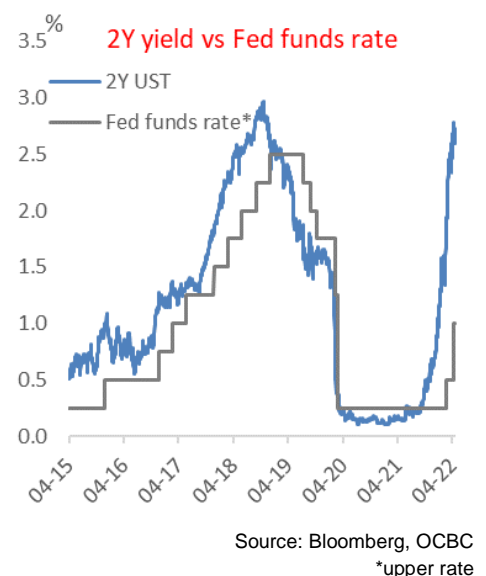
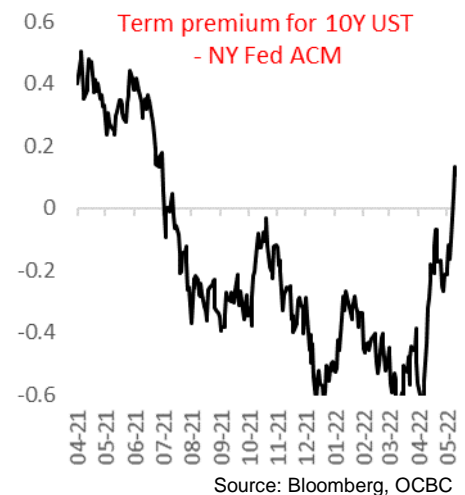


### Rates and FX Themes/Strategy

- **UST yields** retraced further lower on Wednesday, with the curve flattening mildly. Mester supported 50bps hikes in June and July but said a larger 75bps hike may be needed later in the year if inflation is not moving down. Waller said the economy can withstand higher rates. These comments reinforce the Fed's hawkishness and intention to hike rates further but were not surprising and did not move the market. The market did not react much to the 3Y coupon auction either. The auction was well received, at a bid/cover ratio of 2.59x and indirect award higher at 62%; cut-off was similar to (0.3bps higher than) WI level. Barring any surprise from US CPI tonight, we expect the 10Y UST yield to hover around the current level to trade in a 2.90-3.10% range over the coming weeks.
- Gilts outperformed, as SONIA futures and OIS re-priced lower. This is despite a local think-tank's opinion that the BoE would need to raise interest rates to 2.5% to curb inflation, as investors focused on the downside risk to growth. GBP OIS pricing of additional hikes of 107bps by year-end is becoming less overly hawkish; while we still see room for further re-pricing lower, this room may be more limited from here. This prospect may help **GBP/USD** stabilize with the immediate support at 1.2261; near-term range is at 1.2081/1.2495.
- Incoming **ECB** comments support a potential July hike. Nagel said he would "advocate a first step normalizing ECB interest rates in July". ECB Vice President Guindos said monetary normalization will be "sooner rather than later" in the third quarter. We continue to see the July meeting a live one for a policy rate decision. EUR OIS is pricing in cumulative hikes of 85bps before year-end, and the risk is for the market to reprice higher.
- **USD/IDR** fluctuated in a 14,533/14,565 range on Tuesday amid opposing forces from exporters and FDI related flows versus bond flows. **IndoGB** yields went higher on Tuesday and the bond market sentiment is likely to stay subdued for now despite the lower US yields. The conventional bond auction attracted incoming bids of IDR19.7408 only, with IDR7.76trn of bonds awarded which was much lower than the indicative target of IDR20trn; a greenshoe auction will be held today. The Q2 supply schedule implies targets of IDR20trn at each conventional auction and IDR9trn at each sukuk auction; these numbers already point to a low supply against fiscal shortfall risks.
- **USD/SGD**. SGD NEER is trading higher at 1.24% above mid-point this morning, as USD/SGD edges lower and the SGD outperforms the MYR and the Yen. Pressure on the NEER is mostly balanced at the current level on mild dollar softness while the SGD underperforms the CNY. Range for spot USD/SGD is at 1.3754-1.3936.

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