

Where we stand

May saw yields extend higher as inflation data topped estimates, though yields reversed lower into month-end. Equities largely looked through the data and interpreted developments in the Middle East as de-escalatory. The USD traded flat after gaining in the first half of the month, with gains concentrated against Asian currencies as energy prices remained elevated. With Kevin Warsh officially confirmed as the new Fed Chair, markets will be closely monitoring his first FOMC meeting on June 17.

The situation in the Strait of Hormuz continued to develop as the United States announced Project Freedom, a plan to facilitate and escort vessels through the passage. Following the news that the United States would intervene in the Strait of Hormuz, Iran retaliated and struck an oil hub in Fujairah, UAE. Despite the Iranian strikes on the UAE and attempted attacks on US warships, the ceasefire remained in place, but the rise in tensions was reflected in oil prices and yields on the day of the escalation.

Reports surfaced on May 20 that the United States and Iran were in the final stages of negotiations, later confirmed by Trump, bringing a leg lower in the dollar, yields and oil. The move extended over the following weekend as Iran's foreign ministry relayed that a consensus had been reached but cautioned that signing was not yet imminent. The optimism proved well-founded when reports confirmed **the United States and Iran had reached a deal, subject to Trump's final approval.** The memorandum of understanding stipulates unrestricted traffic through the Strait of Hormuz and a 60-day extension of the ceasefire, setting the stage for further de-escalation.

Japan's Golden Week saw a further round of intervention from the Ministry of Finance amid thin liquidity during the holiday. USDJPY came under pressure in the early hours of May 6, dropping nearly three big figures from 157.8 to just above 155. But repeated bouts of intervention have left market participants concerned that Japan's policies may challenge its "free-floating" IMF currency classification. IMF rules allow free-floating currency regimes three episodes of intervention within six months, and excess intervention would result in the currency being reclassified. Since the confirmed JPY intervention on April 30, which pushed USDJPY to a low of 155.57, the yen has retraced the move by end of May. USDJPY topped 159 on May 29, with market participants now eyeing 160 and the 160.72 intervention level.

US nonfarm payrolls topped estimates, coming in at 115,000, and the unemployment rate remained unchanged at 4.3%, though the participation rate fell and wage growth remained tepid. Meanwhile, inflation for April came in hot at 3.8% on headline year-over-year figures, topping estimates of 3.7% as energy prices continued to rise. Core year-over-year inflation also printed above estimates at 2.8%, driven by shelter, airline fares and recreation. PPI figures the following day painted a concerning inflation backdrop, with headline year-over-year figures jumping to 6% against estimates of 4.8%. Despite the higher producer prices, the components that feed into PCE were more benign, with airfare standing out as the primary upside contributor. PCE data for April later confirmed these trends, with headline year-over-year figures coming in line with estimates at 3.8%, while month-over-month PCE printed below estimates at 0.4%.

The Canadian Labour Force Survey for April printed lower at -17,700, resulting in the weakest four-month period of job gains since the pandemic period of 2021, while the unemployment rate rose from 6.7% to 6.9%. Canadian April inflation printed at 2.8% on headline year-over-year figures, up from 2.4% in March, though price levels were deemed soft overall as gasoline was the primary driver and core figures missed estimates. **Canadian GDP surprised to the downside at -0.1% for the first quarter, and when combined with the revised fourth-quarter GDP of -1%, triggered a technical recession.** A weaker job market combined with US trade pressures has weighed on Canadian business investment, while government defence spending also fell.

HEADLINES

- US and Iran conflict end in sight
- US unemployment unchanged at 4.3%
- Canada unemployment rises to 6.9%
- Canada enters technical recession
- UK politics weighs on GBP
- Warsh officially becomes Fed Chair
- Trump and Xi meet in Beijing

The Labour Party’s historic losses in the May local elections threw the United Kingdom into political turmoil as trust eroded in Prime Minister Keir Starmer, resulting in new candidates surfacing for the role. Despite the defeat, Starmer took responsibility and stood by his plan to stay as prime minister (PM), committing to campaign for Andy Burnham in an attempt to unite the party. Domestic uncertainties resulted in GBPUSD underperforming on the month, though the pair has retraced some losses as markets expect an imminent end to the war in the Middle East.

