# * GS MORNING: 1) FX Trader Call Today, 2) US CPI Preview, 3) KRW Update, 4) Asia FX and 5) Equities Update

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Highlights from GS Research, Trading and Sales: **1)** FX Trader Call Today, **2)** US CPI Preview, **3)** KRW Update, **4)** Asia FX and **5)** Equities Update

**1) FX Trader Call Today @ 2:00 PM LDN**

Aim is to keep it short and punchy: Views from strategy and traders across G10 and EM. Topics = what is dominant flow/theme in your market? What is your favourite trade idea?

**Ronnie Walker (US Economics):** Takeaways from CPI/NFP and Outlook from Here
**Jan Scheffel (STIR Trading):** Thoughts Pre-ECB
**Luke Molyneux (G10 FX Spot Trading):** G10 FX Update
**Eren Ozer (EM FX Vol Trading):** EM FX Vol Update

https://goldmansachs.zoom.us/j/96365853746?pwd=UUh1NVFRRjhCeWZQWXE5aUlHblE3Zz09
Meeting ID: 963 6585 3746 | Passcode: 992479

This call is hosted by us each week in the same format. Please get in touch to get a recurring invite in your diary.

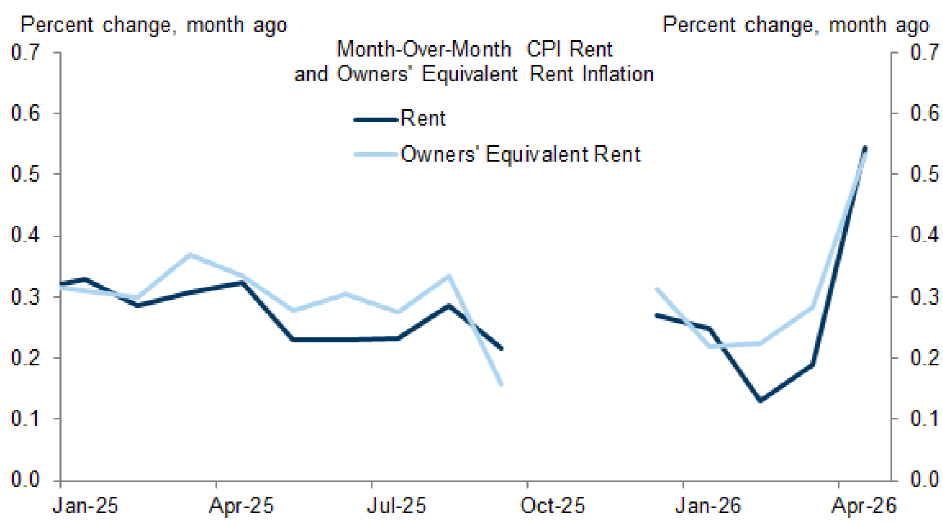
**2) US ECONOMICS (MERICLE) – US CPI Preview – LINK**

**BOTTOM LINE:** We estimate a 0.17% increase in May core CPI (month-over-month SA), which would leave the year-over-year rate unchanged at 2.8% on a rounded basis. We forecast benign readings for the shelter categories—a 0.22% increase in the OER category and a 0.22% increase in the rent category—reflecting the continued slowdown in their underlying trend. Full breakdown available here.

**George Cole**: Whisper is definitely lower than BBG, probably around 20bps. The risks are asymmetric to a stronger print. Only path to cuts is a big FCI tightening move on asset prices. Nothing in the data. Whereas there is still convexity to earlier pricing of Fed hikes; testing market's assumption that move ahead of mid-terms is unlikely. We like paid US vs. received Europe.

