

May 27, 2026

Three Take-Aways

1) A potential US-Iran peace deal has been clouded by renewed hostilities, following overnight clashes near the Strait of Hormuz.

2) China has seen divergent impacts from oil disruptions MTD: sectors with high oil exposure have weakened notably, while coal and export-related segments have outperformed.

3) We call for an out-of-consensus rate hike for the upcoming BoK meeting, given macroprudential concerns and financial stability risks, which should provide a modest backstop for the KRW.

MACRO THEME: Clouded Deal

- Both US equities and treasuries rallied overnight following the long weekend, driven by optimism that the US and Iran may be close to reaching a peace agreement.

- However, fresh uncertainties have emerged regarding the prospects of ending the conflict, amid renewed clashes near the Strait of Hormuz overnight.

- According to the US military, it conducted self-defense strikes in southern Iran on Monday night, targeting missile launch sites and boats attempting to lay mines.

- Meanwhile, Iran stated that their forces fired at an F-35 fighter jet and several drones after they allegedly entered Iranian airspace.

- With the war now approaching its fourth month, cost pressures from oil disruptions are becoming increasingly difficult to overlook. Former New York Fed Chief Bill Dudley has warned that inflation expectations risk becoming unanchored, given that inflation has stayed "above the Fed's target for more than five years."

China: Divergent Impacts from Oil Shocks

- During May, China's high-frequency activity indicators delivered a mixed signal, shaped in part by disruptions to oil supply.

- On the one hand, activity in sectors with heavy exposure to oil-related inputs weakened notably month-to-date. For instance, the operating rate of PTA producers fell to its lowest level since 2022, averaging just 63% during the first three weeks of May.

- Similarly, the operating rate of petroleum asphalt plants, a useful proxy for road construction activity, dropped to a record low amid shortages of heavier crude supply, averaging only 16.4% over the same period, nearly half of last year's level.

- Higher fuel costs also appeared to weigh on air travel, with domestic flight cancellations rising 75% YoY month-to-date.

- On the other hand, coal demand seems to have benefited from disruptions to oil supply.

- The weekly PMI for thermal coal, which is mainly used in power generation, remained well above the expansion threshold in May, compared with an average of 49.2 during the same period last year.

- Meanwhile, export-related shipping rates continued to rise broadly, particularly on routes to the US, hinting at resilient external demand.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Conf. Board Consumer Confidence (f)	93.1	92.0	92.8
(US) Chicago Fed Nat Activity Index (Apr)	0.14	-0.03	-0.20
(US) Dallas Fed Manf. Activity (May)	0.4	0.0	-2.3
(JP) Coincident/Leading Index CI (Mar F)	116.4/114.0	--	116.5/114.5
(JP) Machine Tool Orders YoY (Apr F)	45.1%	--	45.1%
(SG) Industrial Production YoY (Apr)	17.6%	12.0%	10.1%
(TW) Industrial Production YoY (Apr)	14.2%	18.0%	28.7%
(PH) Budget Balance PHP (Apr)	31.4b	--	-349.7b

Today	Actual	Exp.	Prior
(US) Richmond Fed Manufact. Index (May)		4.0	3.0
(US) Richmond Fed Business Conditions (May)		--	-6.0
(JP) PPI Services YoY (Apr)		3.3%	3.1%
(CH) Industrial Profits YoY (Apr)		--	15.8%
(AU) CPI/Trimmed Mean YoY (Apr)		4.4%/3.4%	4.6%/3.3%
(KR) Retail Sales YoY (Apr)		--	5.6%

- Advanced manufacturing also appears relatively well supported, as indicated by relatively solid operating rates for steel tires and elevated copper prices.

- Taking these crosscurrents into account, we expect the official manufacturing PMI (due 31 May) to ease only modestly to 50.0 in May, from 50.3 in April.

- By contrast, the non-manufacturing PMI is likely to remain below the 50 mark, pointing to another month of sequential contraction in both services and construction amid subdued domestic demand.

BoK: Anchoring Macro-Financial Stability

- We expect the upcoming meeting to be a difficult call as we call for a **out-of-consensus rate hike in view of macroprudential concerns and financial stability risks.**

- First, while headline inflation at 2.6% YoY alongside 2.2% YoY core inflation may imply the ability to assess if this bout of inflation may prove to be transitory, a **surging PPI print alongside rising asset prices** imply that both cost pressures and wealth effect buoying underlying demand are reasonable grounds for a pre-emptive hike.

- Furthermore, a soft KRW performance compound onto imported inflation pressures.

- Second, the housing price growth was accompanied by a resurgence in housing debt as mortgage loans continue to pick up in recent months renewing debt sustainability concerns.

