

Jun 18, 2026

Three Take-Aways

1) The FOMC kept rates unchanged but hawkish signals from Dot Plot, upward revisions to inflation projections and Kevin's Warsh's price stability commitment sent UST yields surging.

2) Markets ought to be cautious on a much higher Fed funds rate being the intended mechanism for price stability amid various task force led reforms.

3) Rate hikes remain par for the course for BI and BSP as underlying FX and inflation pressures are far from being resolved.

MACRO THEME: Fights and Reconciliation

- Despite a widely expected rate hold by the Fed, front end 2Y UST yields surged 13bps in a bear steepener with the new Fed Chair Kevin Warsh characterising the meetings as **having a good family fight**.

- First, the **Dot Plot saw notable divergence** with **8 members** keep rates **on hold** for rest of 2026, and **9 members expecting at least 1 hike with a hawkish distribution** (3 members expecting 1 hike, 5 members expecting 2 hikes and 1 member expecting 3 hikes). Only 1 member expected a cut this year.

- Second, the hawkish tilt was supported by the summary of economic projections showed core PCE inflation in **2026 being lifted to 3.3% from 2.7%** estimated in March. For **2027, core PCE inflation** forecast saw a smaller lift from 2.2% in March to **2.5%** at this meeting.

- Third, the **stunningly shorter** statement was also supportive with a declaration that "the Committee will deliver price stability".

- Lastly, Fed Chair Kevin Warsh **signalling focus on price stability and seeing no reason to revise the 2% inflation target** also aided the buoyancy in UST yields and USD.

"Task Force" Chairman

- While markets may continue to lean on these signals for now, the **reform agenda was clear at this meeting with little continuity from the Powell era as he announced 5 tasks forces**: 1. Fed communications, 2. Balance sheet, 3. Data sources 4. Productivity and jobs 5. Inflation frameworks.

- Kevin Warsh's preferences for brevity in the FOMC statement to remove forward guidance, limiting the length of his press conference and **refusal to submit his projections** may also be signalling that the **Dot Plot may be scrapped in the months ahead** as well as **frequency of communications from Fed officials being significantly pared down** as he launched task forces for reforms.

- The sight of a **task force on the balance sheet** may also have propped by UST yields and the USD given Warsh's inclination for smaller balance sheet. Specifically, they will review the benefits and risks of the current ample reserves regime and composition of the balance sheet. Crucially, even as the statement ended with "The Committee will deliver price stability" aided hawkish sentiments, the **"how" remains an unanswered question**. This is especially if we read the driver of inflation being **supply shock driven**, review of data and inflation framework which involves "how to measure inflation" as well

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|---|--------------------|--------------------|--------------------|
| (US) Retail Sales Adv/Ex Auto and Gas MoM (May) | | 0.5%/0.3% | 0.5%/0.5% |
| (JP) Trade Balance (May) | -¥378.6b | -¥207.0b | -¥299.3b |
| (JP) Core Machine Orders MoM (Apr) | 8.7% | 0.5% | -9.4% |
| (US) FOMC Decision (Lower/Upper Bound) | 3.50%/3.75% | 3.50%/3.75% | 3.50%/3.75% |
| (SG) Non-oil Domestic Exports YoY (May) | 38.4% | 30.5% | 24.5% |

| Today | Actual | Exp. | Prior |
|--|--------|--------------|--------------|
| (US) Initial Jobless Claims | | 225k | 229k |
| (US) Leading Index (May) | | 0.1% | 0.1% |
| (ID) BI-Rate | | 5.75% | 5.50% |
| (PH) BSP Overnight Borrowing Rate | | 4.75% | 4.50% |
| (TW) CBC Benchmark Interest Rate | | 2.00% | 2.00% |

as productivity impact on inflation and employment and even policy transmission (from balance sheet or rates).

- In short, **markets ought to be cautioned on over-extending bets on raising the overnight Fed funds rate as the intended mechanism to deliver price stability** from the new Fed Chair's perspective.

