

May 14, 2026

Three Take-Aways

1) Markets were buoyed (S&P500: +0.6%, UST yields contained) as **optimism about US-China deals** at the Trump-Xi Summit, **looked past Iran war** and **hot US PPI**.

2) To be sure, the immediate pass-through from PPI to PCE will be adequately dampened to contain reflexive rate hike risks.

3) But the troubling early signs of broadening a broader PPI spill-over will accentuate policy dilemma for new **Warsh** who **cleared Senate confirmation for Fed Chair**.

"But still there is much that is fair now mingled with grief" – Lord of the Rings

MACRO THEME: Hopes Over Hawks

- **Hopes of US-China deals** in the offing (at least momentarily) **trumped war hawks fretting precarious Iran stalemate** and the **threat of Fed hawks stirred up by inflation risks**.

- At a glance, **markets were decidedly "risk on"** – with the S&P500 up 0.6%, VIX down (0.3%) and UST yields by and large contained as Crude prices eased 1-2% (Brent: sub-\$106).

- Tellingly, the 1.2% surge in Nasdaq laid bare **optimism about US-China synergies with tangible commercial benefits**. *Especially for tech firms (over-)represented* in the Trump delegation* to Beijing.

* Jensen Huang (Nvidia – up 2.3%), Elon Musk (Tesla – up 2.7%), Tim Cook (Apple – up 1.4%)

Papers Over Problematic 'K'

- But **beneath the hood of glimmering hope** lurks real and present danger (and the attendant policy dilemma) of **highly divergent** and **dangerously uneven economic conditions**.

- The **1.3%-pt Nasdaq-Dow spread** a (*Dow slipping 0.1%*) overnight is but a **microcosm** of the underlying, and **highly problematic K-shaped economy**.

- Fact is, **growth** and **market euphoria** are **disproportionately driven** by the **tech sector and periphery fired-up by AI capex buildout** (real) and **earnings projections** (expectations).

- And this **papers over** the **pain** in **sectors without the "AI halo"** and **households**. Where already *lagging profit, wages outpaced by inflation* amid *lacklustre hiring* have been **acutely exacerbated by the "Iran crisis"**.

Sizzling PPI ...

- To that point, **"Iran crisis" has swung hard into factory gate inflation**, with *US PPI surging dramatically hotter* than expected**.

- Unsurprisingly, **energy shocks led** the way (*up 7.8% MoM*).

- **But** what was concerning was that the impact was **not confined to energy** as *transport and warehousing surged 5%*.

- The worry is that **nascent signs of broad PPI pressures** have **emerged more prominently** than expected.

** Headline/Core PPI up 1.4%/1.0% MoM (vs. 0.5%/0.3% expected), which is about three times the clip.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) PPI Final Demand/Ex Food and Energy YoY (4)	6.0%/5.2%	4.8%/4.3%	4.0%/3.8%
(EZ) GDP YoY/SA QoQ (1Q S)	0.8%/0.1%	0.8%/0.1%	0.8%/0.1%
(EZ) Industrial Production WDA YoY (Mar)	-2.1%	-1.7%	-0.8%
(JP) BoP Current Account Balance (Mar)	¥4681.5b	¥3896.1b	¥3932.7b
(AU) Wage Price Index QoQ (1Q)	0.8%	0.8%	0.8%
(KR) Unemployment rate SA (Apr)	2.8%	2.7%	2.7%

Today	Actual	Exp.	Prior
(US) Initial Jobless Claims		205k	200k
(US) Retail Sales Adv./Ex Auto and Gas MoM (Apr)		0.5%/0.3%	1.7%/0.6%
(IN) Wholesale Prices YoY (Apr)		5.5%	3.9%

... With Silver Lining

- Though markets *basking in the Trump-Xi Summit* have *ostensibly* chosen to **take comfort in the silver lining of limited core PCE pass-through**.

- What this means is that the **Fed need not reflexively hasten to hike** given their **preferred inflation measure is not imminently surging past policy thresholds**.

- Accordingly *Fed Fund Futures* have *barely nudged up rate hike prospects this year post-PPI*.

But No Silver Bullets (for Inflation)

- But the **silver lining are not silver bullets**.

- **Despite limited core PCE pass-through** (at this point), the **broader-than-expected PPI surge** suggests **corporates have no capacity and/or appetite to absorb price shocks**.

- Mainly as *sweeping price surges from the "Iran crisis" decimate capacity for strategic substitution*, rendering conditions *conducive for universal hikes* (without targeted consumer blowback).

- Point being, *if the situation is not turned around sharply*, the **direction of travel is for consumer inflation to head materially higher**.

- In which case, the **Fed would inevitably and unavoidably be confronted with sharp trade-offs** under *stagflation-type of pressures buffeting the economy*.

