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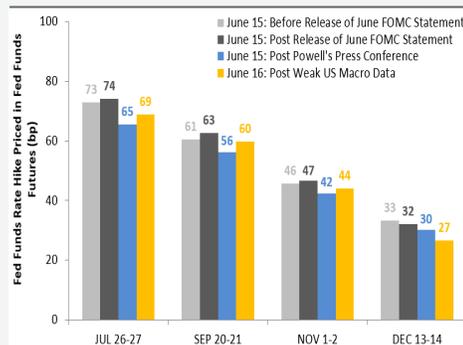
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Overview

- The US economy is now under rising downward pressure when the Fed remains on track to tighten its monetary policy to curb the still-elevated inflation
- It appears investors are switching their attention between an elevated inflation and an economic slowdown in line with the US economic/financial calendar, strengthening or weakening the DXY Index alternately and accordingly
- The DXY Index is likely to trade around the 104 level with some downside potential towards 102, with weak macro data reviving concerns over a stagflation/recession in the US economy
- Meanwhile, we stay cautious as Powell may convey some hawkish messages next week when testifying before the Senate and the House at 10pm SGT on Wednesday and Thursday respectively

Fed Funds Futures Priced-in Rate Rises at Four Remaining 2022 FOMC Meetings



Source: Bloomberg & Scotiabank FICC Strategy

Stagflation Risks, UST Yields & DXY Index

Asia Overview — EM Asian currencies were mixed versus the dollar on Thursday. The SGD and JPY advanced 0.2% and 1.2% respectively amid a 9bp drop in the 10Y UST yield.

The CNY gained about 0.2% while the CNH dropped 0.2%. USD/CNH will likely trade between 6.6 and 6.8 at present. China's new home prices declined 0.17% mom in May, slowing from a 0.30% mom fall in the previous month. Nicholas Burns, the American envoy in Beijing, said during an online event on Thursday that China's stringent "zero Covid" policy of travel restrictions and city-wide lockdowns is likely to stretch into the beginning months of 2023. China's top planner NDRC said on Thursday that it has green-lit 48 fixed-asset investment projects with a combined value of CNY 654.2bn in the first five months of the year, marking a 215% surge from the same period last year according to Bloomberg. The KRW gained 0.3%. USD/KRW will likely trade between 1,260 and 1,300 at this stage. South Korea's export price index increased 23.5% yoy in May, while import price index surged 36.3% yoy amid the historic higher oil prices. South Korea will extend trading hours for its onshore FX market to 2:00am local time in a bid to attract more foreign investors, which may pave the way for the nation to be included in the MSCI World Index. Finance Minister Choo Kyung-ho said on Thursday that the government and the central bank will make efforts to stabilize FX and bond markets if needed. BoK Governor Rhee Chang-yong said on Thursday that the BoK will decide on monetary policy after assessing FX and bond market reaction when asked if a "big step" is needed. He added that the BoK is not considering holding emergency monetary policy board meeting. The South Korean government downgraded its economic growth forecast for this year and raised its inflation estimate, seeing GDP advancing 2.6% and consumer prices rising 4.7% in 2022. The TWD inched up amid equity inflows. USD/TWD will likely hover around the 29.5-30.0 range at the moment. The CBC delivered a smaller-than-expected increase of 12.5bp to its policy rate in combination with a 25bp RRR hike to reduce TWD 120bn of liquidity in the banking system. Governor Yang Chin-long said on Thursday that a weakening TWD reflects foreign sales of local stocks and is not related Taiwan-US interest rate gap.

The INR closed flat. USD/INR will likely fluctuate around the 78.0 level at present. The RBI said in its monthly bulletin on Thursday that India's neutral rate was somewhere between 0.8%-1.0% at the end of 2021, about 80bp lower than what prevailed in March 2015. India is proposing to settle trade with Russia in rupees, according to Bloomberg. The IMD said on Thursday that monsoon rains will improve in India in the next two to three days after a slow start in June. The IDR declined about 0.2%. USD/IDR is likely to trade between 14,600 and 14,800 at this stage. Indonesia will sell IDR 20tn of T-bills and bonds in auction on June 21. BI Governor Perry Warjiyo said on Thursday that the Indonesian central bank expects inflation to accelerate this year to reach 4.2%, above its 2%-4% target, due to persistently high commodity prices.

The MYR increased 0.2%. USD/MYR is likely to trade around the 4.40 level for now. Malaysian Prime Minister Ismail Sabri Yaakob on Thursday declined to comment on the timing of the general election but said the stable political situation in the country is allowing his government to focus on controlling inflation. Finance Minister Zafrul Aziz told reporters at the same event that Malaysia's 2022 forecasts for GDP expansion and inflation are on track, adding that the Fed's rate hike on Wednesday won't impact Malaysia in the medium term. The PHP edged down. USD/PHP is likely to fluctuate in a range of 53.0-53.5 at present. The BSP will "undertake necessary action to ensure" monetary settings are appropriate and consistent with its price and financial stability mandates. The THB fell around 0.2%. USD/THB will likely trade around the 35.0 support level. There's no current need for Thailand's Monetary Policy Committee to hold an ad-hoc meeting to raise interest rates, according to the University of Thai Chamber of Commerce. Thailand may allow bars, pubs and other entertainment venues to extend their hours beyond the current midnight limit to bolster its economy.

