

Jun 26, 2026

Three Take-Aways

- 1) Latest PCE prints helped little in turning the Fed less hawkish.
- 2) The PBoC had introduced an overnight tool too smooth quarter-end funding stress more precisely.
- 3) Australia's Employment gains exceeded market expectations though skewing toward part time jobs.

MACRO THEME: No Relief for Now

- While the latest US PCE prints were broadly in line with consensus, they do little in revealing anchored household inflation expectations or turning the Fed less hawkish.
- Note that the PCE index rose 4.1% YoY in May, the fastest pace in more than three years.
- In real terms, US consumer spending rose 0.3% MoM in May, following a muted gain in April. Larger-than-usual tax refunds and a resilient job market have helped support consumer sentiment.
- Separately, US Q1 GDP was revised up to a 2.1% annualized pace from the previous estimate of 1.6%.
- However, the upgrade was largely driven by a downward revision to imports. Consumer spending was revised lower to 0.5% from 1.4%, marking the weakest quarterly gain in 4 years.
- Moreover, uncertainty around the Strait of Hormuz has resurfaced after a vessel was reportedly struck by an unknown projectile, with the US looking into the strike.
- The incident could complicate the swift reopening of the key energy chokepoint, with Brent crude moving back above USD75/bbl.
- The US is investigating who was behind the strike, while a White House official said it remains too early to draw conclusions.

PBoC: Shorter Tenor for Quarter-end Stress

- The PBoC has signalled that it will conduct **overnight reverse repo operations** on 29 and 30 June at a fixed rate.
- This would mark the first time the central bank introduces an overnight tenor into its open-market operations, an important progress in guiding front-end rates, particularly at quarter-ends when non-bank financial institutions tend to face the sharpest liquidity squeeze.
- Note that Governor Pan's pledge at last week's Lujiazui Forum to improve short-end liquidity management.
- The move looks timely. At end-June last year, the 7-day collateral repo rate for banks briefly traded 1.6bp above the upper bound of the interest-rate corridor, while non-bank financial institutions paid a wider premium of 2-10bp for three consecutive days.
- Market debate is now focused on two key questions.
- **First, could the overnight operation be a de facto rate cut?** Possibly, but this remains a tail risk. China's 7-day reverse repo rate currently stands at 1.40%, with a 15bp gap versus the 14-day tenor. On that basis, the new overnight operation would only be interpreted as a rate cut if the fixing is set below 1.25%.

DATA/EVENTS

| Overnight | Actual | Exp. | Prior |
|--|-------------|-------------|-------------|
| (AU) Employment Change (May) | 40.3k | 32.5k | -18.6k |
| (AU) Unemployment Rate (May) | 4.4% | 4.4% | 4.5% |
| (TH) Customs Exports/Imports YoY (May) | 10.6%/35.1% | 12.7%/36.3% | 23.1%/45.0% |
| (US) PCE/Core Price Index YoY (May) | 4.1%/3.4% | 4.1%/3.4% | 3.8%/3.3% |
| (US) Initial Jobless Claims | 215k | 225k | 226k |
| (US) Durable Gds Orders YoY (May P) | -4.5% | -5.0% | 8.0% |
| (US) Capital Gds ship Non-Def Ex Air (May) | 0.3% | 0.5% | 0.4% |
| (US) Personal Income/Spending (May) | 0.7%/0.7% | 0.4%/0.6% | 0.0%/0.5% |

| Today | Actual | Exp. | Prior |
|---|--------|-----------|-----------|
| (US) U. of Mich. Sentiment/Expectations (Jun F) | | 50.0/49.5 | 48.9/49.3 |
| (US) U. of Mich. 1/5-10Yr Inflation (Jun F) | | 4.6%/3.3% | 4.6%/3.4% |
| (US) Wholesale Inventories MoM (May) | | 0.4% | 0.6% |
| (SG) Industrial Production YoY (May) | | 17.5% | 17.6% |

- **Second, could the overnight rate become the new benchmark?** It is too early to draw the conclusion. The tighter rate corridor recently introduced by Governor Pan is still anchored around the 7-day rate

