

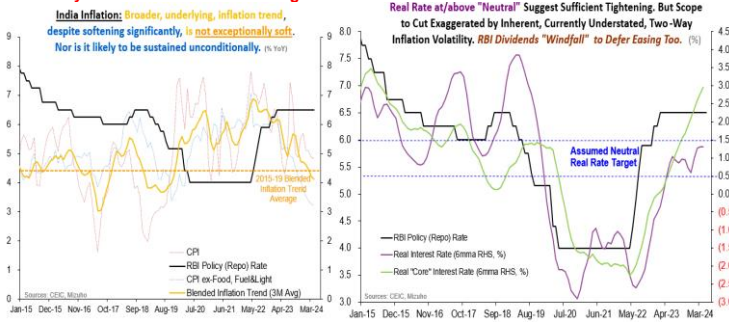
Economic Calendar

Date	Country	Event	Period	Survey*	Prior
03 Jun	US	ISM Manufacturing/Prices Paid	May	49.7/-	49.2/60.9
04 Jun	US	JOLTS Job Openings	Apr	8300k	8488k
	US	Durable Goods Orders/Nonfed Ex Air	Apr F	0.7%/--	0.7%/0.3%
05 Jun	US	ADP Employment Change	May	175k	192k
	US	ISM Services Prices Paid/New orders	May	--	59.2/52.2
	US	ISM Services Index/Employment	May	51.0/--	49.4/45.9
	EZ	PPI YoY	Apr	-5.3%	-7.8%
	JP	Labor/Real Cash Earnings YoY	Apr	1.8%/1.0%	1.0%/2.1%
06 Jun	US	Trade Balance	Apr	-\$69.4b	-\$69.4b
	US	Initial Jobless Claims		--	219k
	EZ	ECB Main Refinancing Rate		4.50%	4.50%
	EZ	Retail Sales MoM	Apr	0.1%	0.8%
07 Jun	US	Change in Nonfarm Payrolls	May	180k	175k
	US	Wholesale Inventories MoM	Apr F	--	0.2%
	US	Unemployment Rate	May	3.9%	3.9%
	EZ	GDP SA YoY/QoQ	1Q F	0.4%/0.3%	0.4%/0.3%
	JP	Coincident Index/Leading Index CI	Apr P	114.5/111.7	113.6/112.2%

Week-in-brief: Soft Overcomes Hard?

- At the risk of mis-quoting Lao Zi, he alludes to **soft overcoming hard** in reference to **water wearing down rocks**. This week, the sight of **US GDP softening on weaker consumption** sent UST yields lower to reverse the climb in yields from hawkish Fed speak earlier this week.  
 - Admittedly, rocks are hard to wear down and so is the narrative of **US exceptionalism** amid consumer confidence surge this week. The Fed's resolve **will be tested next week** (ISM Mfg: Mon, ISM Services: Wed, Jolts: Tues, NFP: Fri). In turn, markets may be tempted to bring forward rate cut bets. Notably, US equities were already subject to a shakedown this week on growth fears.  
 - Across the Atlantic, the ECB remains undeterred by the latest wage growth print as they look set to proceed with a well telegraphed 25bp cut. This widens the EZ-US policy rate spreads even if the ECB is likely to remain non-committal around future cuts and set back EUR bulls.  
 - In EM-Asia, as expected, **Vietnam's economic data showed resilience**. Industrial production grew 8.9% YoY in May with heartening expansions in the textile and footwear sectors while levels electronics related output stayed robust. Retail sales outturns improved to 9.5% YoY from April's 9.0%. **Headline inflation surge to 4.4%**, just shy of the SBV's target range of 4.5%. Cost of food, eating out and recreation increase to offset the decrease in gasoline and diesel prices.  
 - The VND remains at an uncomfortable level for the SBV.  
 - Meanwhile, Thailand's current account slipped into a small deficit as services income surplus was unable to overcome the drag from a worsening trade balance.  
 - Turning to **Australia, the latest CPI** gave the RBA more to worry as **headline inflation outperformed expectations with services inflation ticking up** while goods dis-inflation stalled. Food inflation remains a concern edging up to 3.8% YoY from 3.5% in March as prices of fruits and vegetables soared on adverse weather. Housing rents also rose 7.5% reflecting low vacancy rates.  
 - In turn, this sets the stage for **Australia's Q1 GDP release (Wed) which is likely to slow from Q4's 1.5% YoY growth**. Lacklustre retail sales and external demand contraction point to slowing growth. This will **soften RBA hawks** even as they remain vigilant on inflation risks. **AUD bulls will also likely be disappointed especially after the weaker PMIs in China**.  
 - In contrast, **RBI hawks** will maintain the headline to keep rates unchanged next Friday as Q1 growth is likely to remain firm and real policy rate settings remain appropriate.  
 - All in, while softer economic prints may overcome headlines on holding rates, gentle (flexible) can often overcome rigid. In this transition, markets ought to brace for a volatile week as markets strive to get ahead of the Fed in a week of silence (black out for FOMC members).

