FX advantage; if any.
- What's more, lingering commodity drag on Beijing's policy shifts suggesting less commodity-intensive shift to industrial value-add rather than infrastructure, means that AUD gains from commodity multipliers may also remain subdued despite China PMI cheer.
- For now, sub-0.65 dips remain a risk while traction past 0.66 is challenged.

Bond Yield (%)

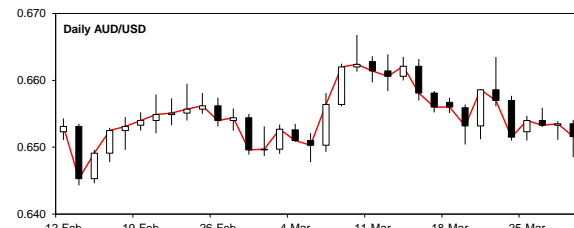
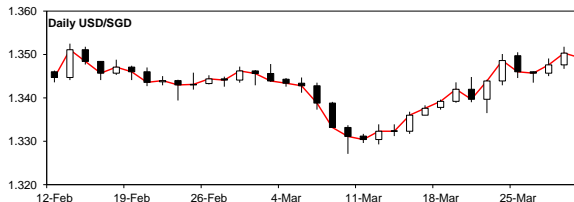
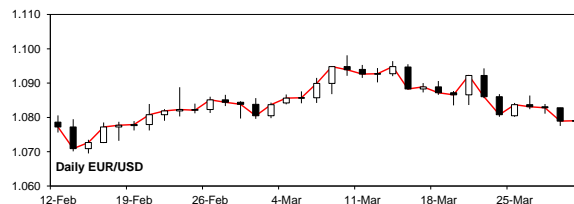
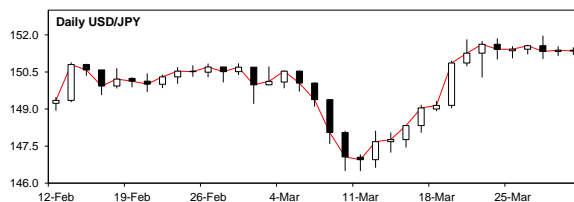
29-Mar	2-yr	Chg (bp) [^]	10-yr	Chg (bp) [^]	Curve
USD	4.620	3.1	4.200	0.2	Flattening
GER	2.843	2.2	2.296	-2.5	Flattening
JPY	0.172	-1.8	0.717	-1.3	Steepening
SGD	3.442	7.2	3.076	2.6	Flattening
AUD	3.748	-6.2	3.959	0.1	Steepening
GBP	4.172	5.0	3.933	0.5	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,254.35	0.39
Nikkei (JP)	40,369.44	-1.27
EuroStoxx (EU)	5,083.42	1.04
FTSE STI (SG)	3,224.01	0.19
JKSE (ID)	7,288.81	-0.83
PSEI (PH)	6,903.53	0.31
KLCI (MY)	1,536.07	-0.41
SET (TH)	1,377.94	-0.22
SENSEX (IN)	73,651.35	1.13
ASX (AU)	7,896.86	1.63

US Treasuries: Elevation and Moderation

- The PCE print last Friday which showed moderating services inflation may check the potential for US exceptionalism led UST yield rallies this week.
- With US ISM manufacturing kicking off the week, UST yields may continue to remain elevated considering that end of the week non-farm payrolls may also be supportive.
- Nonetheless, Fed Chair Powell's characterized of the latest PCE print as along the lines of what we want to see will continue to invite UST bulls to capture some gains.
- As such, UST 2Y yields could cautiously test 4.5% while 10Y yield will venture towards 4.15%.
- We retain bull steepening preference amid yet to be reveal impact from supply chain disruptions and elevated energy prices.



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