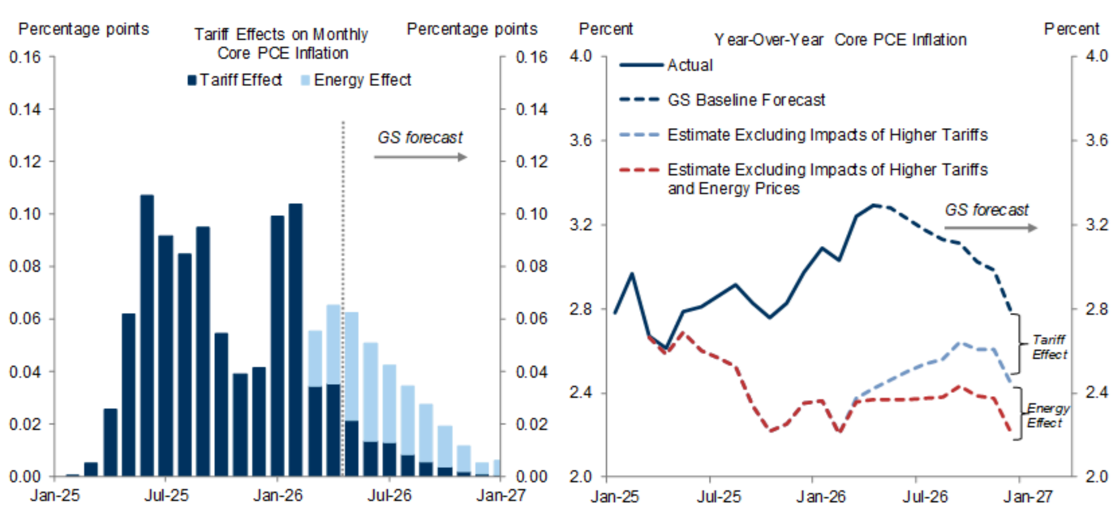
We would note that April inflation was boosted by two months' worth of rent and owners' equivalent rent inflation, which went unmeasured 6 months ago because of the federal government shutdown. See Chart 1 below. On net, our forecasts estimate that core PCE inflation net of tariff effects stands at roughly 2.4% in April. Inclusive of tariff effects, we expect core PCE inflation to decline to 2.8% by December 2026. We expect core CPI inflation to decline from 2.7% in April to 2.5% in December 2026 and 2.1% in December 2027. Charts 2 & 3 Below. There are upside risks to broader inflation forecasts, given the ongoing closure of the SoH and impact on energy prices (See Chart 4). Furthermore, AI related factors (input and software prices) may lead to a further boost in PCE. See here for GS' most recent US Inflation Monitor.