RBI - Why a RBI Hold is Overwhelming



- The short answer is that the **case for near term cut is exaggerated** by the optics of flattering short-term (YoY) inflation prints. Whereas, the **broader policy risks** in the context of **underlying growth-inflation dynamics suggest restraint**.  
 - Especially when **macro stability risks imposed by a "higher for longer" Fed, even though rupee has been relatively shielded**. Admittedly, sharp and sustained dis-inflation provides conditions to assess, if not entertain, some easing.  
 - With low-3% core CPI alongside headline inflation at 4.8%, it is tempting to argue that inflation expectations are being anchored. **But initiating rate cuts or flagging intent of imminent cuts on account of encouraging dis-inflation risks being hasty, possibly misguided**.  
 - For one, the **order of dis-inflation** as assessed from a **"blended" trend" inflation, while encouraging, is not exceptional**. In fact it is **consistent with current rate settings** (looking through pandemic rate reductions).  
 - What's more, **seasonally-adjusted sequential inflationary pressures have shown a distinct pick-up**. And against a backdrop of brisk growth and credit pick-up, **rate cuts may inadvertently leave real neutral rate\* inadequately restrictive**.  
 - Third, **RBI's dividend "windfall"\*\*\***, which is **likely to deliver a positive fiscal impulse**, diminishes the case and urgency for RBI rate cuts; all else equal.  
 - Finally, despite a relatively stable rupee, the RBI has reasons not to inadvertently induce macro-stability risks by unnecessarily front-running Fed easing. Not at this juncture, when growth is solid and real policy settings, adjusted for economic risks, appears appropriate.  
 - Hints of a gently hawkish hold might in fact lean into RBI dividends and S&P's outlook upgrade (from 'Stable' to 'Positive') to underpin rupee. Especially if any unexpected elections shocks are averted.

\* The disparity between core and headline inflation could admittedly be interpreted very positively as of underlying inflation being very well-anchored. But insofar that "lived" inflation expectations may be influenced by headline cost inflation

Asia

Date	Country	Event	Period	Survey*	Prior
01 Jun	KR	Exports/Imports YoY	May	15.3%/3.1%	13.8%/5.4%
03 Jun	CH	Caixin China PMI Mfg	May	51.6	51.4
	ID	CPI/Core YoY	May	3.0%/1.8%	3.0%/1.8%
04 Jun	AU	BoP Current Account Balance	1Q	A\$5.9b	A\$11.8b
	KR	CPI/Ex Food and Energy YoY	May	2.8%/2.2%	2.9%/2.3%
05 Jun	CH	Caixin China PMI Services	May	52.6	52.5
	SG	Retail Sales/Ex Auto YoY	Apr	2.5%/--	2.7%/2.0%
	AU	GDP YoY/SA QoQ	1Q	1.2%/0.2%	1.5%/0.2%
	KR	GDP YoY/SA QoQ	1Q P	3.4%/1.3%	3.4%/1.3%
	PH	CPI YoY 2018=100	May	4.0%	3.8%
06 Jun	AU	Trade Balance	Apr	A\$500m	A\$5024m
	PH	Unemployment Rate	Apr	--	3.9%
	TW	CPI/Core YoY	May	2.1%/2.0%	2.0%/1.8%
07 Jun	CH	Exports/Imports YoY	May	5.1%/5.0%	1.5%/8.4%
	IN	RBI Repurchase Rate		6.50%	6.50%
	TH	CPI/Core YoY	May	1.2%/0.4%	0.2%/0.4%
	TW	Exports/Imports YoY	May	9.7%/6.0%	4.3%/6.6%

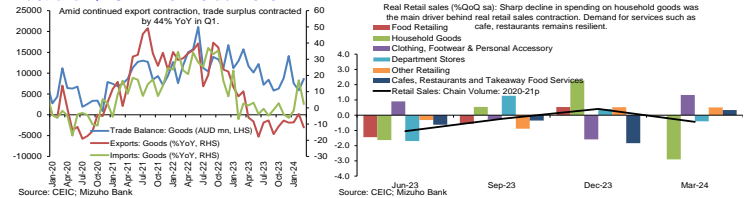
S&P's Ratings Outlook: Positive!