- For now, **the overnight tool looks more like a precision instrument to smooth quarter-end funding stress than a way to introduce rate cuts or a replacement for the existing benchmark.**

Australia: Contemplating Normalisation

- Employment gains for May came in at 40.3k exceeding market expectations though the skew toward part time jobs reveal soft spots.
- That said, the aggregate monthly pace of job gains (15k) over the first 5 months of 2026 is similar to that in 2025 and slightly short of the pre-pandemic average of 21k.
- The decline in unemployment rate to 4.4% is also a relief and to be clear, **given tight labour market conditions relative to pre-pandemic trends, moderating pace of job gains should not be surprising.**
- Notably, 18k drop in unemployment persons despite higher participation rates will also be a relief.
- Job vacancies also declined on the back of broad-based decreases across states and industries. That said, vacancies are still 43% YoY above end-2019 levels reflecting possible structural mismatch.
- Meanwhile, **household spending remains resilient** rising 1.3% MoM and notably, discretionary categories such as spending on hotels, cafes and restaurants as well as higher spending on clothing and footwear.
- All in, the macro dynamics continue to imply that the RBA will be unable to convincingly remove a Q3 rate hike and the AUD remain volatile on broader AI related shakedowns.

A Silver Lining, Not Silver Bullet

- Admittedly, the **US-Iran MOU underlined by "Hormuz re-opening", and the attendant drop in crude prices** provides welcome (albeit uneven) **AXJ pain relief** accentuated by short-covering and policy interventions.
- **But it is not sweeping panacea** for AXJ.
- For one, **highly-fluid Middle East risks that warn against linear extrapolation** of relief. Crucially, **lagged pipeline cost shocks** are poised to **disadvantage AXJ** (via eroding real rates).
- What's more, **hawkish "Warsh Fed" perception layer on further AXJ pressures – especially where AXJ policy tightening has lagged – as higher UST yields overwhelm softer oil impact.**
- Crucially, **mounting risks of A.I. shakedown – potentially amplified via exports-commodity-financial feedback – accentuate AXJ vulnerabilities.**
- With **idiosyncratic political risks another dimension of AXJ stress.** All said, the diminishing Iran risks do not absolve all AXJ pain. Whereas **full ("pre-Iran") AXJ reversion remains challenged.**

Yields (2Y: -2.4bp; 10Y: +0.1bp; 30Y: +2.0bp)

Equities (Nasdaq: -0.5%; S&P500: +0.0%; Dow: +0.1%)

FX (DXY: -0.2%)

FX OUTLOOK

| FX | Close (NY) | Open* | Daily %Δ | Forecast |
|--------|------------|--------|----------|-----------------|
| USDJPY | 161.79 | 161.81 | +0.01% | 159.80 - 163.00 |
| EURUSD | 1.1370 | 1.1361 | +0.11% | 1.1300 - 1.1550 |
| GBPUSD | 1.3192 | 1.3187 | +0.18% | 1.3100 - 1.3300 |
| AUDUSD | 0.6910 | 0.6900 | +0.13% | 0.6850 - 0.7000 |
| DXY | 101.4 | -- | ▼0.18% | 101.0 - 102.0 |
| USDCNY | 6.7975 | -- | ▼0.19% | 6.7300 - 6.8300 |
| USDCNH | 6.8015 | 6.8028 | ▼0.17% | 6.7300 - 6.8300 |
| USDHKD | 7.8405 | 7.8402 | +0.00% | 7.8150 - 7.8500 |
| USDSGD | 1.2963 | 1.2969 | ▼0.08% | 1.2850 - 1.3100 |
| USDKRW | 1548 | 1543 | +0.00% | 1515 - 1550 |
| USDTHW | 31.85 | -- | +0.24% | 31.40 - 32.00 |
| USDINR | 94.40 | -- | ▼0.27% | 94.00 - 95.20 |
| USDIDR | 17925 | -- | ▼0.10% | 17800 - 18100 |
| USDMYR | 4.119 | 4.124 | ▼0.42% | 4.110 - 4.170 |
| USDPHP | 61.31 | -- | ▼0.38% | 60.60 - 62.00 |
| USDTHB | 33.35 | 33.40 | ▼0.23% | 33.0 - 33.6 |
| USDVND | 26320 | 26321 | ▼0.05% | 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) | 4.124 | 4.394 | -2.4 | 0.1 |
| JGB (JP) | 1.408 | 2.624 | -0.7 | -3.8 |
| Bunds (GE) | 2.525 | 2.856 | -1.9 | -0.8 |
| Gilts (UK) | 4.111 | 4.699 | -1.6 | 1.7 |
| AGB (AU) | 4.421 | 4.728 | -3.0 | -3.4 |
| SGS (SG) | 1.564 | 2.018 | -2.0 | -3.0 |
| CGB (CN) | 1.241 | 1.731 | -0.7 | -0.7 |
| KGB (KR) | 3.677 | 4.167 | 0.0 | 0.0 |
| SDL (IN) | 5.954 | 6.769 | 0.5 | -3.4 |