Versailles Signing - Freedom and Release

- US President Trump has signed the US-Iran MoU at a dinner with French President Macron at the Palace of Versailles.

- The durability of oil price decline thus far will likely hinge on the ability of vessels to navigate freely or face the need for approvals and naval escort to scan for mines.

- Amid various concessions, it is notable that Trump tied the need to release Iranian assets as restoring confidence in the USD, **"if we didn't give it back, nobody would ever invest in the dollar again."**

Yields (2Y: +13.1bp; 10Y: +4.9p; 30Y: -1.1bp)

Equities (Nasdaq: -1.3%; S&P500: -1.2%; Dow: -1.0%)

FX (DXY: +0.6%)

BI: External Relief, Not Domestic Resolution

- While the US-Iran MoU has toned down the need for an upsized 50bp rate hike, a **25bp rate hike remains well on the table today**. Relief stems from moderate IDR gains enabled by partial concessions from the consolidation of commodity of exports (DSI to monitor sales instead of routing exports) and sharp slippage in oil prices. Domestic vulnerabilities though still pose risks to the IDR. For one, the **lagged 30% increase in Pertamina prices** may not be easily reversed considering substantial losses in prior months, potentially adding to pipeline inflation pressures.

- Furthermore, concerns on its fiscal outlook remain, with questions surrounding the sustainability of its large spending programmes, particularly after several months of elevated fuel subsidy expenditure.

- Upcoming **equity benchmark and credit rating assessments** also pose potential headwinds. As such, BI may not necessarily be too inclined towards a rate hold as relief should not be mistaken as resolution.

BSP: Lower Oil Prices, Slower Pace?

- With oil prices tempered by the impending US-Iran MoU, the probability of an upsized rate hike by BSP has decreased.

- BSP is firmly on a hiking cycle given that its inflation (May: +6.8% YoY) remains above target (2-4%) with **second round effects yet to dissipate** as reflected by core inflation that remained elevated at 4.1% YoY. Nonetheless, the BSP remains likely to signal openness to further hikes given that real rates have turned rather accommodative.

- In fact, in nominal terms, the policy rates remain at end-2025 levels with April's hike merely reversing February's cut. As such, **a jumbo hike remains on the table** especially if the BSP adopts a sooner rather than later approach. At this juncture, 25bp rate hike would allow BSP to preserve its credibility on price stability while avoiding an overtightening of financial conditions that risk derailing an already-fragile economic recovery.

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 160.65 | 160.61 | +0.14% | 159.30 - 161.00 |
| EURUSD | 1.1501 | 1.1507 | ▼0.92% | 1.1400 - 1.1600 |
| GBPUSD | 1.3293 | 1.3300 | ▼0.99% | 1.3100 - 1.3400 |
| AUDUSD | 0.7014 | 0.7018 | ▼0.76% | 0.6950 - 0.7100 |
| DXY | 100.1 | -- | +0.55% | 98.8 - 100.2 |
| USDCNY | 6.7607 | -- | +0.06% | 6.7300 - 6.8100 |
| USDCNH | 6.7762 | 6.7741 | +0.29% | 6.7300 - 6.8100 |
| USDHKD | 7.8357 | 7.8353 | +0.02% | 7.8150 - 7.8500 |
| USDSGD | 1.2881 | 1.2881 | +0.47% | 1.2750 - 1.2950 |
| USDKRW | 1524 | 1515 | +0.00% | 1515 - 1530 |
| USDTHB | 31.58 | -- | +0.02% | 31.40 - 31.80 |
| USDINR | 94.53 | -- | ▼0.03% | 94.10 - 95.30 |
| USDIDR | 17738 | -- | +0.20% | 17500 - 18000 |
| USDMYR | 4.070 | 4.080 | +0.00% | 4.050 - 4.100 |
| USDPHP | 60.39 | -- | +0.08% | 59.90 - 60.80 |
| USDTHB | 32.58 | 32.71 | +0.19% | 32.5 - 33.0 |
| USDVND | 26323 | 26322 | +0.10% | 26100 - 26500 |

*Open is as at 8am HKT/SGT.