Resignations began on May 12, including Safeguarding Minister Jess Phillips, Minister for Victims Alex Davies-Jones and Junior Minister Miatta Fahnbulleh. Two days later, Health Secretary Wes Streeting resigned, delivering the most damaging blow as he questioned Starmer’s leadership. At this point, 96 members of Parliament (MPs) had publicly called for Starmer to set out a timeline for his resignation. Potential challengers for the PM role included Angela Rayner, who was cleared by a tax probe; Wes Streeting; and Andy Burnham, who lacked a Westminster seat. As the discord continued to brew, Labour MP Josh Simons stepped down to allow Burnham to contest the Makerfield seat. Lisa Nandy then joined Burnham’s campaign—marking the first Cabinet Minister to do so—and on May 22, Burnham formally launched his by-election campaign. This was followed by UK PMI dropping to 48.5, further pressuring Starmer’s government. Markets now await the outcome of the Makerfield by-election on June 18. In the meantime, the UK’s political standing continues to weaken, with Bloomberg reporting that European officials are potentially postponing the planned UK–EU summit to July at the earliest, citing Starmer’s weakened authority.

On the horizon

The US Senate narrowly confirmed Kevin Warsh as Fed Chair on May 13 in a 54–45 vote, and he was later sworn in at the White House as the 17th Fed Chair. During the ceremony, Trump highlighted his wish for Warsh to be “totally independent,” while Warsh reiterated he would lead a reform-oriented Fed with independence, resolve and a commitment to lower inflation. Despite Warsh’s dovish leanings, the latest FOMC meeting minutes revealed that most Fed officials were contemplating future rate hikes if inflation remains above 2%, with futures markets also beginning to price in a full quarter-point hike by end-2026.






Trump met with China’s Xi Jinping in Beijing in the first official state visit by an American president since his own trip in November 2017, reciprocating with an invitation for Xi to visit the White House in September. During the meeting, the two discussed China–US ties within the context of the “Taiwan question,” trade deals and the need to open the Strait of Hormuz. Following the positive meeting headlines and the PBoC’s decision to allow the yuan to strengthen, USDCNY traded below 6.80, marking its strongest level since 2023.

French President Emmanuel Macron nominated Emmanuel Moulin to replace Villeroy, who steps down in June, at the Bank of France. The French Parliament approved Macron’s pick despite 58 of 110 legislators opposing the move, highlighting concerns that Moulin would remain in post for years after Macron’s tenure ends in 2027. Hawkish comments from ECB members have also pushed market-implied odds of a 25-bps hike at the June meeting to 92%.

On May 20, **the European Parliament reached a provisional agreement to implement the EU–US trade deal**, sparing the bloc from a threatened 25% tariff on European car exports. The agreement came after overnight talks and included expiry and safeguard clauses but still requires formal ratification before the July 4 deadline.

Emerging markets

Taiwan’s tech-dominant stock market drove a volatile May for the TWD, with the pair oscillating on foreign equity flows and Iran–US war headlines. Unlike the TWD, most other APAC currencies saw losses as the USD continued to strengthen. **The KRW weakened throughout May due to elevated oil prices and foreign outflows from Korean equities.** USDKRW trended higher through the month, rising from lows of 1,439.20 in the first week to highs of 1,520 before retracing. **The INR hit a new record low in mid-May as high crude prices weighed on the Indian economy, forcing monetary authorities to intervene on May 21.** The RBI engaged in onshore and offshore dollar selling to support the rupee, which appreciated 0.8% on the day, and conducted additional FX swaps to provide liquidity. RBI policymakers also weighed the use of interest rate hikes but ultimately determined that inflation, rather than FX moves, should guide rate policy.

KEY UPCOMING EVENTS	
DATE	EVENT
JUN 10	 BoC rate decision
JUN 11	 ECB rate decision
JUN 16	 BoJ rate decision
JUN 17	 Fed rate decision
JUN 18	 BoE rate decision

Political headlines continued to steer markets in Brazil after it was revealed on May 13 that presidential candidate Flávio Bolsonaro was linked to Daniel Vorcaro of the failed Banco Master SA through messages discussing potential financing for a film about former President Jair Bolsonaro. The real tumbled on the news, with USDBRL trading 2% higher through 5.00 after opening at 4.90, while the Ibovespa stock index also traded lower as markets digested the implications for Bolsonaro's candidacy.

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