

Jun 04, 2026

## Three Take-Aways

- 1) Robust ISM services print, higher oil prices sent UST yields higher as US-Iran conflict show little signs of resolution.
- 2) US Section 301 tariffs on grounds of forced labour aimed at extending Section 122 tariffs which expires in July while usual product level exemption holds.
- 3) JPY led gains as BoJ Governor Ueda signalled the possibility of rate hike. JPY bulls looking for durable rallies face elevated oil prices and UST yields.

## MACRO THEME: Extending Damage and Disruption?

- With both the ADP employment print and ISM Services Index coming in higher than expected, **UST yields rose on the back of higher oil prices and rather hawkish Fed speak as the Middle East conflict showed little signs of a resolution.**
- Even as Trump touted the **existence of an alternative route** in Hormuz hugging the Omani coast, **his implicit acknowledgement that the Hormuz situation could last until Labour Day** (Sept 7) even though he added that this will resolve itself fairly quickly.
- With Iranian FM highlighting no tangible progress on talks, **renewed clashes in Bahrain and Kuwait** which has seen US bases being attacked does not align with Trump optimism on a resolution.

## Examining Services Resilience

- For ISM Services, **new orders and activity expanded at a faster pace with a broad swath of sectors showing growth.** Even amid aggregate robustness, both qualitative and quantitative details reflect some underlying soft spots. For one, the activity also reflects **surging stockpiles** as Inventories sub-index rose to 62.5 from 53.1.
- Various **comments also continue to reflect the disruptions from the US-Iran war.** Comments such as "Freight capacity limitations", "delays in packaging from China", "**export orders... flat to slightly declining**, due to slower global demand, higher interest rates and unstable global political situation" and "trying to **pass price increases** for fuel surcharges and increased input costs for resin-based products" reflect the fallout from the US-Iran war.
- There were also adverse spillovers from the strong semiconductor upcycle with "data center power generation projects are driving demand and reducing available inventory across the piping market"
- Furthermore, despite the seemingly buoyant demand, **the employment sub-index sank deeper within contractionary territory** defying market expectations of a slight improvement.
- Aside from being dragged by higher UST yields, risk sentiments weighed down by **tariff headlines and reports of renewed strikes between US and Iran.**

## Forcing Through Tariffs

- On the tariff front, the Trump administration has **announced new Section 301 tariffs on 59 countries on grounds of prohibiting imports with forced labour.**

## DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) ADP Employment Change (May)	122k	120k	109k
(US) Durable Gds Orders/Nondeff Ex Air (Apr F)	8.0%/-1.0%	7.9%/-1.1%	7.9%/-1.1%
(US) ISM Services/Prices Paid (May)	54.5/53.8	53.8/72.3	53.6/70.7
(EZ) PPI YoY (Apr)	4.9%	4.9%	2.1%
<b>(US) Fed Releases Beige Book</b>			
(CH) RatingDog China PMI Services (May)	54.4	52.3	52.6
<b>(AU) GDP YoY/SA QoQ (1Q)</b>	<b>2.5%/0.3%</b>	<b>2.6%/0.4%</b>	<b>2.6%/0.8%</b>
(VN) Exports/Imports YoY (May)	18.0%/33.8%	19.7%/30.8%	21.0%/32.5%
<b>(VN) CPI YoY (May)</b>	<b>5.60%</b>	<b>5.8%</b>	<b>5.5%</b>
(VN) Industrial Production/Retail Sales YoY (M: 8.8%/11.8%)		--	9.9%/12.1%
Today	Actual	Exp.	Prior
(US) Initial Jobless Claims		215k	215k
(EZ) Retail Sales MoM (Apr)		-0.3%	-0.1%
(AU) Trade Balance (Apr)		A\$1600m	-A\$1841m

- The likes of Canada, Mexico, EU, Taiwan and the UK would face 10% rate while others such as China, India and Japan, South Korea face a 12.5% rate. These tariffs are likely to be a **replacement for the Section 122 tariffs** which are expiring in late July.

- To be clear, these new tariffs will undergo a **consultation process** and hearings in **July** before effective implementation. Unsurprisingly, the **usual set of product level exemptions** which range from beef, bananas to rare earths **will apply.**

## No Obvious Direction?

- NY Fed President, John Williams said that he **does not see an obvious kind of direction** where we go in future as **monetary policy is exactly in the right place.**

- This was in stark contrast to **Lorie Logan**, President of the Dallas Fed who was concerned that higher interest rates could be necessary **later this year.** Her sentiments though does not come as a surprise given that she dissented over the easing language in the April statement.