**CHART 1:** Rent and Owner's Equivalent Inflation went unmeasured during Federal Government Shutdown




Source: Goldman Sachs Global Investment Research

**CHART 2:** Year End Inflation Forecasts



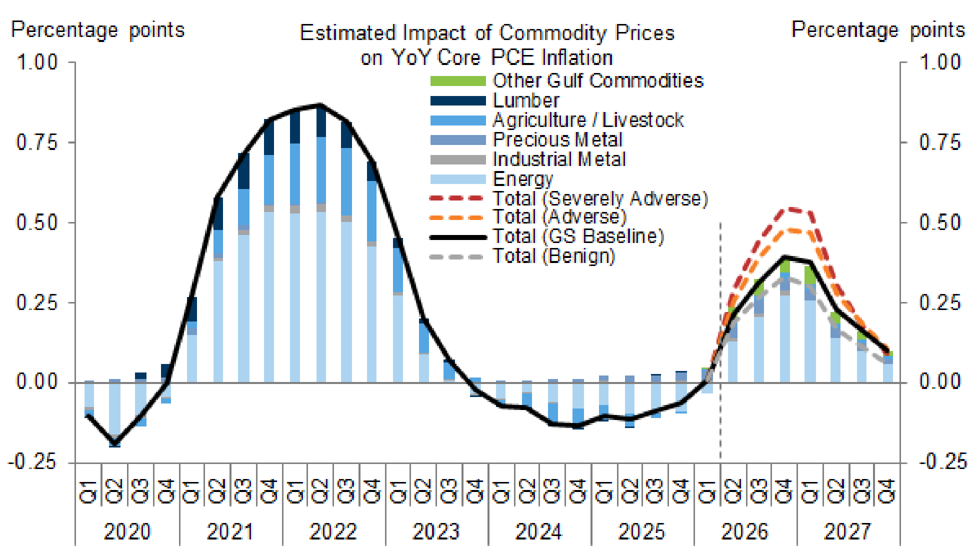

Source: Goldman Sachs Global Investment Research

**CHART 3:** Year End Inflation Forecasts Breakdown

| | | GS Bottom-up Core PCE Model | | | | |
|---|---|---|---|---|---|---|
| | | Apr. 2026 | Dec. 2026 | | Dec. 2027 | |
| | Weight | YoY | YoY | Contribution to Change | YoY | Contribution to Change |
| Core PCE | *100.0* | 3.3 | 2.8 | -0.5 | 2.1 | -1.2 |
| **Core Goods** | ***24.4*** | **2.8** | **1.8** | -0.2 | **0.5** | -0.6 |
| New Vehicles | *2.1* | 0.2 | -0.3 | 0.0 | 0.2 | 0.0 |
| Used Vehicles | *1.2* | -2.9 | -2.9 | 0.0 | 0.2 | 0.0 |
| Household Appliances | *0.5* | 0.4 | -1.3 | 0.0 | 0.6 | 0.0 |
| Video, Audio, Computers | *2.4* | 8.7 | 12.5 | 0.1 | -0.7 | -0.2 |
| Recreational Vehicles | *0.5* | 3.4 | 0.5 | 0.0 | 1.0 | 0.0 |
| Jewelry, Watches | *0.6* | 14.5 | 15.0 | 0.0 | 0.8 | -0.1 |
| Clothing & Footwear | *3.0* | 3.8 | 3.0 | 0.0 | 1.4 | -0.1 |
| Pharma & Medical | *3.8* | -0.8 | -1.6 | 0.0 | 0.1 | 0.0 |
| Pets Products | *0.6* | 2.6 | 2.7 | 0.0 | 0.4 | 0.0 |
| Expenditures Abroad | *0.1* | 7.1 | 7.4 | 0.0 | 3.3 | 0.0 |
| Residual Core Goods | *9.6* | 3.2 | 0.7 | -0.2 | 0.7 | -0.2 |
| ***Core goods ex. autos*** | *21.1* | 3.4 | 2.4 | -0.2 | 0.5 | -0.6 |
| **Core Services** | ***75.6*** | **3.4** | **3.1** | -0.3 | **2.6** | -0.6 |
| Housing | *17.5* | 3.2 | 2.6 | -0.1 | 2.2 | -0.2 |
| Ground Transportation | *0.6* | 2.6 | 14.9 | 0.1 | -1.5 | 0.0 |
| Air Transportation | *1.1* | 12.0 | 14.5 | 0.0 | -2.3 | -0.2 |
| Food Services & Accommodation | *7.9* | 3.6 | 3.2 | 0.0 | 3.4 | 0.0 |
| Financial Services & Insurance | *9.3* | 6.3 | 4.6 | -0.2 | 3.8 | -0.2 |
| Medical Services | *18.9* | 2.9 | 2.7 | 0.0 | 2.8 | 0.0 |
| Foreign Travel | *1.5* | 0.5 | 3.4 | 0.0 | 2.9 | 0.0 |
| Residual Core Services | *18.8* | 2.6 | 2.3 | -0.1 | 2.3 | -0.1 |
| ***Core services ex. housing*** | *58.1* | 3.5 | 3.3 | -0.1 | 2.7 | -0.5 |

Source: Goldman Sachs Global Investment Research

**CHART 4:** Energy Effects & Impact on Core PCE Inflation



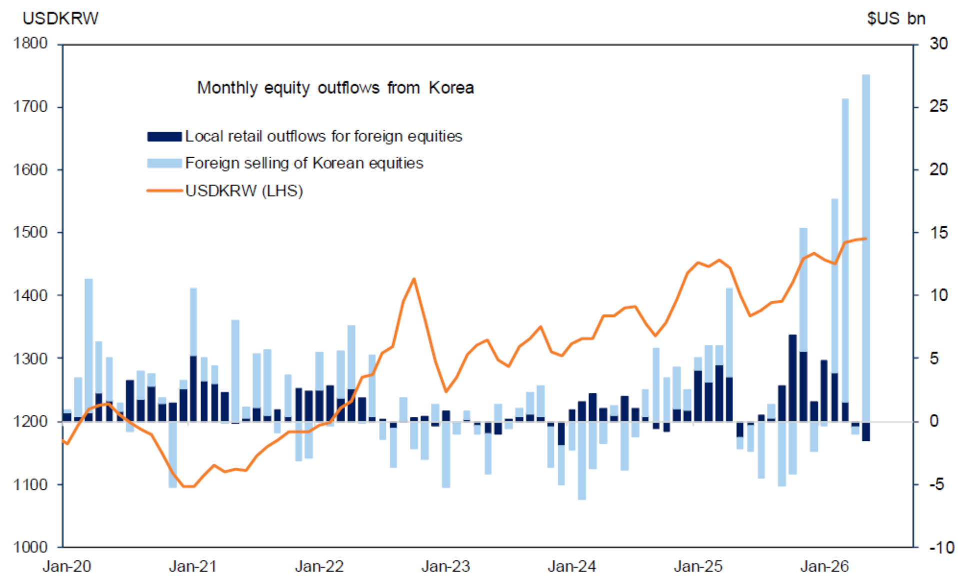

Source: Goldman Sachs Global Investment Research

**3) KRW – When The Chips Are Down**

**BOTTOM LINE:** Flows should shift significantly more KRW supportive as we move from an explosive equity rally driven by earnings re-ratings to the reality of actual chip revenues. Short USDKRW has been a painful trade with a succession of factors driving it higher. Latest is foreign equity selling due to concentration rules. But the flow picture should shift more supportive as current account strength kicks in and chip exports ramp up further. We expect a decent portion of these chip revenues to be repatriated given tax and capex considerations. Plus policymakers have strong incentives to support KRW rebound.