| G3 Equities | Close | Net Chg | Daily %Δ |
|--------------|----------|---------|----------|
| S&P500 (US) | 7357.49 | -0.73 | ▼0.01% |
| Nasdaq (US) | 25358.6 | -118.03 | ▼0.46% |
| DJIA (US) | 51920.62 | 71.72 | +0.14% |
| N225 (JP) | 72366.34 | 3191.37 | +4.61% |
| STOXX50 (EU) | 6267.53 | 52.83 | +0.85% |

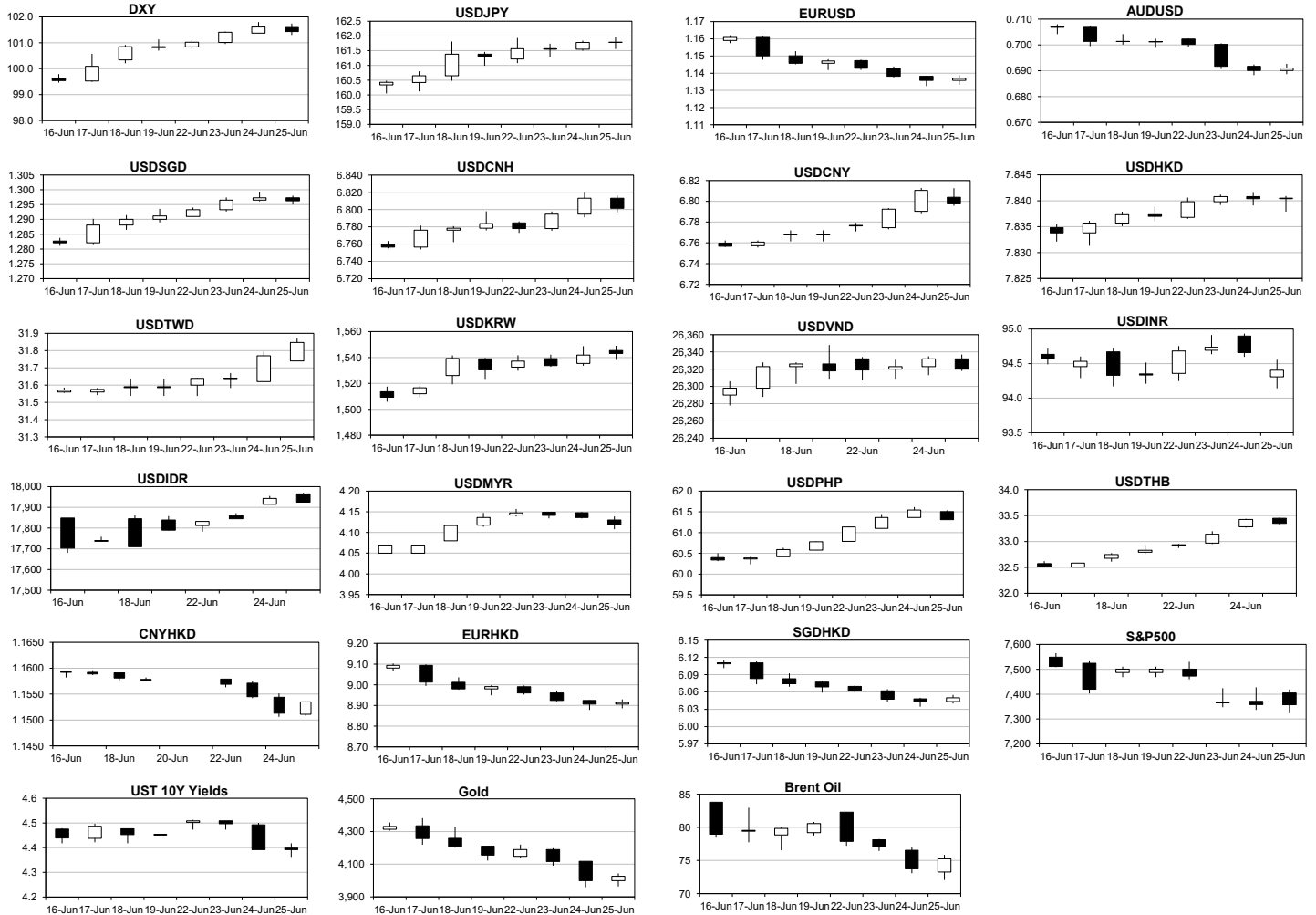
| Commodity | Close | Net Chg | Daily %Δ |
|---------------|-----------|---------|----------|
| COPPER (LME) | 13,227.58 | 197.87 | +1.52% |
| IRON ORE (CN) | 99.95 | -0.60 | ▼0.10% |
| GOLD | 4,026.73 | 27.32 | +0.68% |
| SILVER | 57.86 | 0.12 | +3.79% |
| OIL (BRENT) | 75.26 | 1.52 | +2.06% |
| OIL (WTI) | 71.92 | 1.58 | +2.25% |
| NATURAL GAS | 3.34 | 0.44 | +0.77% |