Regional equity indices diverged on Thursday. China's SHCOMP index declined 0.61% despite USD 485.3mn of equity inflows, while India's NIFTY50 index slid 2.11%. South Korea's KOSPI index rose 0.16% with foreign investors purchasing a net USD 211.8mn of Korean shares. In the meantime, Taiwan's TWSE index fell 1.00% although global funds added to their holdings in local main board shares by USD 31.1mn on Thursday. Malaysia's KLCI index and Indonesia's JCI index closed up 0.94% and 0.62% respectively. However, Thailand's SET index ended 2.04% lower amid USD 165.2mn of stock outflows.

EM Asia • The US economy is now under rising downward pressure when the Fed remains on track to tighten its monetary policy to curb the still-elevated inflation.

- The Philadelphia Fed Manufacturing Survey Index dropped further to a two-year low of -3.3 in June from 2.6 the prior month, below market estimate of 5.0. It indicates factory activity in the mid-Atlantic region contracted for the first time in two years in June.
- The New York Fed Empire State Manufacturing Survey showed that the headline general business conditions index rallied 10.4 points to -1.2 in June from -11.6 the previous month. However, the index for future business conditions fell four points to 14.0 this month from 18.0 in May.
- US housing starts plunged 14.4% to a seasonally adjusted annual rate of 1.549 million units in May, the lowest level since April 2021. Meanwhile, building permits in the US, a proxy for future construction, dropped 7.0% to an annualized rate of 1.695 million in May of 2022, the lowest level since September last year and well below forecasts of 1.778 million in a Bloomberg survey.
- US retail sales, a measure of spending at stores, online and in restaurants, fell a seasonally adjusted 0.3% mom in May, marking the first decline in month-over-month retail spending this year.

ISM US Manufacturing and Services PMI



Source: Bloomberg & Scotiabank FICC Strategy

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The DXY Index is likely to trade around the 104 level with some downside potential towards 102, with weak macro data reviving concerns over a stagflation/recession in the US economy. In addition, it has propped up the EUR that ECB President Christine Lagarde told euro-area finance ministers the ECB's new anti-crisis tool will kick in if the borrowing costs for weaker nations rise too far or too fast.

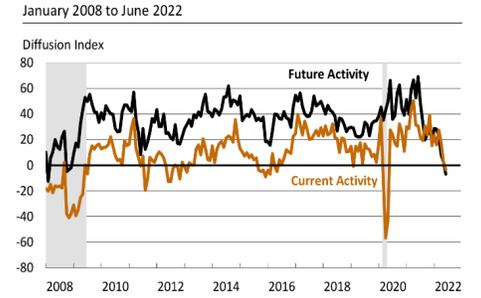
Meanwhile, we stay cautious as Fed Chairman Jerome Powell may convey some hawkish messages next week when testifying before the Senate and the House at 10pm SGT on Wednesday and Thursday respectively.

The DXY Index vs. US Economic/Financial Calendar



Source: Bloomberg & Scotiabank FICC Strategy

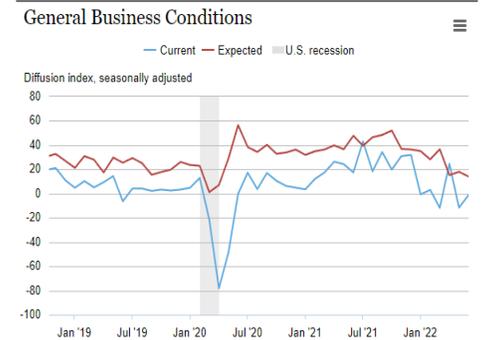
Philadelphia Fed Manufacturing Survey



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

Source: Philadelphia Fed

New York Fed Empire State Manufacturing Survey



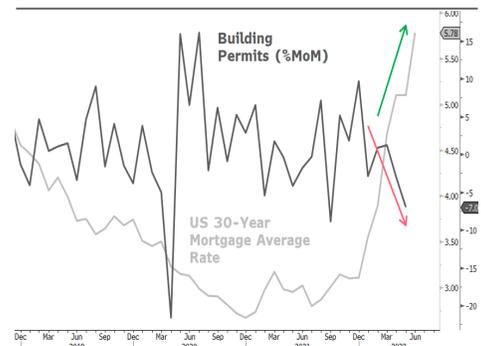
Source: New York Fed

US Retail Sales Growth vs. GDP Growth



Source: Bloomberg & Scotiabank FICC Strategy

Freddie Mac Primary Mortgage Market 30-Year Average Rate vs. Building Permits (%MoM)



Source: Bloomberg & Scotiabank FICC Strategy

TODAY'S CALENDAR

Time (HKT)	Economy	Type	Release	Period	Consensus	Actual	Last	Significance
06:30	NZ	PMI	BusinessNZ Manufacturing PMI	May			51.2	med
08:30	SG	TRADE	Non-oil Domestic Exports SA MoM	May	2.1%		-3.3%	med-high
08:30	SG	TRADE	Non-oil Domestic Exports YoY	May	7.5%		6.4%	med-high
11:00	NZ	DATA	Non Resident Bond Holdings	May			58.6%	med
12:00	MY	TRADE	Exports YoY	May	30.3%		20.7%	med-high
12:00	MY	TRADE	Imports YoY	May	27.3%		22.0%	med-high
12:00	MY	TRADE	Trade Balance, MYR	May	\$20.00bn		\$23.50bn	med-high
15:30	TH	DATA	Foreign Reserves	Jun 10			\$229.6bn	med
15:30	TH	DATA	Forward Contracts	Jun 10			\$29.6bn	med
16:30	HK	JOB	Unemployment Rate SA	May	5.0%		5.4%	med

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