Below analysis and charts based on conversations with Goohoon Kwon – GS Korea Economist. Please get in touch with the desk for full email, with more charts available.

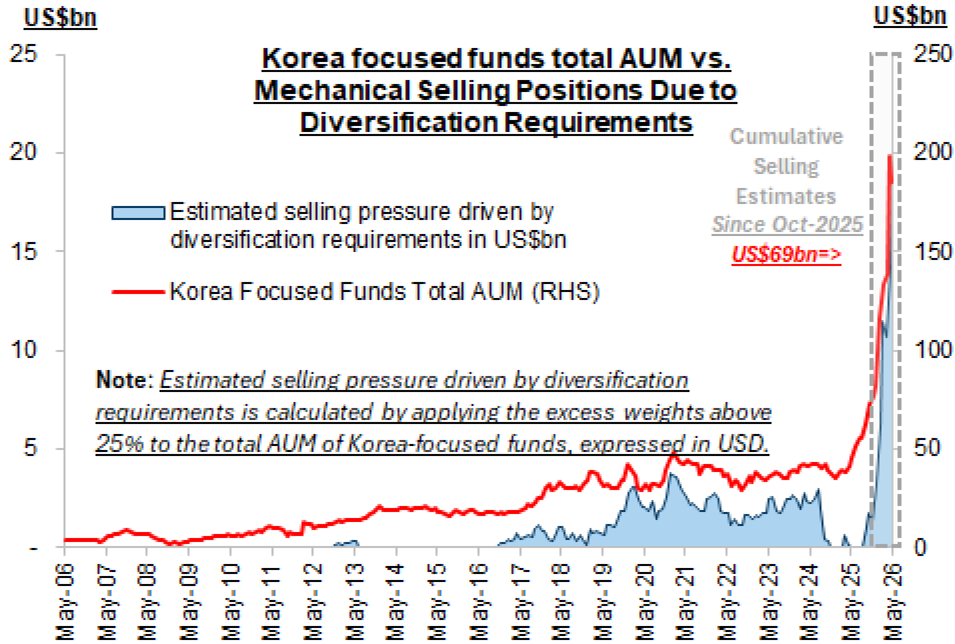
**CHART 1:** Key Reason for KRW Weakness Has Been Foreign Equity Selling**.** This flow has been orders of magnitude bigger the local retail outflows to foreign equities (dark blue) that used to be an issue for the currency; indeed latter has now turned to inflow. We think this will sustain given coming tax rule changes



Source: Haver Analytics

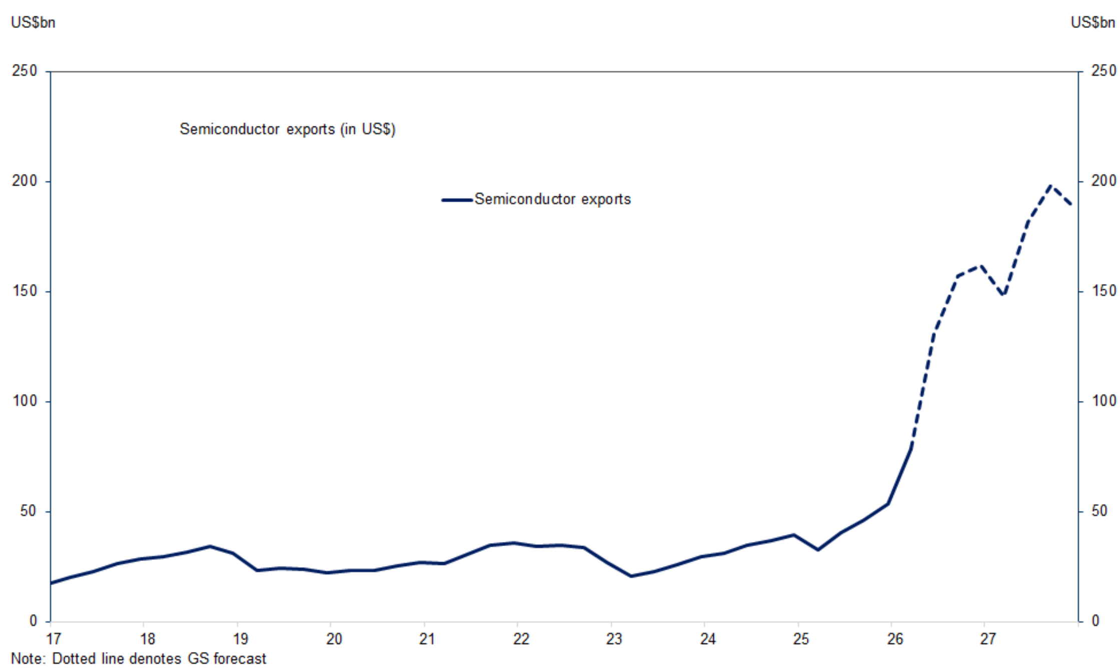
**CHART 2:** Selling is Rule Based. Note an Additional 1% Increase in the Combined Weight of These Two Names would Trigger Incremental Outflows of Roughly US$2bn. This will be an ongoing feature if outperformance continues.