MARKET MOVES

| Bond Yields | 2Y Close | 10Y Close | 2Y Δ (bps) | 10Y Δ (bps) |
|-------------|----------|-----------|------------|-------------|
| UST (US) | 4.186 | 4.489 | 13.1 | 4.9 |
| JGB (JP) | 1.379 | 2.593 | -1.9 | -4.1 |
| Bunds (GE) | 2.584 | 2.926 | 2.1 | -0.3 |
| Gilts (UK) | 4.141 | 4.751 | -4.1 | -3.7 |
| AGB (AU) | 4.443 | 4.767 | -3.4 | -5.9 |
| SGS (SG) | 1.548 | 1.983 | 0.4 | -0.3 |
| CGB (CN) | 1.254 | 1.725 | -1.9 | -0.5 |
| KGB (KR) | 3.574 | 4.110 | 0.0 | 0.0 |
| SDL (IN) | 6.048 | 6.882 | -0.1 | 0.5 |

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 7420.1 | -91.25 | ▼1.21% |
| Nasdaq (US) | 26021.66 | -354.68 | ▼1.34% |
| DJIA (US) | 51492.55 | -507.12 | ▼0.98% |
| N225 (JP) | 69902.25 | 497.75 | +0.72% |
| STOXX50 (EU) | 6300.07 | 42.65 | +0.68% |

