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Monthly Outlook

by OCBC Wealth Panel

A Soft Landing

Waiting for Rate Cuts

OCBC PREMIER BANKING

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A Soft Landing

Higher than expected inflation in the US for the third consecutive month this year gave investors pause as markets started to price in a more hawkish Federal Reserve (Fed) rate path. Sentiment was also fragile amidst geopolitical unrest in the Middle East which have pushed energy prices higher since mid-April.

The underlying strength of corporate balance sheets and robust job creation, however, are expected to sustain the economic expansion in the US. We now see a base case where the US will experience an economic soft landing and avoid a recession, which will be supportive of corporate earnings and risk assets. We would not be surprised to see long-end US rates retest higher levels on the back of sticky inflation and Fed's rhetoric turning more hawkish, but expect stronger fundamentals and continued earnings growth to offset the loss of support in valuations from lower rates.

In our tactical asset allocation, we maintain an overall Overweight position in equities, with an Overweight position in Japan and Neutral positions in US, Europe and Asia ex-Japan. In fixed income, we hold Overweight positions in Emerging Markets (EM) High Yield (HY) bonds, Developed Markets (DM) Investment Grade (IG) bonds, an Underweight position in EM IG bonds, and a Neutral position in DM HY bonds. We remain positive on gold, which is an effective portfolio diversifier amidst favourable drivers, such as central bank buying, US fiscal sustainability fears and anticipated rate cuts later in the yearr.

GLOBAL OUTLOOK

ELI LEE
Chief Investment Strategist, Bank of Singapore

Waiting for Rate Cuts

"While a soft landing for the US, firmer growth in Europe and resilient activity in China and Japan will benefit risk assets, uncertainty about monetary policy continues to be a key risk to the outlook."

- The global economy is seeing two conflicting changes this year.
- First, growth is becoming more balanced across the major economies.
- The US has begun to slow after the Fed's interest rate hikes in 2022 and 2023. But activity remains solid - so we no longer expect a mild recession in 2024 now. At the same time, growth has begun to pick up in Europe after the UK and Germany fell into recession last year. Purchasing manager indices (PMI) - a key survey of confidence - have reached their strongest levels in a year as falling inflation supports consumption. We thus see GDP growth beginning to improve in Europe after last year's weak expansions.
- Similarly, activity in China and Japan is proving more resilient than feared at the start of the year. The Chinese government remains on track to achieve its annual target of "around 5% growth" after 1Q24 data showed GDP expanded by 5.2% compared to a year ago while April's PMI survey hit its highest level for a year in Japan.
- Second, inflation, in contrast, is proving more challenging causing investors to scale back their expectations for interest rate cuts. For example, we think the Fed will now only reduce interest rates twice this year, starting in 3Q24, as firm US growth has kept inflation well above its 2% target. At the start of 2024, we thought three cuts were likely to the fed funds rate of 5.25-5.50%.
- Thus, while a soft landing in the US, firmer growth in Europe and resilient activity in Asia will benefit risk assets globally, uncertainty about monetary policy continues to be a key risk to the outlook. Further rate cut delays would test financial markets. But importantly we do not expect central banks to re-start rate hikes - a development that would cause major declines in equity and bond markets around the world.

US – Three key changes to the outlook

- The US economy has begun to slow after the Fed's rate hikes but growth still remains solid. We thus make three key changes.
- First, we no longer expect a mild recession this year. In 1Q24, GDP expanded at a 1.6% annualised rate - sharply lower than its fast growth in 3Q23 and 4Q23 - as inventories, imports and the fading impact of America's large budget deficit slowed activity. But consumption and investment were firm showing underlying demand is still strong. We expect annual GDP growth will slow from 2.5% in 2023 to 2.1% in 2024 as fiscal stimulus and pandemic savings ease. But instead of a recession, the US seems set for a soft landing of easing growth, falling inflation and Fed rate cuts.
- Given the uncertain outlook after the pandemic, we ascribe the following probabilities for the US.