Estimated selling pressure related to diversification requirements has reached approximately US$69bn since the end of October



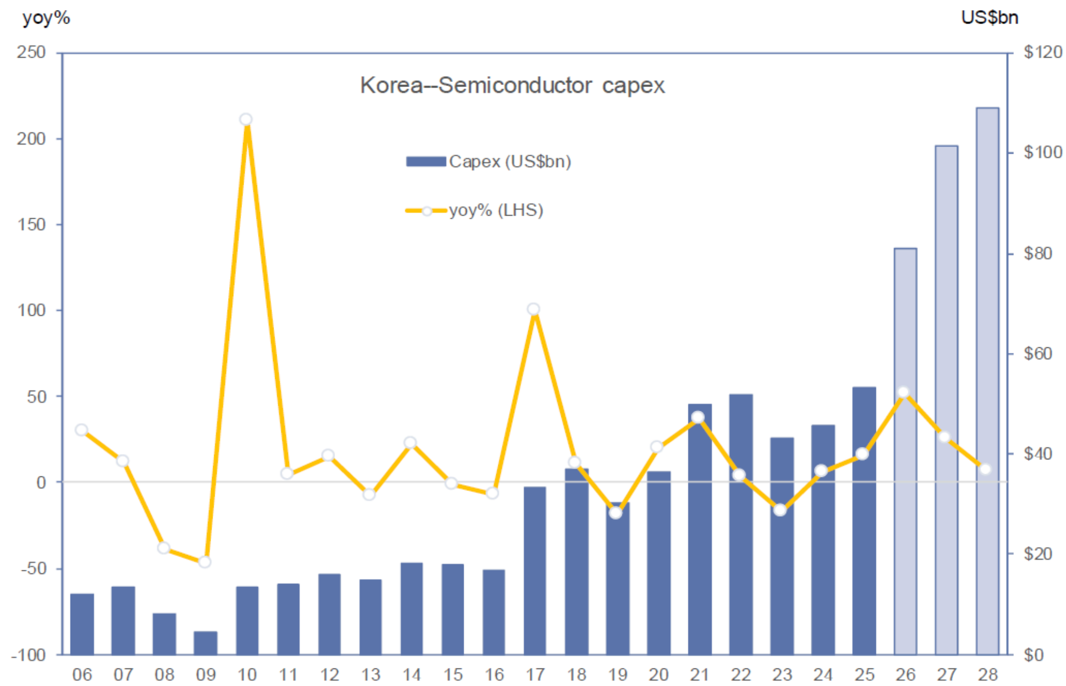

Source: GS FICC and Equities

**CHART 3:** Semiconductor Exports in USD – Chip Revenues are Just Beginning to Ramp up. Actual was $78.5bn in Q1. Q2 expected $130bn, Q3 $155bn and $160bn in Q4.