**What:** Ratings agency **S&P has lifted India's (BBB-) ratings outlook from 'Stable' to 'Positive'**. What this means is that India may be on course for a **ratings upgrade in a 6-24-month window**. In other words, this **could set India up for an upgrade to 'BBB' into 2025-2026**.  
**Why:** In so doing, **S&P cited high growth that is likely to be sustained amid (assumed) policy continuity**. Notably, S&P also mentioned **capacity-enhancing infrastructure boom as a key reason for structural optimism about growth**. In addition, an this is bolstered by an **impressive fiscal consolidation path from peak pandemic deficit of >9% (of GDP); to 5.8% (of GDP) deficit for FY24 on course for 4.5% by FY26**; and the S&P is projecting further reduction to 4.2% by FY28.  
 - How (it Impacts).  
 i) Ratings: If the S&P does indeed pull the trigger on the upgrade, India will enjoy **critical one notch buffer between IG (investment grade) and HY (high-yield)**.  
 ii) Risk: **This disproportionately raises the bar for "tipping risks"**, hence could translate into **significant non-linear reduction in risk premium**.  
 iii) Funds/Capital Flows: In turn, this provides an additional boost to capital inflows already enticed by higher growth and "China +1" hedge.  
 iv) Economy: Consequently, **growth potential could be bumped up** by (direct investment) impulse as well as growth multipliers benefitting from indirect reduction in risk premium/financing costs.  
 v) Markets: **Asset prices** will probably be **buoyed by lower discount rates implied by diminished risk premium**. The "probably" caveat merely reflects front-running optimism.  
 vi) Currency: **Rupee too is likely to get a boost**; already displaying relative resilience. Although the **RBI is inclined to temper any gains** (on USD declines) and defer sustained revaluation.

ECB: Done Deal...for now

- **ECB looks set to proceed with a well-expected 25bps cut** at the upcoming 6 June meeting, in a step towards policy normalisation. ECB officials have been easing this decision to markets for some time and tellingly, April minutes reveal that a few members were already confident with a cut on the basis of limited data then, although majority found more comfort to await for more evidence in June.  
 - **Data since April has been broadly supportive of a cut**. Inflation expectations edged lower even as April headline inflation remain unchanged at 2.4%. While Germany's May inflation print edged up (largely due to base effects) and services inflation remain elevated at 4.1% in April, this is unlikely to detract the ECB from their first cut as they acknowledged that dis-inflation process could be bumpy, but need not wait till inflation is at 2% before cutting rates. ECB's Lane had also recently noted that overall direction of wages point to deceleration. Nonetheless, their statement is likely to signal continued close monitoring of wage growth and attendant services inflation, given that the latter is strongly driven by labour costs.  
 - **Upshot:** With ECB's cut largely priced in, **post-ECB EUR will hinge on policy trajectory beyond June**. Point being, the cut cycle rather than a calibration appears to be the pertinent point for market.  
 - As ECB Lane pointed out, the transmission effects of past rate hikes while still unfolding, may have peaked at turn of 2024. This could provide a case for being more cautious.  
 - Furthermore, growth has showing some signs of improvement could also buy the ECB more time. Q1 advance GDP growth surprised to the upside while retail sales registered its first expansion at 0.7% YoY after contracting since Sep'22.

Australia Q1 GDP: Downside Risks



- Australia's **Q1 GDP release on 5 June looks to face an uphill task of putting up an image of resilience** given that a slew of indicators show weakness. While we expect the Q1 GDP print to slow from Q4's 1.5% YoY to under 1.2%, the **distribution of outcomes based on the balance of risks is tilted towards a further underperformance**.  
 - **Real retail sales contraction on a QoQ seasonally adjusted** basis by 0.4% point to softening household consumption as spending on household goods and at departmental stores fell.  
 - In fact, even the supportive drivers were one off in nature, the strong uptick in clothing and footwear expenditure was driven by the Taylor Swift effect rather than strong underlying demand.  
 - Furthermore, the Q4 uptick in household savings ratio partly due to income tax payment quirks in our view is of no solace. Household savings ratio staying below pre-pandemic levels highlight the stresses of higher inflation and interest payments **hindering accumulation of savings**.  
 - Support may stem from investments as **private capital expenditure** rose 1% QoQ with spending on machinery, plant and equipment up 3.3% QoQ led by spending from non-mining industries.  
 - Meanwhile, external demand also appears weak as exports of goods decline in Q1 by 8.2% YoY as the trade balance continued to dwindle on the back of declining revenues from coal and metal ore.  
 - This growth print is likely to **further narrow RBA's policy space amid elevated inflationary pressures**. Specifically, headline CPI resurgence to 3.6% in April from 3.5% in March led by an uptick in services inflation (Apr:4.0%; Mar:3.8%) with goods dis-inflation stalling at 3.3%.  
 - While the return to inflation target range may be prolonged, it will be the near term growth concerns that restrains the RBA hawks from actual policy hikes.  
 - Consequently, **AUD bulls** also have little runway on the upside above mid-67 cents even if commodity prices may assist to hasten mid-65 cents in the coming week

