

Mispriced expectations - “they always resolve it anyway” view and positioning.

Thanks to the reduction of the Treasury General Account adding liquidity, the lead up to the debt ceiling has been bullish for stocks / risk since Sept 22 . Once the ceiling is resolved and Treasury goes back to normal bond issuance/rebuild TGA, this could drain liquidity and remove this stock tailwind.

Adding to the liquidity was the euphoria about pivot /pause - recent reassessment post Fed speak is a much needed reality check - further clues from Powell who will speak alongside Bernanke (?) tomorrow afternoon.

Riksbank paper comes up with an interesting reason : US households are

less rate sensitive and hence Fed needs to hike more than other countries to have same effect.

So you have a toxic combination - higher rates and tightening liquidity - USD index naturally reflects that.

It is a holiday in some parts of Europe today. Market prices a 25 bp June hike to 3.5% at 83.1% from 92.5 .Long term 1-3Y fair value for EUR/USD is in the mid-to-low 0.90's, making valuation a headwind and thus acting as a source of gravity. As of now 1.0806, 50% of 2023 rise held yesterday, remains support. Break sets up a sharp downmove for 61.8% at 1.0737

China is on the brink of a "confidence trap," as Citi economists put it- obviously if you use fear as key policy strategy , its hard to

then expect optimism - add 20% youth unemployment rate to the mix - 7.00 decisively broken- blast off to the outer space in the cards .

Soft Thurs start reviving the bear bias. Key resistance at 1.2545, Tues high and support at 1.2422 Wed low. Expect 1.2290

Nikkei 225 outperformed MSCI All Country World Index on a year-to-date basis (17% vs. 9%). Fed-BoJ policy divergence . Sharp deceleration in Japan's export growth, to weakest pace in more than two years. Limited downside -buy any dip for 139.58.

USDINR gets one more supportive factor in the form of lower carry - will the seasonal phenomenon - cash dollar shortage in the second fortnight of May - re surfaces after few years . Immediate Objective 82.70 .

