

May 18, 2026

Three Take-Aways

1) Little progress on the Middle East situation post Trump-Xi summit sent oil prices soaring. UST yields rose and US equities sank.

2) Volatility set to persist as headlines such as drone attacks, military briefings to Trump, transit negotiations with Iran and social media threats collide.

3) Thailand Q1 GDP likely robust but weak economic momentum in the tourism sector clouds growth outlook.

MACRO THEME: Far, Not Fast

- Last Friday, post the Trump-Xi summit that revealed **little progress on the Middle East situation**, oil prices were sent soaring with Brent crude ending above US\$109 last week and led to a rise in UST yields which sank US equities.

- Notably, the rise in yields came in the form of a **bear steepener** to reflect worries about longer term inflation expectations alongside the rout in ultra long end JGBs (30Y) which had yields hit the record 4%.

- Inflation worries are set to worsen. Post Trump-Xi summit, the impasse appears to lack any obvious catalyst for resolution and reverts to headline volatility and watching social media posts.

- With US President Trump stating that the "**Clock is Ticking and they better get moving, FAST**, or there won't be anything left of them" in a social media post over the weekend, oil prices are opening higher to kick off the week.

- As we had flagged before, the **US and Iran positions remain far apart on many key issues**.

- Aside from the obvious nuclear issue which is said to reach a state that both US and Iran agree to postpone the topic, concessions such as reparations as well as unfreezing of Iranian assets are also demands that may not get a compromise.

- As such, even as Axios reports that Trump is waiting for an updated Iranian proposal, hopes should not be mistaken a fast resolution. Furthermore, it is said that **military options will be discussed on Tuesday**.

Making the Calls

- The control of Hormuz remains closely watched. While Iranian President Masoud Pezeshkian has said that the navigation conditions will return to normal, proposals in Iranian parliament to **charge transit fees** imply that accessibility may come at a much higher cost.

- Iranian media has signalled that European countries have begun negotiations with the navy for passage of ships following the passage of ships from China, Japan and Pakistan.

- While **Iran-Pakistan meeting continued over the weekend alongside call between Qatar and Iran** may incite hopes for a resolution, it is more likely to reflect the intensity of economic and geopolitical challenges from an extended impasse rather than signal progression on the stalemate.

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|---|-------------|------------------|------------------|
| (US) Empire Manufacturing (May) | 19.6 | 7.3 | 11.0 |
| (US) Industrial Production MoM (Apr) | 0.7% | 0.3% | -0.5% |
| (JP) Machine Tool Orders YoY (Apr P) | 45.1% | -- | 28.0% |
| (JP) PPI YoY (Apr) | 4.9% | 3.0% | 2.6% |
| (MY) BoP Current Account Balance MYR (| 15.2b | 16.7b | 2.0b |
| (MY) GDP YoY / SA QoQ (1Q F) | 5.4%/0.0% | 5.3%/0.3% | 5.3%/0.8% |
| (CH) BoP Current Account Balance (1Q P) | \$184.1b | -- | \$243.8b |
| (IN) Unemployment Rate (Apr) | 5.2% | -- | 5.1% |
| (IN) Exports / Imports YoY (Apr) | 13.8%/10.0% | -- | -7.4%/-6.5% |
| (PH) Cash Remittances YoY (Mar) | 2.3% | 2.5% | 2.6% |
| Today | Actual | Exp. | Prior |
| (TH) GDP YoY/SA QoQ (1Q) | | 2.3%/0.3% | 2.5%/1.9% |
| (CH) Industrial Production/Retail Sales YoY (Apr) | | 6.0%/2.0% | 5.7%/1.7% |
| (CH) Surveyed Jobless Rate (Apr) | | 5.3% | 5.4% |
| (CH) New/Used Home Prices MoM (Apr) | | -- | -100.0% |
| (SG) Non-oil Domestic/Electronics Exports YoY (Apr) | | 11.7%/-- | 15.3%/74.0% |

New Fronts?

- It is also worth noting that there are still episodes of drone attacks across the Middle East. A drone strike has caused a fire near UAE nuclear plant though there is no notable damage.