- **No Landing (20%)** – growth remains strong, core inflation stays nears 3%, the Fed keeps interest rates high, and the economy avoids a recession.
- **Soft Landing (50%)** – growth slows, core inflation falls below 3%, the Fed cuts rates and the economy avoids a recession.
- **Mild recession (20%)** – growth slows, core inflation falls below 3%, the Fed cuts interest rates but the economy shrinks for two quarters.
- **Hard landing (10%)** – growth slows, core inflation stays near 3%, the Fed keeps interest rates high, the economy suffers a deeper downturn later.
- Second, we think the Fed will only reduce interest rates twice this year, starting in 3Q24, as firm growth has kept core inflation well above its 2% goal. Third, we think fewer Fed rate cuts and a soft landing rather than a recession makes it unlikely 10Y US Treasury (UST) yields will fall back to last year's lows of 3.25%. We thus raise our 12-month forecast to 3.75%.
- A soft landing will support risk assets. But investors should still favour DMIG Bonds to hedge against the uncertain outlook this year. The key risks now to bonds are whether the Fed will resume rate hikes to curb inflation or an oil shock from the Middle East. The Fed, however, seems willing to be patient on inflation and thus appears unlikely to shock 10Y US Treasury yields higher from their current levels by deciding to increase interest rates again this year.

China – Firmer growth despite weak spots

- For the second quarter in a row, China's GDP expanded in line with the government's annual target of "around 5% growth". In 1Q24, the economy was 5.3% larger than a year ago, slightly up from its 5.2% year-on-year (YoY) growth rate in 4Q23.
- The latest data supports our view that China's lacklustre reopening from the pandemic last year was not the start of a prolonged period of stagnation. Instead, we expect GDP growth for 2024 as a whole will be solid at 5.0% after the economy expanded by 5.2% in 2023.
- The 1Q24 GDP report and March's data show China's weak spots remain. Consumption has dimmed after three years of lockdowns with retail sales only rising 3.1% YoY. Credit growth is also weak, up only 8.7% YoY as demand for new loans remains subdued, and confidence in real estate continues be low. Investment in the sector contracted sharply by 9.5% YoY in March.
- But business sentiment is picking up again. Manufacturing and infrastructure investment increased 9.9% YoY and 6.5% YoY in March supported by stronger government borrowing for strategic industries. April's PMIs showed manufacturing confidence in expansionary territory for the second month in a row after a full year of contraction. We thus see stabilising growth putting a floor under risk assets this year after China's financial markets fell from 2021 to 2023.

Europe – Waiting to cut interest rates

- This year, growth has begun to pick up in Europe with PMIs at their strongest levels in a year as falling inflation supports consumption. We thus see GDP growth beginning to improve in Europe after last year's weak expansions and recessions.
- Firmer growth will support the region's financial markets. In addition, the two largest central banks - the European Central Bank (ECB) and the Bank of England (BOE) - both remain on track to start cutting interest rates this

summer as inflation recedes. We expect the ECB will make three 25 basis point (bps) quarterly cuts to its 4.00% deposit rate from June while the BOE will likely start in August reducing its Bank Rate from 5.25%. Firmer growth and lower interest rates will benefit European risk assets this year.

Japan – The BOJ was dovish in April after its March hike

- Last month, the Bank of Japan (BOJ) kept its overnight call interest rate at 0.00-0.10% - as widely expected - after raising interest rates at its prior meeting in March for the first time since 2007. But the BOJ kept a surprisingly dovish stance to the benefit of Japanese equities.
- First, the BOJ issued new forecasts predicting core inflation would settle around its 2% target but said it would continue with quantitative easing as agreed at its meeting in March.
- Second, the central bank said monetary conditions would need to stay loose to support the economy and third, Governor Ueda played down the weakness of the Yen on inflation.
- We think dovish officials may only consider one further 15-25bps rate hike now this year, raising the BOJ's overnight rate from 0.00-0.10% to either 0.15-0.25% or 0.25-0.35% to keep lightly curbing inflation. The BOJ is therefore set to continue supporting Japan's equities this year.