- Third, robust growth in Q1 provides space for the BoK to hike into especially with semiconductor tailwinds still aiding. With the risks of strikes being mitigated with the agreement being put to a vote this weekend, the outcome of wage deal will also inevitably boost wage outcomes for workers.

- Lastly, various voices in the BoK have already signaled the possibility of rate hikes since early April. Specifically, both Ryoo Sang-dai and Kim Jin Ill who are on the 7 person monetary policy board, have displayed a hawkish bias.

- Admittedly, given that this will be Governor Shin's first monetary policy meeting at the helm of the BoK, there may be underlying stickiness to maintain the status quo.

- Nonetheless, at this juncture, we are of the view that his allusion to conduct monetary policy with prudence and flexibility to be displayed at this meeting as he tackles both inflation and financial stability risks head on. To be clear, this is unlikely to be a hawkish turn for the BoK but more of an insurance hike at this juncture.

- All in, we expect a modest backstop for the KRW given that a rate hike is far from being a foregone conclusion. That said, wider pressures from UST yields and oil prices continue to dictate the pace of KRW recovery in H2 2026.

Yields (2Y: -9.0bp; 10Y: -7.3bp; 30Y: -4.6bp)

Equities (Nasdaq: +1.2%; S&P500: +0.6%; Dow: -0.2%)

FX (DXY: -0.1%)

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	159.30	159.25	+0.25%	158.20 - 160.00
EURUSD	1.1631	1.1637	▼0.11%	1.1550 - 1.1680
GBPUSD	1.3446	1.3456	▼0.43%	1.3350 - 1.3550
AUDUSD	0.7169	0.7171	▼0.06%	0.7100 - 0.7200
DX	99.2	--	▼0.07%	98.4 - 99.6
USDCNY	6.7861	--	+0.04%	6.7600 - 6.8300
USDCNH	6.7852	6.7841	+0.01%	6.7600 - 6.8300
USDHKD	7.8361	7.8362	+0.02%	7.8150 - 7.8500
USDSGD	1.2777	1.2768	+0.05%	1.2710 - 1.2850
USDKRW	1504	1508	+0.00%	1505 - 1530
USDTHD	31.43	--	▼0.08%	31.30 - 31.70
USDINR	95.69	--	+0.47%	94.50 - 96.00
USDIDR	17789	--	+0.26%	17650 - 17850
USDMYR	3.971	#N/A N/A	+0.46%	3.940 - 3.980
USDPHP	61.58	--	+0.18%	61.10 - 62.00
USDTHB	32.64	32.65	+0.53%	32.2 - 32.8
USDVND	26344	26346	▼0.05%	26200 - 26550

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.033	4.486	-9.0	-7.3
JGB (JP)	1.398	2.713	-0.5	1.9
Bunds (GE)	2.587	2.978	5.6	3.3
Gilts (UK)	4.292	4.875	-3.6	-2.2
AGB (AU)	4.592	4.911	2.8	3.0
SGS (SG)	1.579	2.056	-2.8	-0.3
CGB (CN)	1.245	1.747	-0.2	-0.2
KGB (KR)	3.591	4.096	0.0	-4.1
SDL (IN)	6.361	6.994	0.0	-3.3

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7519.12	45.65	+0.61%
Nasdaq (US)	26656.18	312.21	+1.19%
DJIA (US)	50461.68	-118.02	▼0.23%
N225 (JP)	64996.09	-162.10	▼0.25%
STOXX50 (EU)	6064.15	-72.51	▼1.18%