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	157.1	0.110	0.07%	155.00	~ 158.50
EUR/USD	1.0826	-0.0021	-0.19%	1.072	~ 1.090
USD/SGD	1.3523	0.002	0.18%	1.3450	~ 1.3620
USD/THB	36.795	0.11	0.30%	36.40	~ 37.00
USD/MYR	4.708	-0.0035	-0.07%	4.700	~ 4.730
USD/IDR	16250	257	1.61%	15,950	~ 16,100
JPY/SGD	0.8608	0.001	0.10%	0.849	~ 0.879
AUD/USD	0.6637	0.001	0.14%	0.646	~ 0.670
USD/INR	83.38	0.279	0.34%	82.9	~ 83.5
USD/PHP	58.526	0.331	0.57%	57.0	~ 58.5

^Weekly change.

FX: Curbed Recoveries?

- This week, USD remains bid as **G10 peers turned in a mixed performance** in the face of higher long end UST yields.
- Notable, the **CHF chalked the most gains** as SNB Governor Jordan cited the weaker CHF as a cause for upside inflation risks and added that the SNB could counter by selling FX alongside suggestions of a higher natural rate.
- On the other end, the **likes of the GBP and EUR continued to slip** against the Greenback especially with the latter set for a rate cut next week.
- The AUD was barely held its ground to hover above 66 cents despite higher than expected CPI print this week. RBA speakers continue to highlight growth soft spots and Q1 GDP could be set to affirm them and dent AUD recovery prospects.

EM-Asia: Painful Flows

- Similarly, EM-Asia did not make much ground against the USD.
- In fact, the likes of the **IDR and KRW** suffered a beating and underperformed regional peers.
- Aside from the pressure from UST yields, the former may be on the back of **seasonal outflows based on pilgrimage needs**. The latter though appears to stem from **equity outflows as well as reactions on Samsung union calling for a strike as wage negotiations faltered**.
- Gains were also rather muted with the likes of the VND flattening being no relief for the SBV.

FX Brief:

- 1) JPY: Even if Tokyo CPI may add a marginal case for future BoJ hikes, it is not a clear cut case for JPY bulls to mount one way bets. UST-JGB gap to buoy above 154 even if US growth faltering allows testing off 155.
- 2) EUR: ECB looking set for a 25bps cut continues to hold a restrain on rallies above 1.09. Surge above 1.09 will have to rest on tail risks of a collision of US growth and labour markets faltering.
- 3) AUD: Headline CPI outperformance insufficient to be a catalyst for rallies beyond 67 cents unless Q1 GDP growth surprises on the upside.
- 4) CNH: Despite the property optimism, CNH remains on the backfoot underscoring wider confidence woes; PBoC backstop watched.
- 5) INR: Rupee slippage reverse past week gains amid election jitters and weak surge in oil prices which were subsequently pare back.
- 6) SGD: Soft CNH despite property stimulus could retain buoyancy above 1.35 levels; watch for volatility on ECB post-June policy trajectory.
- 7) IDR: Regional underperformance could continue amid continued hawkish Fed rhetoric; could possibly tempt 16500 but heightened intervention risks.
- 8) THB: Current account weakness underscores weakening fundamentals not helped by unrelenting political woes with the latest involving ex PM Thaksin.
- 9) MYR: Showed resilience around 4.70 levels, possibly on oil and improved sentiments (announced investments flowing in); but could be tough to sustain traction below mid-4.65 on weak CNH.
- 10) PHP: Risk of testing 59 levels if US data remains hot and Fed hawkish; while BSP interventions appear rather modest.
- 11) KRW: Amid UST yields assertions, samsung strike woes and equity outflows led to underperformance. Standalone recovery prospects for next week remain dim as headline CPI decline to allow pondering of 2024 cuts.
- 12) TWD: As expected, relative rate pressures return and sent the TWD weaker. Domestic political woes remain a concern even as tech sector recovery is a silver lining.

prices may assist to buoy USD into 60 cents in the coming week.