Global growth outlook

%	2020	2021	2022	2023	2024
Developed Markets	**-4.0**	**5.7**	**2.5**	**1.6**	**1.4**
US	-2.2	5.8	1.9	2.5	2.1
Eurozone	-6.2	5.9	3.4	0.5	0.6
UK	-10.4	8.7	4.3	0.1	0.5
Japan	-4.2	2.6	0.9	1.9	0.8
Asia-4	-0.5	5.8	2.2	1.5	2.8
Emerging Markets	**-2.0**	**6.9**	**4.0**	**4.3**	**4.2**
China	2.2	8.1	3.0	5.2	5.0
India	-5.9	9.4	6.5	7.7	6.7
ASEAN-4	-4.4	3.5	5.6	4.3	4.5
World	**-2.8**	**6.4**	**3.4**	**3.3**	**3.1**

Asia-4 covers Hong Kong, Singapore, South Korea and Taiwan.
ASEAN-4 includes Indonesia, Malaysia, Philippines and Thailand.
Source: Bank of Singapore

Interest rates forecasts

%	3M	6M	12M
Forecast for US interest rates			
Fed Funds Rate	5.25-5.50	5.00-5.25	4.50-4.75
2-Year US Treasury	4.75	4.00	3.50
5-Year US Treasury	4.55	4.00	3.60
10-Year US Treasury	4.50	4.00	3.75
30-Year US Treasury	4.60	4.00	4.00
Forecast for US SOFR swap rates			
2-Year Rate	4.65	3.90	3.50
5-Year Rate	4.30	3.90	3.60
10-Year Rate	4.10	3.90	3.75
30-Year Rate	3.90	3.90	4.00

Source: Bank of Singapore

EQUITIES

ELI LEE
Chief Investment Strategist, Bank of Singapore

Broader Fundamentals Remain Intact

"We would not be surprised to see some near-term volatility, especially if long-dated yields continue to rise, but the broader equity bull market remains intact. Thus, we view any meaningful pullbacks as opportunities to add equity exposure."

- After a strong start to the year, global equities hit a road bump in April. Risks related to geopolitics and "higher for longer" rates provided the catalysts for some profit taking. In contrast, Chinese equities performed relatively well in April, especially H-shares which experienced a broad-based rally led by the Internet, Real Estate and Consumer Discretionary sectors. We continue to hold a positive watch on the Chinese and Hong Kong equity markets as we look out for signs of a sustained recovery amidst a ramp up in policy measures by the authorities.
- As for developed markets, despite recent investor jitters, we believe that the broad fundamentals of the equity rally remain intact given the peak of the global rate cycle and a soft-landing base case. The 1Q24 earnings season could re-focus investor attention on resilient underlying fundamentals. We would view any meaningful pullbacks as buying opportunities for the longer-term investor.
- Given that we now expect the Fed to start cutting rates in the third quarter with only two cuts in total for the year, we are adding more cyclical exposure in our sector preferences by upgrading our positions in Materials to Overweight and Consumer Discretionary to Neutral. At the same time, we are downgrading our position in Utilities to Neutral.

US – Looking through the volatility and staying the course

- It was a volatile month for US equities in April, largely due to the hotter-than-expected inflation prints, the subsequent surge in US Treasury yields, as well as disappointing results from a number of tech bellwethers. The recent increase in geopolitical tensions in the Middle East has also contributed to further uneasiness amongst investors.
- While we do not rule out a short-term pullback, we also see positive countervailing factors that can help support markets.
- On the macro front, we now expect the US economy to avert recession and achieve a soft landing instead. As such, our macro team has increased our US GDP forecast this year from 1.5% to 2.1%. Past cycles have shown that an equity rally can accompany rate cuts that are induced by disinflation rather than faltering growth.
- In this latest 1Q24 reporting season, we also see indications that consumption is broadly holding up. Visa's management, for instance, noted that they are seeing relatively stable US payments volume growth, with consumer spend across all segments being relatively stable as well.
- We maintain our Neutral position

on US equities at this juncture. We continue to recommend investors to look for opportunities outside of Magnificent Seven into the rest of Tech sector as the rally matures and broadens, and also other sectors such as Materials, Healthcare and Consumer Staples.