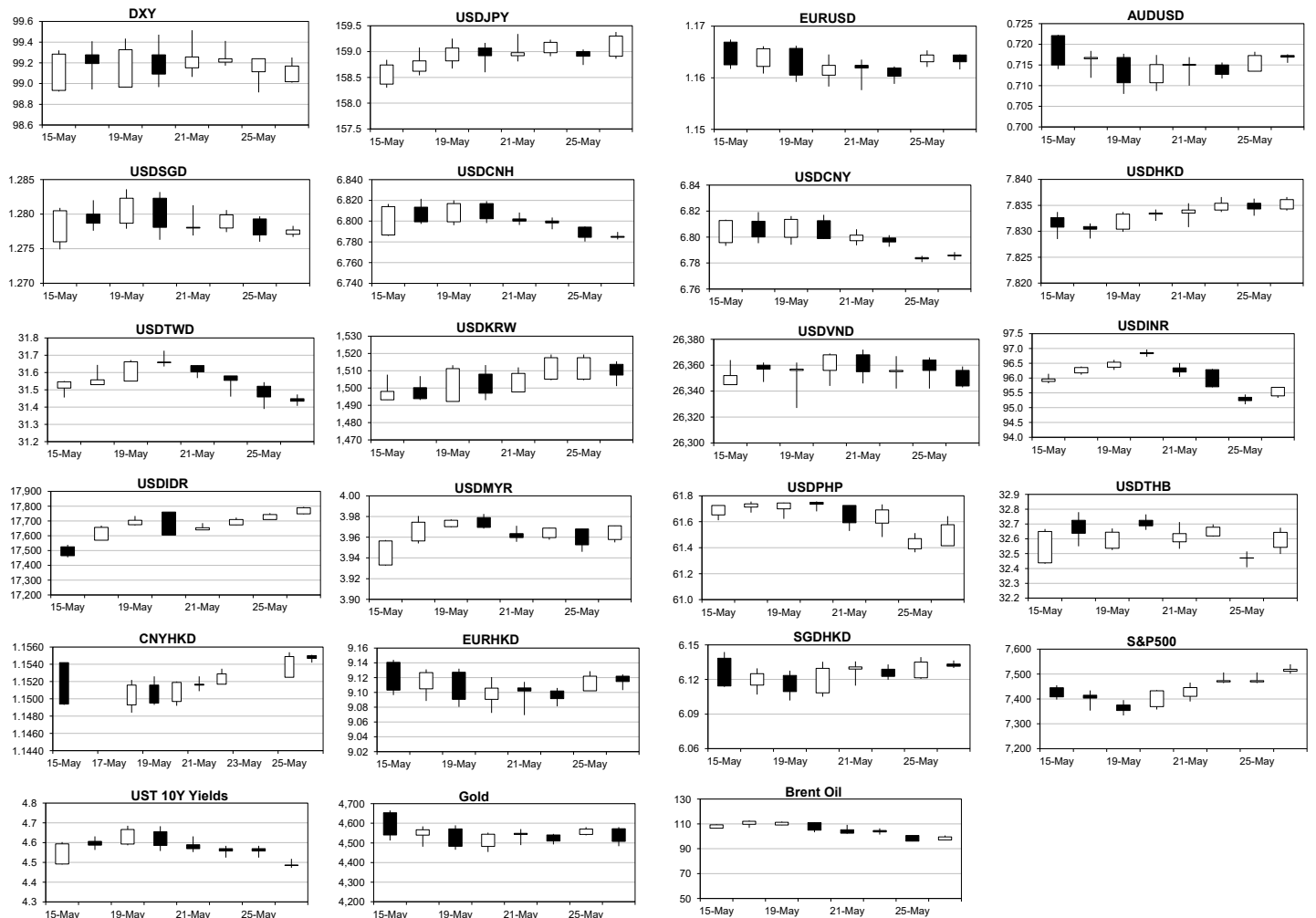
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,565.69	-49.15	▼0.36%
IRON ORE (CN)	108.80	-0.86	▼0.27%
GOLD	4,507.88	-62.62	▼1.37%
SILVER	76.91	-0.01	▼0.45%
OIL (BRENT)	99.58	3.44	+3.58%
OIL (WTI)	93.89	-2.71	▼2.81%
NATURAL GAS	2.89	-1.17	▼1.50%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.26	185.31	+0.13%
GBP/JPY	214.189	214.272	▼0.19%
JPY/SGD (100yen)	0.8024	0.8018	▼0.15%
JPY/HKD (100yen)	4.9193	4.9208	▼0.22%
CNH/JPY	23.479	23.466	+0.23%
CNH/HKD	1.1547	1.1547	▼0.02%
EUR/GBP	0.86493	0.86485	+0.31%
AUD/NZD	1.2281	1.2277	+0.54%
EUR/CNH	7.8912	7.8947	▼0.11%
GBP/CNH	9.1243	9.1283	▼0.43%
CNY/HKD	1.1547	1.1547	▼0.02%
EUR/HKD	9.1147	9.119	▼0.08%
SGD/HKD	6.1315	6.1374	▼0.06%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5640.23	16.31	+0.29%
STI (SG)	5028.8	-41.75	▼0.82%
SHCOMP (CN)	4145.373	-7.20	▼0.17%
SZCOMP (CN)	2872.319	-17.23	▼0.60%
HSI (HK)	25599.45	-6.58	▼0.03%
SENSEX (IN)	76009.7	-479.26	▼0.63%
JSE (ID)	6130.19	-76.16	▼1.23%
KLSE (MY)	1699.02	-9.48	▼0.55%
PSE (PH)	5963.24	-46.14	▼0.77%
SET (TH)	1553.36	3.03	+0.20%
VNINDEX (VN)	1884.18	0.00	▼0.10%

CHARTS



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