

Three Take-Aways

- 1) Trump declared the US–Iran ceasefire over, prompting renewed US strikes, tighter sanctions, and a surge in oil prices.
- 2) Fed minutes showed a hawkish but divided committee, with hike risks back on the table, though softer data have reduced the urgency of a near-term move.
- 3) KRW remains pressured despite Korea's record current account surplus, as heavy equity-driven portfolio outflows continue to offset AI-led export tailwinds.

MACRO THEME: Ceasefire Declared Over

- In response to Iran's attacks on three commercial vessels in the Strait of Hormuz, **Trump declared yesterday that the ceasefire was over**, saying he had "wasted time dealing with Iran," though he also indicated that negotiators may continue talks.
- The US Treasury simultaneously **revoked the sanctions waiver that had allowed Iranian crude oil sales globally**, which is a key commitment under the June 17 MOU.
- **US forces launched strikes on Iran for a second day**, with US Central Command saying the attacks were aimed at further degrading Iran's ability to threaten freedom of navigation in the Strait of Hormuz.
- Although **Trump later downplayed the risk of a return to full-fledged war with Iran**, concerns over potential disruption to Strait of Hormuz traffic and rising war-risk premia from tit-for-tat strikes pushed oil prices higher. Brent crude surged 5.2% to \$78.02/bbl.

Fed Minutes Reveal a Hawkish Divide

- Fed Chair **Kevin Warsh's first FOMC minutes** showed a clearly hawkish tilt, with **"a few" officials seeing a case for an immediate rate hike**, the first such signal in recent meetings and a sign that hike risks are back on the table.
- That said, **the committee was sharply divided**, with many participants still expected rates to remain at current levels or slightly lower by year-end, while a similarly sized group expected rates to be higher.
- Inflation risks dominated the discussion. **Several officials noted price pressures becoming more broad-based**, with concerns around energy-linked items, transportation, airfares, petrochemicals and agricultural inputs.
- **Growth was viewed as above potential**, and financial conditions were seen by some as still supportive of demand, leaving room for more restrictive policy. **Labor-market risks appeared less concerning**, with unemployment seen stabilizing near long-run levels, though some noted **weak labor-market dynamism**.
- **Warsh's communication overhaul received broad support**, including shorter statements and less explicit easing-bias language.
- Overall, **the minutes reinforced a hawkish tile**, but softer post-meeting energy prices and a weak June jobs report has reduced the urgency of a hike in the near term.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) Wholesale Inventories MoM (May F)	0.1%	0.3%	0.3%
(US) FOMC Meeting Minutes			
(JP) BoP Current Account Balance (May)	¥ 3968.3b	¥ 4110.5b	¥ 3907.8b
(JP) Eco Watchers Survey Current/Outlook SA (Jun)	44.0/45.7	44.2/42.3	43.6/40.7
(KR) BoP Current Account Balance (May)	\$38607.4m	--	\$28292.3m
(PH) Unemployment Rate (May)	4.8%	--	4.7%
(ID) Consumer Confidence Index (Jun)	117.8	--	120.9
Today	Actual	Exp.	Prior
(US) Existing Home Sales (Jun)		4.20m	4.17m
(US) Initial Jobless Claims		218k	215k
(EZ) ECB Publishes Account of June Meeting			
(JP) Machine Tool Orders YoY (Jun P)		--	37.5%
(CH) PPI YoY (Jun)		4.1%	3.9%
(CH) CPI/Core YoY (Jun)		1.1%/1.1%	1.2%/1.1%
(MY) Industrial Production YoY (May)		9.4%	8.2%
(MY) BNM Overnight Policy Rate		2.75%	2.75%
(TH) Consumer Confidence Economic (Jun)		--	43.1
(TW) Exports/Imports YoY (Jun)		49.9%/48.0%	54.9%/51.7%

KRW: Current Account Surplus – Tailwinds Dampened

- **Korea's current account surplus reaching record highs** of US\$38bn for May is hardly surprising given the strength of the semiconductor cycle. The multi-fold surge in memory prices has accentuated their current account surplus gains with much improved terms of trade.
- Despite these favourable current account tailwinds, the **KRW has continued to underperform** in recent months.
- A broader examination via the Balance of Payments perspective reveals the **sheer intensity of drag from foreigners selling domestic equities**.
- Specifically, the net **financial account outflows amounted to US\$31bn in May** driven largely by portfolio investment outflows.
- To be clear, while foreign selling of Korean equities accounts for much of the recent KRW's underperformance, the **steady portfolio investment foreign asset accumulation of debt securities throughout the year** amid household and institutional demand represent structural drags as well.
- All in, while the AI-led exports boom continues to boost economic activity which avails space for the **BoK's imminent rate hike**, the KRW remains stymied by the wild swings in equities dampening supposed current account tailwinds.
- The authorities' intervention efforts being critical to provide backstop for the KRW to tide through swings between AI euphoria and meltdowns.