Europe – Mixed prospects ahead

- After a healthy run year-to-date, European equities pulled back in April due to a confluence of factors such as geopolitics, and higher for longer global interest rates. · If companies deliver or exceed expectations during the 1Q24 reporting season this could help shift the market narrative to the more positive end of the spectrum, but fundamental weakness could dampen hopes of any economic recovery and relative earnings resilience.
- It is also noteworthy that the fiscal impulse is clearly turning negative, as Europe returns to its fiscal rules which were de-activated during the Covid-19 pandemic and energy crisis. As such, countries with budget deficits above 3% will need to consolidate their finances, and they include Italy, France, Belgium, and Finland. Although Germany is not in the list, there will also be fiscal consolidation due to its own national debt fiscal rules that have to be abided by. Hence, while a pick-up in global growth would benefit Europe, there are opposing factors that would be a drag on European growth as well. We maintain our Neutral position on European equities.

Japan – Awaiting full-year results which could bring better disclosures and guidance

- April was a highly volatile month for equity markets and Japanese equities were similarly not spared. What also caught us off guard was the sharp depreciation of the Yen against the US Dollar, despite the recent move by Bank of Japan (BoJ) to hike its benchmark rate for the first time in almost two decades. As such, our highlighted preference for domestic-oriented Japanese companies will need to take a longer time to play out given the negative earnings impact from a weak Yen.
- We look forward to the upcoming earnings season where we could see an improvement in corporate governance disclosures and communication on dividend and share buyback policies ahead. There was also encouraging data from the Japan Securities Dealers Association (JSDA), which showed a significant increase in new Nippon Individual Savings Account (NISA) openings and value traded in 1Q24.

Asia ex-Japan – Macroeconomic landscape taking centre stage

- The macroeconomic environment has taken centre stage in shaping the performance of the equity markets in the near term, given the volatile moves in the 10Y US Treasury yields and currencies. Bank Indonesia surprised with a rate hike of 25bps to 6.25% on 24 April in a bid to support the Rupiah. We believe the equity markets of Taiwan, Hong Kong and South Korea have higher negative sensitivity to US real rates, while this sensitivity is lower for India. The country is holding its elections from 19 April to 1 June 2024 in seven phases. The robust manufacturing and services PMI provide a positive signal to India's economic growth outlook, while 2024 consensus earnings per share (EPS) growth of 16% for MSCI India appears respectable. For

the overall MSCI Asia ex-Japan Index, consensus is forecasting growth of 21% for 2024 and 16% for 2025. In terms of 2024 earnings revisions since the start of the year, this has increased the most for the MSCI indices of Philippines, Taiwan, and India. On the other hand, Hong Kong, China, and Thailand experienced the largest downward revisions in their Earnings Per Share.

Global Sectors - Reflation rotation with rising risk-off sentiment in some sectors

- Reflation trades have been in vogue due to looser financial conditions, as seen from the outperformance of the Energy and Materials sectors since March. However, while Energy still led in April, there was a rise in risk-off sentiment which led to the outperformance of the defensive sectors, such as Utilities and Consumer Staples.
- As we now expect the Fed to start cutting rates later in 3Q24, with only two cuts this year, we downgrade our position in the Utilities sector (which generally trades like a bond proxy) from Overweight to Neutral, while keeping our Overweight positions in the relatively defensive sectors of Healthcare and Consumer Staples.
- We also upgrade our position in Consumer Discretionary to Neutral as we view the sell-off as overdone and turn less negative on the sector as economic prospects look less dim than earlier expectations. Similarly, we upgrade our position in Materials to Overweight, with the sub-sector of metals and mining looking especially more attractive given the disconnect in valuations of gold miners compared to where gold prices are currently trading, while the outlook for copper continues to look bright given its important role in the energy transition along with supply challenges in the meantime.
- As for Tech, there was significant volatility over the past month. Apart from macro and geopolitical concerns, disappointing guidance and/or earnings scorecards from bellwethers like ASML, TSMC and Meta Platforms have caused investors to re-evaluate relatively heavy positioning in some of these names. However, we think it is important to see some of these results in context. For instance, TSMC's results, and management commentary continue to point towards strong demand for AI-related products, which is an important insight for numerous semiconductor names leveraged to this theme.
- Key semiconductor names across Europe and the US also indicate that important end markets like autos and personal electronics that have been under pressure for some time, are likely approaching the trough. We continue to remain constructive on Tech and maintain our preference for names that retain exposure to secular themes while still exhibiting a Growth-At-Reasonable-Price (GARP) tilt.