- Meanwhile, **Fed Chair Kevin Warsh's appointment of two advisors has drawn considerable scrutiny** as they appear to have little central banking experience and are aligned to conservative policy making with ideas such as changing the Fed's mandate solely to price stability and **materially reducing the Fed's balance sheet.**

## BoJ Signals

- The **JPY led gains** in the G10 FX space following hawkish remarks by BoJ Governor Ueda. Stepping away from the usual uncertainty caveat requiring more time for the situation to play out, **Governor Ueda signalled the need to discuss a rate increase** should the upside risks to prices outweigh the downside risks to economic activity.

- Markets raised the odds of a BoJ rate from 78% at the start of the week to 88% this morning.

- Even if a rate hike is imminent, JPY bulls should be sufficiently reminded that the BoJ is unlikely to hint at a hiking cycle and elevated UST yields and oil prices imply that rallies have likely to be faded.

## Stressed Asia

- Elsewhere in **Asia, stresses within markets remain evident.** In Indonesia, the JCI declined 4% as the IDR reach record weakness. With a former head of Free Meals programme being arrested as a corruption suspect, the ongoing domestic governance concerns compound onto external headwinds.

- In India, authorities are said to be drawing up proposals to attract inflows into bonds by reducing taxes and caps on foreign ownership.

- MYR showed catch-up weakness after being closed for early part of the week, reacting to higher oil prices and UST yields alongside a dismal PMI manufacturing print and potential political uncertainties.

**Yields (2Y: +1.0bp; 10Y:-1.0bp; 30Y: -1.5bp)**

**Equities (Nasdaq: +0.9%; S&P500: -0.7%; Dow: -1.2%)**

**FX (DXY: +0.3%)**

## FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast
USDJPY	160.07	159.94	+0.10%	158.70 - 161.00
EURUSD	1.1597	1.1610	▼0.29%	1.1550 - 1.1680
GBPUSD	1.3418	1.3428	▼0.36%	1.3350 - 1.3550
AUDUSD	0.7129	0.7134	▼0.71%	0.7120 - 0.7230
DX	99.5	--	+0.31%	98.7 - 99.8
USDCNY	6.7785	--	+0.22%	6.7400 - 6.8200
USDCNH	6.7803	6.7767	+0.27%	6.7400 - 6.8200
USDHKD	7.8370	7.8361	+0.00%	7.8150 - 7.8500
USDSGD	1.2834	1.2830	+0.30%	1.2730 - 1.2900
USDKRW	1527	1518	+0.00%	1505 - 1530
USDTWD	31.43	--	▼0.09%	31.30 - 31.70
USDINR	95.71	--	+0.46%	94.50 - 96.20
USDIDR	17950	--	+0.63%	17700 - 18100
USDMYR	3.999	3.9935	+0.86%	3.950 - 4.020
USDPHP	61.74	--	+0.09%	61.20 - 62.20
USDTHB	32.57	32.70	+0.00%	32.4 - 33.0
USDVND	26343	26344	+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)	4.083	4.496	3.9	5.2
JGB (JP)	1.398	2.630	2.3	6.2
Bunds (GE)	2.669	3.035	5.2	6.1
Gilts (UK)	4.369	4.931	6.1	7.2
AGB (AU)	4.602	4.912	2.8	3.1
SGS (SG)	1.560	2.037	6.4	3.5
CGB (CN)	1.227	1.709	0.7	0.8
KGB (KR)	3.684	4.128	0.0	0.0
SDL (IN)	6.267	7.024	0.0	1.1

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7553.68	-56.10	▼0.74%
Nasdaq (US)	26853.97	-239.93	▼0.89%
DJIA (US)	50687.07	-620.72	▼1.21%
N225 (JP)	68402.13	1667.89	+2.50%
STOXX50 (EU)	6053.57	-54.28	▼0.89%