Warsh In, But (Dilemma) Not Washing Out

- This means **in-coming Fed Chair Kevin Warsh**, who was just confirmed by the Senate, **has his job cut out**.

- To be sure, the **initial phase of the "Warsh Fed"** may be a **"actively neutral", hold**, that *expressly swaps easing bias for two-way policy risks*.

- But further down, **binary risks (and attendant policy dilemma) will mount** amid opposing risks (to inflation and growth/jobs), rather than being washed out.

Trump-Xi Summit: (Not as) Big (a) Deal

- Meanwhile, expect that headline, **"feel good" exuberance** around the Trump Xi summit **may fade on the dearth of details**.

- To be sure, there will be *some "show and tell" deals in favour of US* (with China to "buy US") and *quid pro quo by the US* (in terms of regulatory/geoeconomic concessions).

- What's more, announcement of reciprocal Xi visit planned for US later could further boost the mood.

- **But** the talks, likely to focus on trade, with Iran, Taiwan and AI, will **ultimately be limited** in scope for true synergies **given strategic geoeconomic impediments**. Upshot being, a *collection of tactical deals is not a grand bargain* (for collective good) to make a big deal about.

Yields (2Y: -1.1bp; 10Y: +0.6bp; 30Y: +1.0bp)

Equities (Nasdaq: +1.2%; S&P500: +0.6%; Dow: -0.1%)

FX (DXY: +0.2%)

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	157.86	157.86	+0.15%	156.90 - 159.00
EURUSD	1.1711	1.1716	▼0.24%	1.1630 - 1.1800
GBPUSD	1.3523	1.3527	▼0.13%	1.3400 - 1.3600
AUDUSD	0.7258	0.7253	+0.25%	0.7200 - 0.7320
DXY	98.5	--	+0.23%	97.9 - 99.3
USDCNY	6.7906	--	▼0.09%	6.7600 - 6.8300
USDCNH	6.7874	6.7860	▼0.05%	6.7600 - 6.8300
USDHKD	7.8301	7.8294	+0.02%	7.8150 - 7.8500
USDSGD	1.2727	1.2724	+0.06%	1.2660 - 1.2800
USDKRW	1489	1490	+0.00%	1480 - 1505
USDTWD	31.52	--	+0.06%	31.30 - 31.75
USDINR	95.71	--	+0.09%	95.20 - 96.30
USDIDR	17465	--	▼0.20%	17350 - 17600
USDMYR	3.931	3.9300	▼0.11%	3.900 - 3.950
USDPHP	61.39	--	▼0.13%	60.90 - 62.00
USDTHB	32.35	32.32	▼0.20%	32.1 - 32.6
USDVND	26348	26349	+0.05%	26180 - 26500

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	3.981	4.469	-1.1	0.6
JGB (JP)	1.385	2.580	-0.1	3.5
Bunds (GE)	2.707	3.100	-0.2	0.0
Gilts (UK)	4.481	5.064	-5.4	-3.7
AGB (AU)	4.742	5.062	0.6	3.0
SGS (SG)	1.548	2.046	-0.5	-1.5
CGB (CN)	1.267	1.745	-0.4	-0.8
KGB (KR)	3.514	4.044	-3.4	-1.2
SDL (IN)	6.164	7.049	-3.5	0.3

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7444.25	43.29	+0.58%
Nasdaq (US)	26402.34	314.14	+1.20%
DJIA (US)	49693.2	-67.36	▼0.14%
N225 (JP)	63272.11	529.54	+0.84%
STOXX50 (EU)	5861.07	52.62	+0.91%