HONG KONG / CHINA MARKET OUTLOOK

ELI LEE
Chief Investment Strategist, Bank of Singapore

Supporting Measures to Revive Capital Markets

"Policymakers announced a series of measures for the long-term development of capital markets."

- Policymakers announced a series of measures for the long-term development of capital markets. The State Council's "9-point" guideline has a focus on "supervision and high quality", aiming to revive China's capital markets. In addition, the CSRC announced "5-measures", including further expansion of the Connect scheme to support Hong Kong's capital market. The Hang Seng Index and MSCI China Index have outperformed the broader Asia ex-Japan market in April.
- Looking ahead, we believe 1Q24 earnings would shed more light on whether earnings downgrades are bottoming or not. Consensus earnings estimates for MSCI China have been revised down from January and are getting closer to our expectations. Our Hang Seng Index targets are 18,700 under our base case forecast, 20,800 for the bull case and 15,800 for the bear case.
- With continued uncertainty in the rates and growth outlook, we advocate focusing on the key investment themes of: i) proliferation of generative artificial intelligence (AI), including internet and IT, ii) quality growth and market leaders amid a bumpy recovery, and iii) quality plays with decent yield to weather volatility.

BONDS

VASU MENON
Managing Director, Global Wealth Management, OCBC Bank

Higher for Longer

"While we maintain a preference on the longer end of the curve to position for an eventual rate cut, we recommend adding along the front end of the yield curve in a higher-for-longer rates environment. We think a barbell strategy will better prepare portfolios for a wider range of economic outcomes."

- In fixed income, we hold Overweight positions in Emerging Markets (EM) High Yield (HY) bonds, Developed Markets (DM) Investment Grade (IG) bonds, an Underweight position in EM IG bonds, and a Neutral position in DM HY bonds.
- We think investors should consider positioning fixed income portfolios for an elevated inflation and a soft-landing environment. We recommend investors diversify their duration strategy by adding along the front end of the yield curve in a "higher for longer" rates environment.
- While we maintain a preference for the longer end of the curve to position for rate cuts, we think a barbell strategy will better prepare for a wider range of economic outcomes while also taking advantage of a flat yield curve. We think investors can capture incremental yield at the front end by going down the rating spectrum (including HY), while using high quality duration names at the long end.
- The front end also provides the highest buffer against rates volatility and would need to see spreads widening materially to result in total return losses.

Developed markets

- Spreads exhibited resilience in April, brushing off geopolitical developments and rates volatility. With US Treasury yields moving higher, the yield for DM IG rose 38bps over the month to 5.77%. The attractive yield levels will likely keep demand robust, limiting material spread widening.
- A delayed start to the easing cycle suggests that corporate borrowers will be incentivised to manage capital conservatively, like last year. While the consumer segment has remained resilient in the current high interest rate environment, eventually the impact from high rates will affect low-end consumer and over-leveraged capital structures, extending to the broader economy in due course. We advocate for a defensive positioning, preferring DM IG and steering away from the bottom of the barrel quality.

Emerging markets

- Spreads in EM have tightened consistently on stable fundamentals, soft landing optimism and easing financing condition. We maintain an Overweight position on EM HY given attractive valuations – as it is well above the 10Y average over DM HY. We have a Underweight positioning on EM IG as we expect it to underperform on a relative basis given the lack of spread over DM IG.