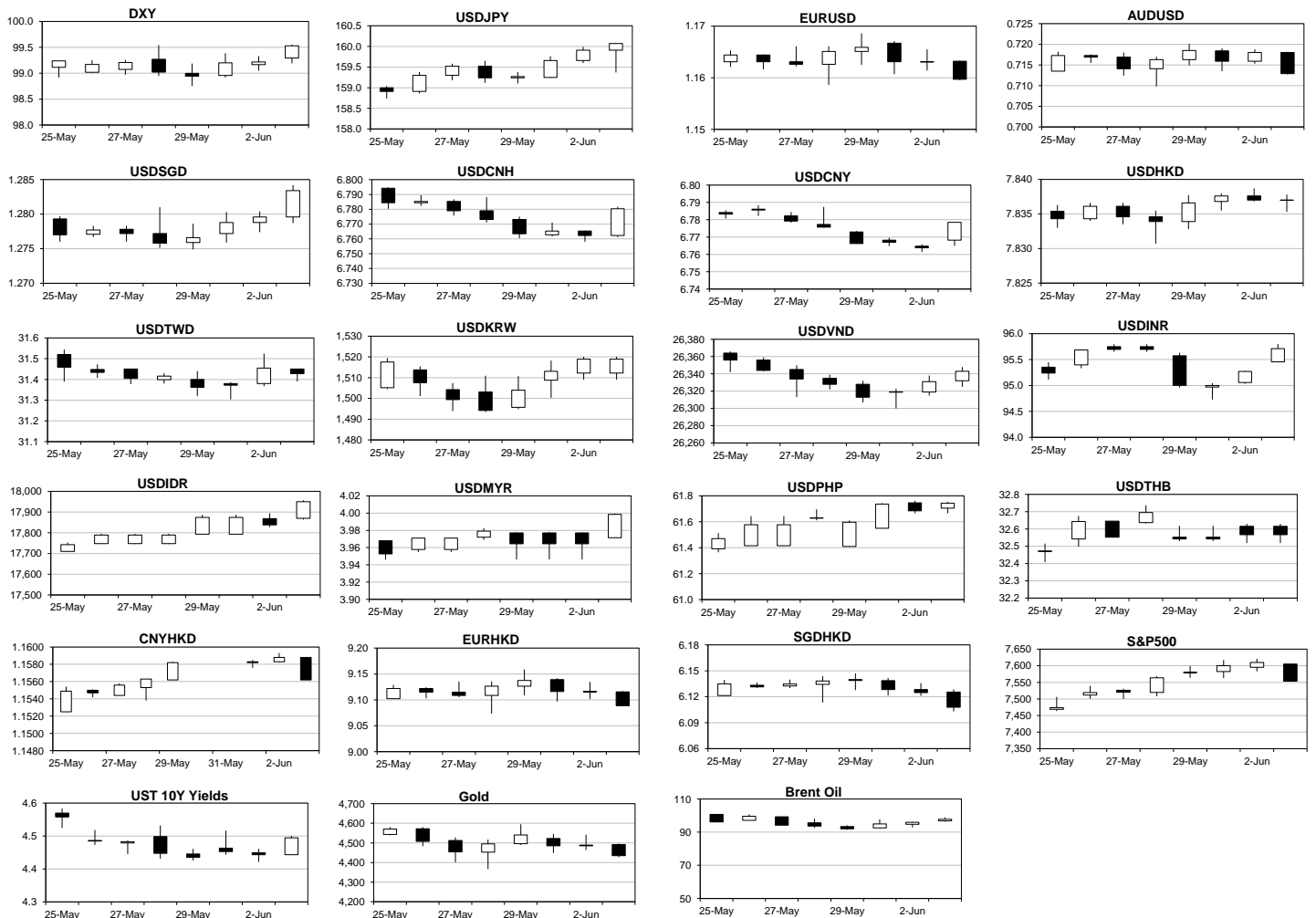
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,802.37	-234.29	▼1.67%
IRON ORE (CN)	103.72	-5.13	▼1.50%
GOLD	4,434.81	-54.05	▼1.20%
SILVER	72.71	0.05	+1.48%
OIL (BRENT)	97.81	1.81	+1.89%
OIL (WTI)	96.02	2.26	+2.41%
NATURAL GAS	3.21	-2.39	▼3.18%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.62	185.68	▼0.20%
GBP/JPY	214.755	214.753	▼0.26%
JPY/SGD (100yen)	0.8015	0.8022	+0.17%
JPY/HKD (100yen)	4.8954	4.8996	▼0.10%
CNH/JPY	23.609	23.595	▼0.15%
CNH/HKD	1.1562	1.1561	▼0.22%
EUR/GBP	0.86432	0.86464	+0.06%
AUD/NZD	1.2162	1.2153	+0.36%
EUR/CNH	7.8629	7.8677	▼0.03%
GBP/CNH	9.0973	9.0994	▼0.09%
CNY/HKD	1.1562	1.1561	▼0.22%
EUR/HKD	9.0888	9.0977	▼0.29%
SGD/HKD	6.1079	6.1076	▼0.28%

\*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5560.48	-25.13	▼0.45%
STI (SG)	5138.24	40.82	+0.80%
SHCOMP (CN)	4083.974	8.87	+0.22%
SZCOMP (CN)	2812.916	7.71	+0.27%
HSI (HK)	25633.21	-405.11	▼1.56%
SENSEX (IN)	74346.17	-303.67	▼0.41%
JSE (ID)	5941.066	-254.36	▼4.11%
KLSE (MY)	1672.74	-10.33	▼0.61%
PSE (PH)	5953.17	40.48	+0.68%
SET (TH)	1588.06	0.00	+0.00%
VNINDEX (VN)	1819.01	0.00	▼0.41%

## CHARTS



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