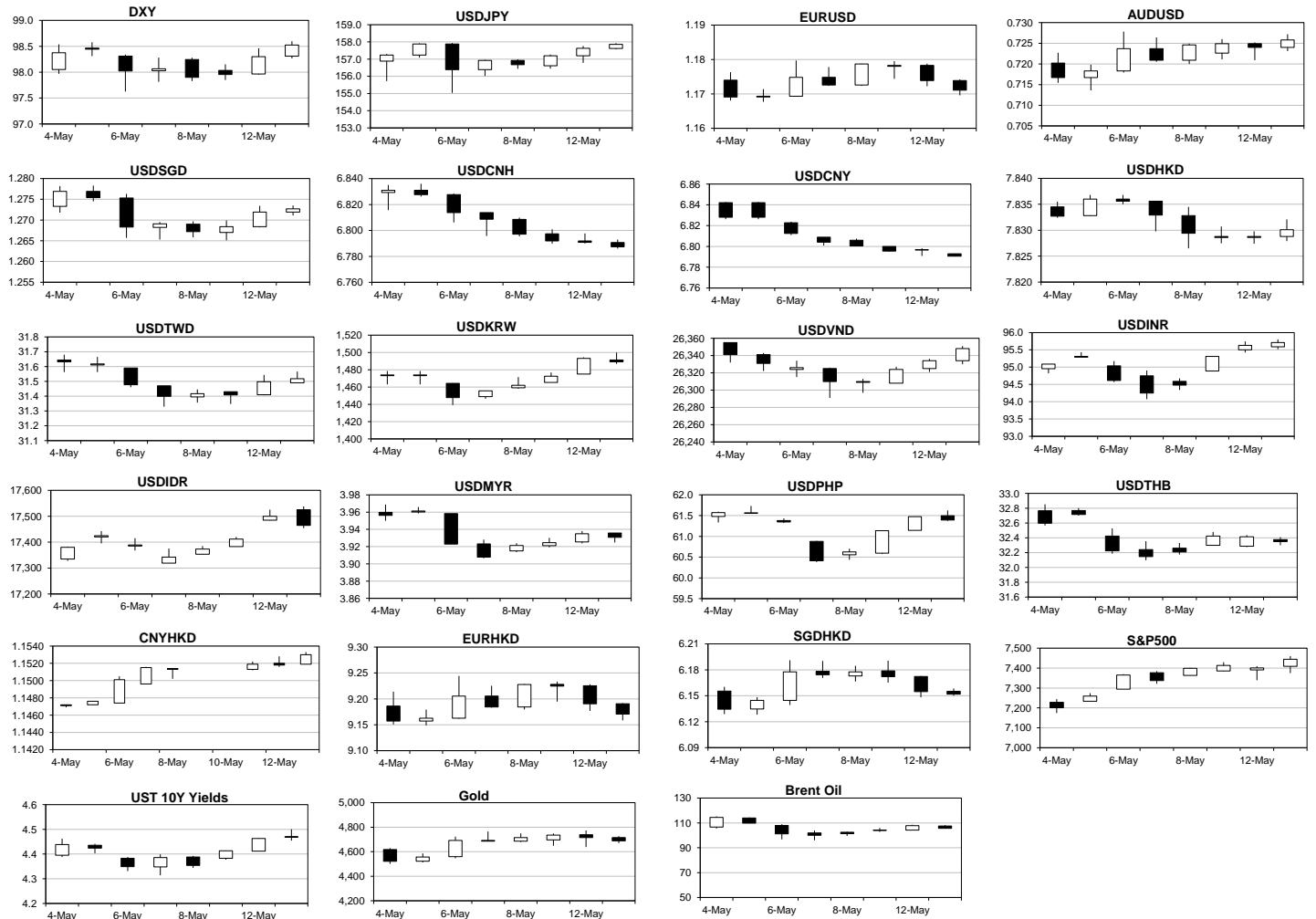
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	14,109.48	150.58	+1.08%
IRON ORE (CN)	111.48	0.59	+0.51%
GOLD	4,688.76	-26.37	▼0.56%
SILVER	87.55	0.02	+0.74%
OIL (BRENT)	105.63	-2.14	▼1.99%
OIL (WTI)	101.02	-1.16	▼1.14%
NATURAL GAS	2.86	1.09	+1.27%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	184.87	184.95	▼0.08%
GBP/JPY	213.49	213.529	+0.04%
JPY/SGD (100yen)	0.8061	0.806	▼0.11%
JPY/HKD (100yen)	4.9594	4.9597	▼0.16%
CNH/JPY	23.249	23.246	+0.27%
CNH/HKD	1.153	1.1529	+0.10%
EUR/GBP	0.86615	0.86615	▼0.09%
AUD/NZD	1.2226	1.2229	+0.50%
EUR/CNH	7.9476	7.9505	▼0.30%
GBP/CNH	9.1791	9.1791	▼0.18%
CNY/HKD	1.153	1.1529	+0.10%
EUR/HKD	9.1707	9.1729	▼0.22%
SGD/HKD	6.1518	6.1533	▼0.05%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5539.85	30.20	+0.55%
STI (SG)	5003.96	57.96	+1.17%
SHCOMP (CN)	4242.572	28.08	+0.67%
SZCOMP (CN)	2949.073	45.10	+1.55%
HSI (HK)	26388.44	40.53	+0.15%
SENSEX (IN)	74608.98	49.74	+0.07%
JSE (ID)	6723.32	-135.58	▼1.98%
KLSE (MY)	1746.31	-4.25	▼0.24%
PSE (PH)	5946.78	-25.20	▼0.42%
SET (TH)	1517.26	33.70	+2.27%
VNINDEX (VN)	1898.37	0.00	▼0.14%

CHARTS



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