- Saudi Arabia has revealed that they have intercepted three drones from Iraq. Admittedly, this may be a sign of instability with Iraq given their new government formation rather than full alignment with Iran.

Summit Gains?

- Turning back to US-China summit outcomes, the White House fact sheet has detailed some of the deals.

- While China is said to have agreed to buy US\$17bn in agricultural goods, these amounts are likely reversions to pre-trade liberation amounts given that full commitments may not be fulfilled considering China's diversification efforts.

- The US and China have both confirmed the purchase of 200 Boeing aircrafts although specifics on models and timelines were missing.

- As for geopolitics, the agreement was on Iran not having a nuclear weapon rather than their ability to enrich uranium, hardly a ground breaking one.

Yields (2Y: +5.1bp; 10Y: +11.1bp; 30Y: +9.1bp)

Equities (Nasdaq: -1.5%; S&P500: -1.2%; Dow: -1.1%)

FX (DXY: +0.5%)

Thailand Q1 GDP: Past Relief, Slower Momentum

- We expect Thailand Q1 GDP to come in at around 2.5% YoY on the back of a moderate 0.5% QoQ expansion on a seasonally adjusted basis. **Domestic demand appears firmer at the margin** in Q1 with the private consumption index growth accelerating to 4.7% YoY from the 4.0% YoY in Q4 2025. That said, there is some flattering of this expenditure due to vehicle purchases ahead of the EV3.0 expiry.

- **Investment expenditure surge** on the back of outsize spending on machinery and equipment spending amid a very **resilient AI-led semi-conductor cycle**. On the same note, **external demand also remains robust** with nominal exports revenue growing 17.8% led by electronics.

- On balance, risk tilt towards the upside for this GDP print though the worry is that the **Middle East conflict portends slower growth momentum ahead**. **Tourism sector activity is likely to slow** with April arrivals reversing into contraction of 7.0% YoY with broad base declines from all major sources despite Songkran festivities.

- Aside from the 57% decline in arrivals from the Middle East that represents a direct hit, **higher fuel cost and flight can cellation may have dragged on arrivals** from the likes of Europe and Americas.

- While South East Asian arrivals also saw sharp contraction of 15.8% YoY, the silver lining may be in North Asia with continued recovery in tourist from China which grew 31.9% YoY. All in, while we expect a robust GDP print, downside risks for growth remain stark which implies that a BoT rate hold remains the base case for now.

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 158.74 | 158.87 | +0.23% | 156.90 - 160.00 |
| EURUSD | 1.1625 | 1.1613 | ▼0.38% | 1.1550 - 1.1700 |
| GBPUSD | 1.3326 | 1.3309 | ▼0.57% | 1.3250 - 1.3400 |
| AUDUSD | 0.7150 | 0.7130 | ▼0.98% | 0.7100 - 0.7220 |
| DXY | 99.3 | -- | +0.47% | 97.9 - 99.3 |
| USDCNY | 6.8127 | -- | +0.38% | 6.7600 - 6.8300 |
| USDCNH | 6.8139 | 6.8176 | +0.40% | 6.7600 - 6.8300 |
| USDHKD | 7.8308 | 7.8305 | ▼0.02% | 7.8150 - 7.8500 |
| USDSGD | 1.2805 | 1.2814 | +0.35% | 1.2700 - 1.2880 |
| USDKRW | 1502 | 1498 | +0.00% | 1480 - 1505 |
| USDTWD | 31.55 | -- | +0.11% | 31.30 - 31.75 |
| USDINR | 95.97 | -- | +0.21% | 95.20 - 96.30 |
| USDIDR | 17465 | -- | +0.00% | 17350 - 17600 |
| USDMYR | 3.957 | 3.9565 | +0.65% | 3.900 - 4.000 |
| USDPHP | 61.73 | -- | +0.13% | 60.90 - 62.20 |
| USDTHB | 32.65 | 32.72 | +1.00% | 32.1 - 33.0 |
| USDVND | 26352 | 26358 | +0.03% | 26180 - 26500 |

*Open is as at 8am HKT/SGT.

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