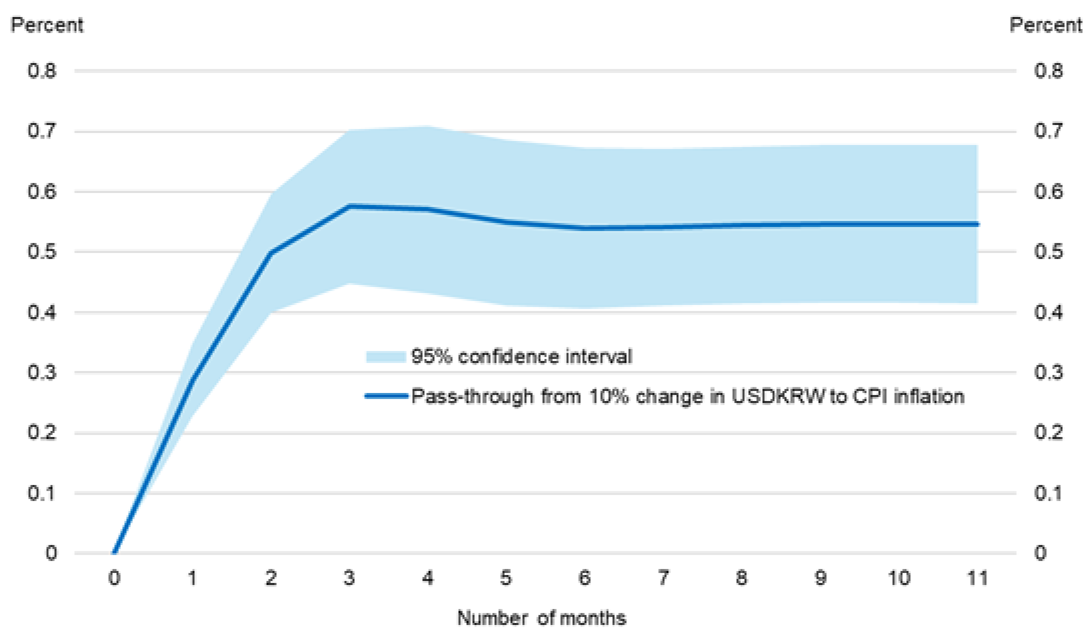

Source: GS FICC and Equities

**CHART 4:** Will this $ chip revenue be repatriated? We think a decent proportion will be. For a f
1/ capex plans are big (chart below) with majority in Korea 2/ tax payments are significant and
3/ there are also dividend and employee cost considerations.




Source: Haver Analytics, Goldman Sachs Global Investment Research

**CHART 5:** Impulse Response from USDKRW Change to Inflation




Source: GS FICC & Equities

**4) EM MARKET STRATS (SUN LU) – Will Stronger FX Measures Turn Around Asia FX? – LINK**

**BOTTOM LINE:** Over the past week, several authorities in Asia have released stronger FX measures against local FX that have depreciated to decade-lows (India, Korea, Indonesia), under ToT shock, rising US exceptionalism, and equity outflow influence. Measures used span across traditional smoothing (actual + verbal), off-cycle rate hike (Indonesia), efforts to attract capital inflows (India, Indonesia), moral suasion

(Korea), etc. This represents stronger than usual measures against sharp FX depreciation, and we have seen KRW, INR and IDR rallied 2%, 1% and 1% following the measures. We think the effectiveness of these measures differ, with India's measure likely most forceful for next 3-6 months, while others may lead to some extension of tactical FX rally only at this stage.

**INR:** We think India's measures are most forceful (a combination of FCNR, ECB, shorter exporter repatriation time may lead to ~US$75bn inflows in next 3-6 months vs est US$78bn annual CAD). We prefer long INR as carry trade and expect appreciation towards 94-94.5 area in next 3-6 months, below which RBI may buy USD to unwind its forward book shorts. Our preferred expression is buying **3-month USDINR 95 put with EKO at 93.5, offered at 16.5bp with max leverage of 9.7x**. forward reference is 96.35; risk of loss is limited to premium paid. Other than short USDINR, we think EURINR lower in dual digital format is a good trade to hold for the medium term, as US exceptionalism returns. Consider buying **6-month EUR<1.15 USDINR<95 dual binary, offered at 9.2%, max leverage 10.8x**. Forward reference 1.1629 for EUR and 97.09 for INR. Risk of loss to this trade is limited to premium paid.

**IDR:** We think IDR may tactically appreciate to 17700 area as BI has shown resolve to keep raising front end rates to improve the attractiveness of Indo assets (off-cycle hike, increase SRBI auction to twice a week + guided higher yield, 10% reduction in onshore hedging swap rates for foreign investors), and respond to investors' concern on fiscal (yesterday bond auction size was reduced and govt continued to promise fiscal debt/GDP ceiling of 3% won't be lifted). Thus, we think the set-up helps to attract ASW inflow on FX hedged basis, which may boost BI's gross reserve as BI subsidizes the FX hedging via banks. However, Indonesia's rate differential vs US remains low vs history, likely not sufficient to attract FX unhedged inflows at this stage. Given low import cover (only 4.9x), weak growth, continued concern on fiscal risk from offshore investors, we think the support on IDR is likely tactical only. Our pay USDIDR 6*12 point has reached target. We think it could tactically dip on spot pressure relief and bearish IDR position unwind, but we continue to look to pay USDIDR points on dip, as BI likely needs to further increase local yields to attract foreign inflow on FX unhedged basis. We look to re-enter pay point position when spot bottoms out.