Bond Yield (%)

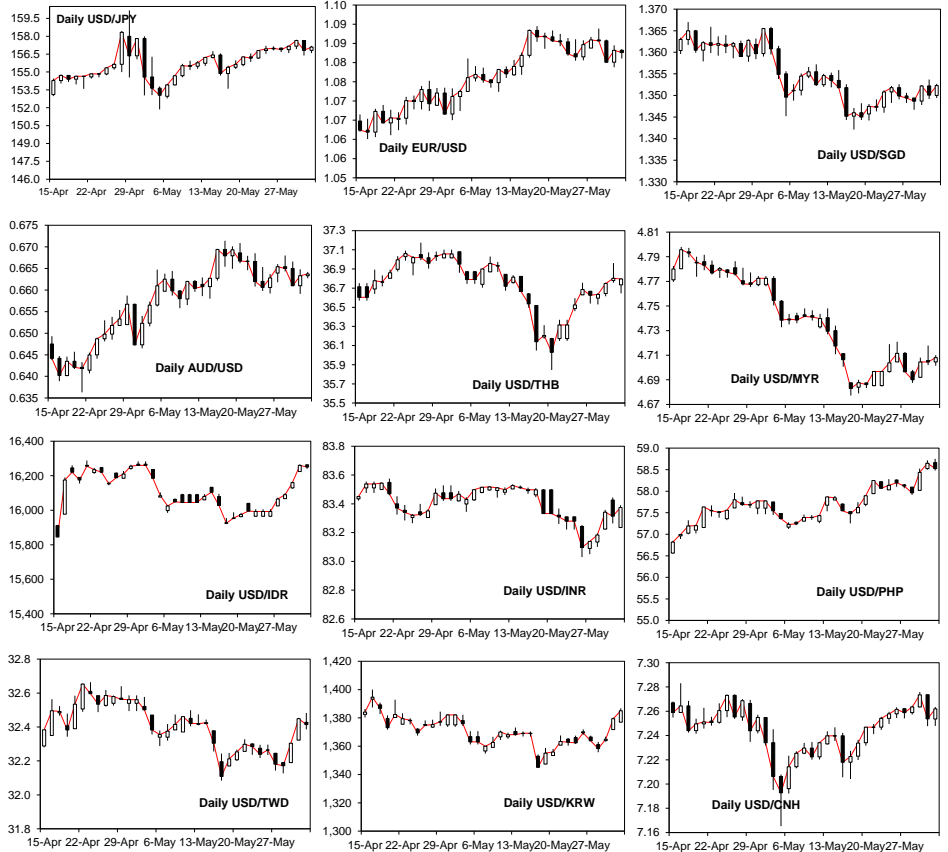
28-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.941	-0.5	4.556	9.1	Steepening
GER	3.088	0.7	2.667	8.5	Steepening
JPY	0.392	6.3	1.058	6.4	Steepening
SGD	3.366	-5.1	3.338	7.5	Steepening
AUD	4.115	7.6	4.405	0.1	Flattening
GBP	4.448	-3.4	4.359	9.9	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,235.48	-1.31
Nikkei (JP)	38,487.90	-0.41
EuroStoxx (EU)	4,983.68	-1.03
FTSE STI (SG)	3,333.65	0.52
JKSE (ID)	6,969.85	-3.50
PSEI (PH)	6,433.10	-2.82
KLCI (MY)	1,600.70	-1.15
SET (TH)	1,345.52	-1.39
SENSEX (IN)	74,071.69	-1.78
ASX (AU)	7,701.74	-0.33

UST: Eerie Silence

- This week, the UST yield curve steepend as 10Y yields rose while 2Y yields flatlined.
- While the obvious reason is a poor performing UST auction showing subdued demand, the underlying drivers are worth pondering.
- Admittedly, while the front end attractiveness remain undeniable, longer term fiscal worries are perhaps top of mind especially amid lower oil prices.
- For the upcoming week, we brace for outsized moves.
- A combination of economic activity softening from the PMI and labour markets could easily set off a slump in UST yield slippage.
- On balance, we expect further yield curve steepening on account of lower front end yields with 2Y yields in the 4.8-5.0% region while 10Y yields may remain buoyed above 4.4%.



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