| Cross FX | Close (NY) | Open* | Daily %Δ |
|------------------|------------|---------|----------|
| EUR/JPY | 183.96 | 183.83 | +0.10% |
| GBP/JPY | 213.443 | 213.372 | +0.20% |
| JPY/SGD (100yen) | 0.801 | 0.8015 | ▼0.09% |
| JPY/HKD (100yen) | 4.8458 | 4.8455 | +0.00% |
| CNH/JPY | 23.801 | 23.804 | +0.19% |
| CNH/HKD | 1.1535 | 1.1534 | +0.19% |
| EUR/GBP | 0.8619 | 0.86153 | ▼0.09% |
| AUD/NZD | 1.2233 | 1.223 | +0.16% |
| EUR/CNH | 7.7335 | 7.7287 | ▼0.04% |
| GBP/CNH | 8.9716 | 8.9709 | ▼0.00% |
| CNY/HKD | 1.1535 | 1.1534 | +0.19% |
| EUR/HKD | 8.9141 | 8.9073 | +0.09% |
| SGD/HKD | 6.0498 | 6.0453 | +0.10% |

*Open is as at 8am HKT/SGT.

| Asia Equities | Close | Net Chg | Daily %Δ |
|---------------|----------|---------|----------|
| ASX (AU) | 5654.18 | 34.32 | +0.61% |
| STI (SG) | 5218.96 | 2.97 | +0.06% |
| SHCOMP (CN) | 4120.281 | 9.47 | +0.23% |
| SZCOMP (CN) | 2876.114 | 20.50 | +0.72% |
| HSI (HK) | 23076.91 | -335.27 | ▼1.43% |
| SENSEX (IN) | 77100.47 | 109.25 | +0.14% |
| JSE (ID) | 5999.038 | 115.16 | +1.96% |
| KLSE (MY) | 1663.82 | -18.31 | ▼1.09% |
| PSE (PH) | 6071.06 | 79.69 | +1.33% |
| SET (TH) | 1558.55 | 10.33 | +0.67% |
| VNINDEX (VN) | 1863.07 | -0.01 | ▼0.80% |

CHARTS



RESEARCH TEAM

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

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