Asia

- We maintain an Underweight position in Asia IG, primarily driven by the limited spread pick-up over US IG. Having said that, the relatively shorter average duration for Asia IG

should help the segment better navigate rates volatility. Credit fundamentals for most issuers remain stable and market technicals stay supportive.

- In contrast, we are keeping our Overweight position for Asia HY and continue to like better quality names within the segment. Year-to-date, China HY has outperformed, driven by better sentiment and optimism for more policy support.
- We continue to expect more policy easing and support for the property sector. Specifically, we will be watching out for effective implementation of measures on inventory destocking, potential setup of a nation-wide platform to acquire stalled projects to convert to social housing, and potential economic reforms at the upcoming Third Plenum in July.
- We continue to like the Indian HY renewable energy sector which stands to benefit from an increasing share of renewables in the country's energy mix over time.
- As for Indonesia, currency weakness has triggered Bank Indonesia to hike policy rates by 25bps at its latest policy meeting. With US Dollar-Indonesia Rupiah (IDR) cross rate remaining weak at levels above 16,000, we will be monitoring for any potential impact on corporates more vulnerable to IDR depreciation. We remain constructive on Indonesia quasi-sovereigns but note that the relatively longer duration of this segment would make them more vulnerable to rates volatility.

FX & COMMODITIES

VASU MENON
Managing Director, Global Wealth Management, OCBC Bank

Positive on Gold

"We remain positive on gold, which is an effective portfolio diversifier amidst favourable drivers, such as central bank buying, US fiscal sustainability fears and anticipated rate cuts later in the year."

Oil

- Elevated OPEC+ spare production capacity should help limit the risk of a sustained break of Brent oil over US$100/barrel (bbl). OPEC recently reiterated its supply policy, with recent production cuts extended until the end of June. However, that leaves it with approximately 6 million barrel per day of spare capacity. OPEC+ could gradually raise production in 3Q24 given current high spare capacity, which in turn could cool the oil market. The probability of production increases by OPEC+ will likely rise further if supply were disrupted elsewhere.
- Our base case is for tensions to remain high in the Middle East but stop short of meaningful escalation. The muted reaction by Iran to the measured nature of Israel's response to direct attack by Iran suggests that the risk of conflict escalation remains in check, at least for now. We kept our 3-month Brent forecast unchanged at US$89/bbl. But higher geopolitical risk does mean that oil prices will stay high for longer and may be slower to ease off in response to growing non-OPEC supply. We have lifted our 12-month Brent oil forecast to US$80/bbl from US$75/bbl.

Gold

- Robust portfolio construction and diversification represent the first line of defense for investors worried about geopolitics. As a proxy for safety, gold is most valuable in periods of prolonged geopolitical uncertainty. Our broad view of gold coming into this year has been constructive, and the hedging value for geopolitical risk has been an important part of that case.
- Besides being a reliable hedge against negative geopolitical shocks, gold could enjoy further tailwinds once the Federal Reserve rate cut cycle gets going. We have lifted the 12-month gold price target to US$2,500/ounce. We expect the Fed to start cutting rates in 3Q24 and see two cuts this year.
- There are structural shifts in demand that will support gold, independent of the macro backdrop. First, central banks in Emerging Markets have stepped up gold buying after the US weaponised the US Dollar in its sanctions against Russia for its invasion of Ukraine in 2022. Second, retail gold buying in China has increased as returns from property and stock market investments disappoint, and deposit rates remain low. Third, renewed focus on fiscal deficits and rising debt-to-GDP ratios in the US ahead of the Presidential elections in November can be seen as another feature of brewing structural fear with a positive influence on gold.

Currency

- The US Dollar (USD) Index (DXY)

closed 1.7% higher for the month of April. Stronger-than-expected US payrolls and inflation reports led to another round of hawkish repricing for the Fed funds rate in future. As of 30 April, markets have pushed back the timing of the first US Federal Reserve (Fed) rate cut to November 2024 (from July previously) and for the year, a cumulative 35 basis points (bps) of cuts versus 67bps expected a month earlier.