**CHART 1:** IDR, KRW, INR Weakened to Extreme Levels; Historically, Reversals of from Weak Levels were Triggered by DXY Weakness


Source: GS FICC & Equities

**CHART 2:** USDIDR IMM1 and IMM2 Forward Points Spread


Source: Marquee MarketView

**5) Equities Update**

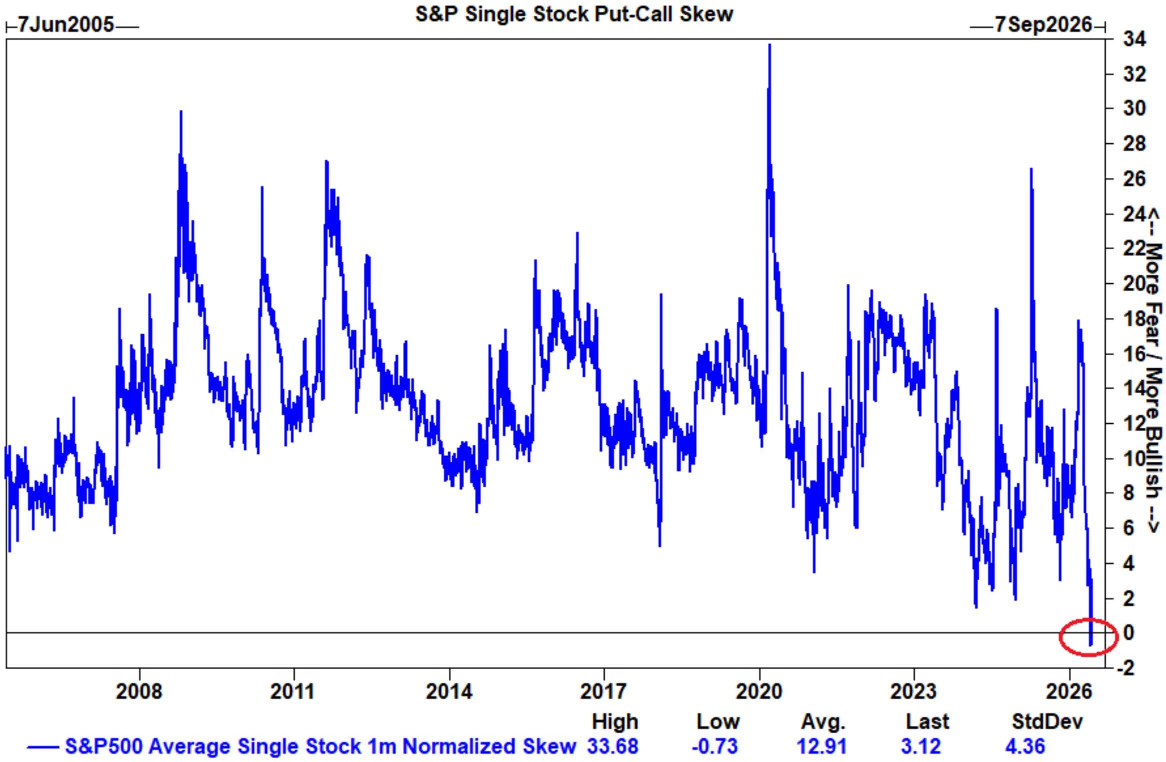
Given yesterday's equity volatility, re-flagging notes on equity positioning, concentration risks and the risks of extended drawdown in AI and momentum trade

**EQUITY SALES (COPPERSMITH) – LINK:** The secular AI story remains intact. Earnings revisions remain strong. Flows had still been aggressively supportive coming into the week. Friday finally produced a real volatility response, but not enough to suggest a fully hedged market backdrop. But the setup is clearly more fragile. The combination of momentum crowding, elevated correlations, higher-for-longer rates, growing issuance expectations, retail leverage, recently inverted single-stock skew, and increasingly narrow breadth all create an environment where factor unwinds can become materially more violent than index-level volatility implies.

**EQUITY TRADING (PRIVOROTSKY) – LINK:** The Nasdaq selloff yesterday was sharp and caught many off guard. There were not many obvious catalysts. One story that likely raised eyebrows was Crusoe pausing a 1.8 GW Wyoming data-center project at the request of its customer [more details in mail]. In a market where everything is tied to AI capex, even isolated examples of delays, deferrals or changing priorities are enough to force investors to revisit assumptions around future demand. The broader issue is positioning. Momentum returns in the 90th percentile, gross exposure in 99th percentile on a 5yr lookback, funding spreads have widened as demand for leverage has increased, and retail participation through leveraged ETFs remains substantial. Everything is increasingly tied to AI spending. It is the long leg of hardware, it is driving parts of GDP, and it is driving large portions of market performance. The circularity is becoming harder to ignore. If something were to disrupt the AI spending cycle, the vulnerability is obvious. That risk has existed for some time, but the market has accelerated into it. Given the amount of embedded and synthetic exposure created by leveraged products, owning gamma likely has more portfolio utility than many appreciate.