Yields (2Y: +3.3bp; 10Y: +2.9bp; 30Y: +1.8bp)

Equities (Nasdaq: +0.2%; S&P500: -0.3%; Dow: -1.1%)

FX (DXY: -0.03%)

BNM: No Compelling Reason to Move

- **We expect BNM to keep its policy rate on hold at 2.75%**, in line with consensus, amid contained inflation and steady growth.
- Headline CPI rose to 2.0% YoY in May, mainly driven by higher energy inflation, though **second-round effects remain limited**.
- **Inflation should stay moderately contained**, supported by RON95 fuel subsidies and the reintroduction of diesel subsidies in Peninsular Malaysia.
- Early Q2 data point to resilient growth, with April manufacturing sales accelerating to 9.1% YoY from 5.5% in Q1. April–May exports expanded 41% YoY, outpacing import growth of 17%, supported by semiconductors and petroleum/natural gas.
- With growth healthy and domestic demand resilient, the output gap is likely positive, suggesting the current OPR is mildly accommodative.
- **For now, the balance of risks does not compel a move**, though a rate hike may be on the table down the road, if inflation broadens beyond energy and become increasingly demand-driven.
- **MYR should remain underpinned by solid fundamentals**, despite lower oil prices, as energy-exporter gains are partly offset by fuel-subsidy costs. However, elevated UST yields and political uncertainty ahead of GE16 remain key downside risks.

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast	
USDJPY	162.59	162.55	+0.30%	159.00	- 163.00
EURUSD	1.1417	1.1421	+0.04%	1.1350	- 1.1500
GBPUSD	1.3389	1.3394	+0.22%	1.3300	- 1.3450
AUDUSD	0.6930	0.6936	+0.03%	0.6890	- 0.6990
DXY	101.0	--	▼0.03%	100.3	- 101.5
USDCNY	6.8060	--	+0.15%	6.7500	- 6.8200
USDCNH	6.8063	6.8049	+0.04%	6.7500	- 6.8200
USDHKD	7.8392	7.8390	▼0.03%	7.8200	- 7.8500
USDSGD	1.2937	1.2936	+0.09%	1.2870	- 1.3000
USDKRW	1504	1503	+0.00%	1480	- 1545
USDTWD	32.04	--	▼0.36%	31.75	- 32.20
USDINR	95.56	--	+0.62%	94.50	- 95.80
USDIDR	17999	--	+0.09%	17800	- 18100
USDMYR	4.077	4.078	+0.17%	4.050	- 4.100
USDPHP	61.51	--	+0.12%	61.00	- 61.80
USDTHB	33.48	33.46	+0.51%	33.0	- 33.5
USDVND	26295	26296	+0.00%	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)	4.220	4.581	3.3	2.9
JGB (JP)	1.423	2.862	2.5	1.5
Bunds (GE)	2.706	3.122	12.4	12.9
Gilts (UK)	4.329	4.974	15.5	12.6
AGB (AU)	4.495	4.881	4.3	6.0
SGS (SG)	1.588	2.134	0.7	2.1
CGB (CN)	1.227	1.730	-0.1	-0.3
KGB (KR)	3.672	4.211	0.0	0.0
SDL (IN)	5.989	6.764	4.4	6.8

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7482.71	-21.14	▼0.28%
Nasdaq (US)	25870.65	51.96	+0.20%
DJIA (US)	52348.39	-576.76	▼1.09%
N225 (JP)	66819.05	-1437.91	▼2.11%
STOXX50 (EU)	6204.91	-114.95	▼1.82%