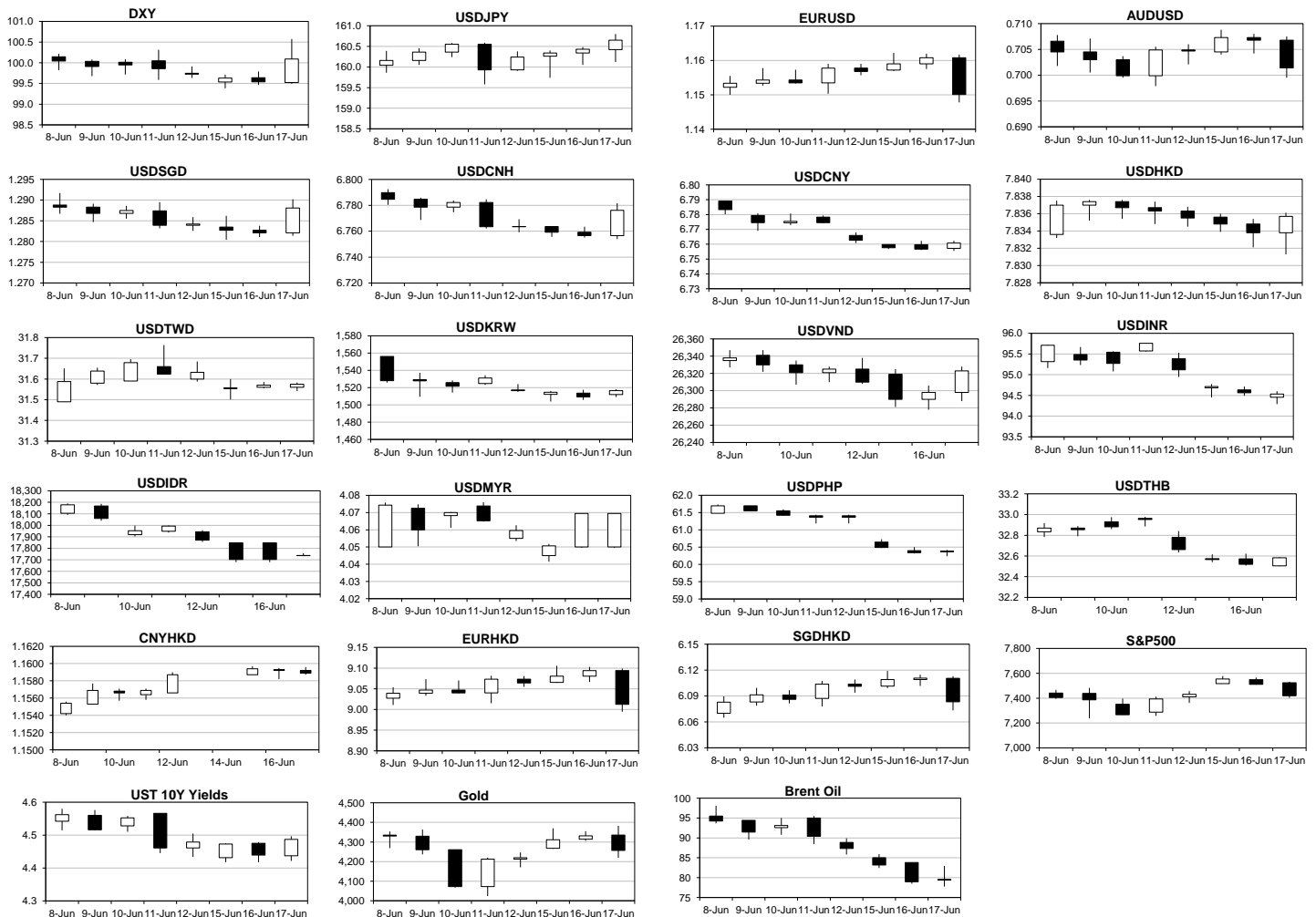
| Commodity | Close | Net Chg | Daily %Δ |
|---------------|-----------|---------|----------|
| COPPER (LME) | 13,763.45 | 63.55 | +0.46% |
| IRON ORE (CN) | 100.60 | -1.05 | ▼0.86% |
| GOLD | 4,256.93 | -74.28 | ▼1.71% |
| SILVER | 67.93 | -0.09 | ▼2.90% |
| OIL (BRENT) | 79.55 | 0.59 | +0.75% |
| OIL (WTI) | 76.79 | 0.74 | +0.97% |
| NATURAL GAS | 3.15 | -2.10 | ▼2.99% |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 184.77 | 184.81 | ▼0.79% |
| GBP/JPY | 213.54 | 213.61 | ▼0.85% |
| JPY/SGD (100yen) | 0.8018 | 0.802 | +0.35% |
| JPY/HKD (100yen) | 4.8774 | 4.8788 | ▼0.10% |
| CNH/JPY | 23.738 | 23.754 | ▼0.03% |
| CNH/HKD | 1.1589 | 1.1589 | ▼0.03% |
| EUR/GBP | 0.86519 | 0.86519 | +0.09% |
| AUD/NZD | 1.2159 | 1.2154 | +0.34% |
| EUR/CNH | 7.7941 | 7.7953 | ▼0.62% |
| GBP/CNH | 9.0077 | 9.0095 | ▼0.72% |
| CNY/HKD | 1.1589 | 1.1589 | ▼0.03% |
| EUR/HKD | 9.0123 | 9.0164 | ▼0.90% |
| SGD/HKD | 6.0832 | 6.0833 | ▼0.45% |

*Open is as at 8am HKT/SGT.

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 5649.69 | 8.06 | +0.14% |
| STI (SG) | 5176.46 | 59.60 | +1.16% |
| SHCOMP (CN) | 4108.076 | 16.18 | +0.40% |
| SZCOMP (CN) | 2838.355 | 20.56 | +0.73% |
| HSI (HK) | 24312.16 | -181.79 | ▼0.74% |
| SENSEX (IN) | 77155.62 | 347.14 | +0.45% |
| JSE (ID) | 6220.74 | -34.23 | ▼0.55% |
| KLSE (MY) | 1709.99 | 0.00 | +0.00% |
| PSE (PH) | 6114.81 | -130.94 | ▼2.10% |
| SET (TH) | 1587.07 | -0.98 | ▼0.06% |
| VNINDEX (VN) | 1806.2 | 0.00 | ▼0.10% |

CHARTS



RESEARCH TEAM

Vishnu Varathan | Serena Zhou | Tan Boon Heng | Johnny Wong | Ng Jing Wen

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