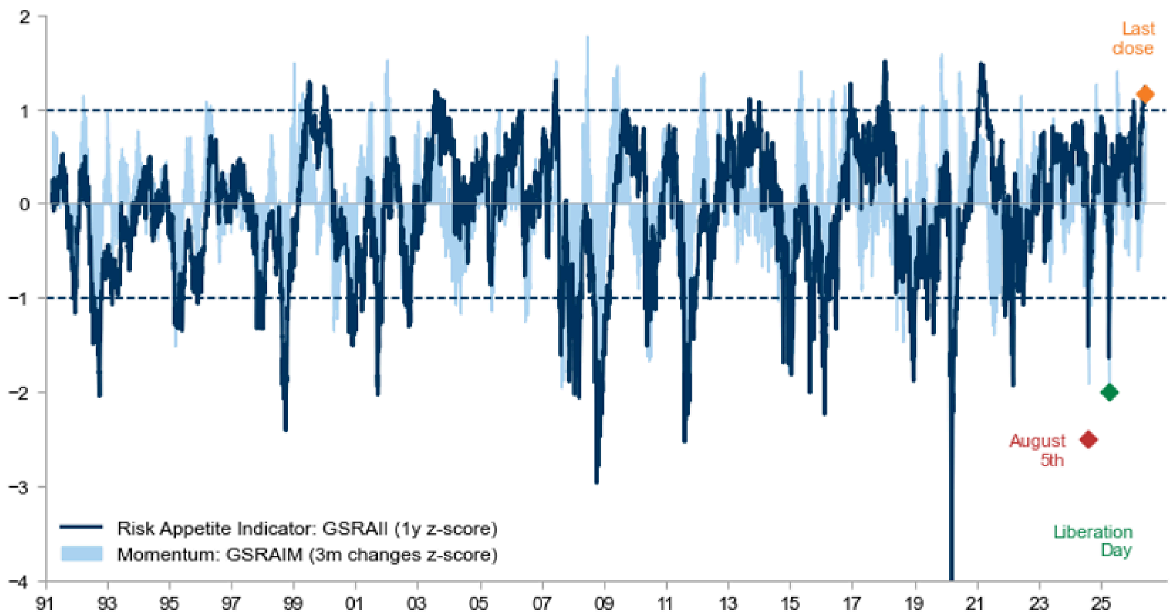
**EQUITY STRATEGY (SNIDER) – LINK:** A collection of indicators generally signals exuberance that registers above historical averages today but below the levels reached at market peaks in 2000 and 2021 (see Chart 3). The market can decline without investor exuberance as a precondition, and the measures that reflected exuberance in prior bull markets do not necessarily need to repeat today. But we evaluate nine metrics across four categories that exhibited a median 100th percentile rank vs. history in 2000 and 95th percentile rank in 2021. Today, those measures rank in the 86th percentile since 1995.

**CHART 1:** Prior to Friday, S&P Average Single-Stock 1m Put/Call Skew Had Inverted




Source: GS FICC & Equities

**CHART 2:** GS Risk Appetite Indicator Moved Back Above 1.2 (Highest Level Since 2021)




Source: GS FICC & Equities

**CHART 3:** Potential Indicators of Exuberance Relative to History

| | Percentile rank vs. history since 1995 | | |
|---|---|---|---|
| **Indicator** | **Dot-Com Bubble** | **2021** | **Current** |
| **Share prices** | | | |
| *Momentum factor returns* | 100% | 95% | 98% |
| *S&P 500 market breadth* | 100% | 76% | 94% |
| **Trading activity** | | | |
| *GS Speculative Trading Indicator* | 100% | 99% | 86% |
| *CBOE Put/Call ratio* | 100% | 97% | 88% |
| *Short interest for the median S&P 500 stock* | 96% | 89% | 4% |
| **Investor sentiment** | | | |
| *Yale US Stock Market Confidence Indices* | 100% | 96% | 97% |
| *AAII Investor Sentiment* | 99% | 92% | 16% |
| **Corporate sentiment** | | | |
| *Number of US IPOs* | 100% | 87% | 44% |
| *Net US equity issuance* | 100% | 96% | 68% |
| **Median** | **100%** | **95%** | **86%** |
| **Average** | **99%** | **92%** | **66%** |

Source: Goldman Sachs Global Investment Research