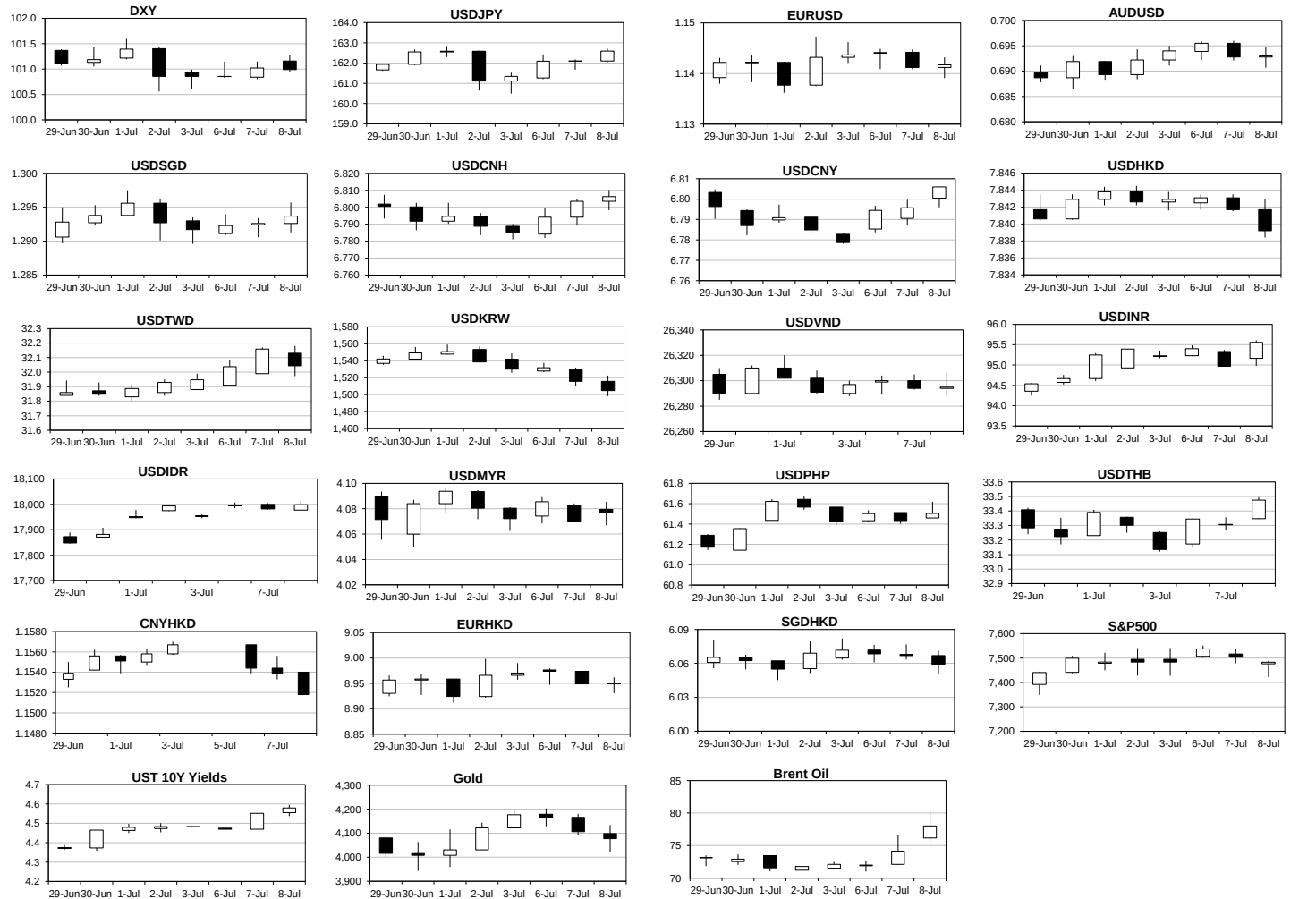
Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,097.18	-201.31	▼1.51%
IRON ORE (CN)	99.03	1.40	+1.01%
GOLD	4,077.43	-28.81	▼0.70%
SILVER	58.30	-0.05	▼1.62%
OIL (BRENT)	78.02	3.86	+5.20%
OIL (WTI)	73.52	3.08	+4.37%
NATURAL GAS	3.21	-1.68	▼2.80%

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.63	185.64	+0.35%
GBP/JPY	217.678	217.705	+0.52%
JPY/SGD (100yen)	0.7956	0.7958	▼0.23%
JPY/HKD (100yen)	4.8208	4.8227	▼0.35%
CNH/JPY	23.874	23.884	+0.20%
CNH/HKD	1.1518	1.1519	▼0.18%
EUR/GBP	0.85274	0.85273	▼0.18%
AUD/NZD	1.2157	1.2138	▼0.35%
EUR/CNH	7.7711	7.7719	+0.09%
GBP/CNH	9.1131	9.1141	+0.27%
CNY/HKD	1.1518	1.1519	▼0.18%
EUR/HKD	8.9504	8.9529	+0.02%
SGD/HKD	6.0593	6.0598	▼0.13%

*Open is as at 8am HKT/SGT.

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5631.48	-93.38	▼1.63%
STI (SG)	5369.57	27.33	+0.51%
SHCOMP (CN)	3970.88	-19.36	▼0.49%
SZCOMP (CN)	2650.427	-53.27	▼1.97%
HSI (HK)	24199.46	702.57	+2.99%
SENSEX (IN)	76503.6	-1677.12	▼2.15%
JSE (ID)	5873.372	-113.13	▼1.89%
KLSE (MY)	1683.61	0.68	+0.04%
PSE (PH)	6275.77	28.66	+0.46%
SET (TH)	1576.25	-27.88	▼1.74%
VNINDEX (VN)	1853.7	0.00	+0.29%

CHARTS



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