- The divergence in US inflation versus the rest of the world, including Europe, Switzerland, Canada and China has also resulted in a deepening of Fed policy divergence versus other central banks including the European Central Bank (ECB), Swiss National Bank (SNB), Bank of Canada (BOC) and the Chinese central bank (PBOC). This is also adding to USD strength. Given the USD's yield advantage and the US exceptionalism narrative, the USD may continue to stay supported until US data starts to show more signs of softening or when the Fed's hawkish rhetoric softens. For the year, we still expect the USD to trend slightly lower towards year-end once the Fed is done tightening and embarks on a rate-cut cycle in time.
- The Euro (EUR) partially reversed early-month losses in April after data supported the view that growth conditions in the Euro-area and Germany may be showing signs of stabilisation. Elsewhere, geopolitical tensions in the Middle East eased somewhat, which benefits the energy-dependent Euro-area. Comments from various ECB officials have pointed to a June rate cut, but the rate path trajectory beyond that remains uncertain. As of 29 April, markets have largely priced in a first rate-cut occurring at the ECB's next policy meeting on 6 June, and for the year, markets priced in three rate cuts. While markets may have largely priced in ECB rate-cuts into the EUR, a re-rating of the growth outlook for the Euro-area economy is probably not priced in. And lately, there are signs to suggest a stabilisation in the Euro-area's growth. ECB's Lagarde and the Bundesbank have recently spoken about signs of activity gathering pace in Germany. A better growth story for the Euro-area means that aggressive rate-cut expectations from the ECB could see a pushback – which is supportive of the EUR.
- The USD-Japanese Yen (USDJPY) cross rate has been more choppy than usual recently. Price action has also spurred market chatter of JPY intervention. There was no confirmation as top currency official Masato Kanda declined to say if the authorities intervened. But initial estimates based on the Bank of Japan's (BOJ's) daily reporting of current balances suggested intervention of about Y5.5tn on 29 April. Given the still wide gap between US Treasury yields and Japanese Government Bond yields amid Fed-BOJ policy divergence, dips in the USDJPY may still find support. A combination of the BOJ demonstrating urgency to normalise policy and the Ministry of Finance (MOF) conducting currency intervention may perhaps be more effective than the MOF doing a solo. Of course, a less strong USD will be helpful to the JPY. This will be dependent on US data. Near term, we still do not rule out two-way swings as markets may make another attempt to test the JPY. But we reckon that the authorities should at least attempt to limit the high (i.e. lower the highs to ensure

that intervention efforts are not wasted). Over the medium term, we expect USDJPY to trend gradually lower on expectations that the next move from the Fed is a rate-cut and that the BOJ has room to further pursue policy normalisation amid higher services inflation and wage pressures in Japan.

- The combination of high for longer interest rates in the US, geopolitical risks, and renewed volatility in the Chinese Renminbi (RMB) and JPY may impact most Asian currencies in the near term. In particular, the Asian currencies that are highly sensitive to energy prices, yield and China factors are the Korean Won (KRW), Taiwanese Dollar (TWD), JPY and Thai Baht (THB). That said, policymakers in the region are also seen taking a more proactive stance in smoothing out the one-sided moves. On 18 April, there was confirmation of a G7 statement on currencies, a joint statement issued by the finance ministers of Japan, Korea and the US on currencies, along with the PBOC commenting on the RMB. It may not be akin to the 1985 Plaza Accord, but a G7 statement commenting on currency moves may be good enough to setup a psychological resistance for USD. It was not just the G7, but the PBOC and Bank of Korea (BOK) amongst regional central banks weighing in (it felt like coordinated verbal intervention). This should provide an extended breather for some of the worst-hit regional currencies such as KRW and JPY, and calm sentiment towards the RMB. This will also help to support the MYR. The last time the G7 warned against currency volatility was on 12 October 2022, it coincided with a peak for the USD then.

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