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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 29 Apr 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
02 May	US	ISM Prices Paid/ New Orders	Apr	--	87.1/53.8
	US	ISM Manufacturing/Employment	Apr	57.7/--	57.1/56.3
	EZ	Mfg PMI	Apr F	55.3	55.3
	JP	Mfg PMI	Apr F	--	53.4
03 May	**US**	**Durable Goods Orders/ Non-def Ex Air**	**Mar F**	**--**	**0.8%/1.0%**
	EZ	PPI YoY	Mar	--	31.4%
	EZ	**Unemployment Rate**	**Mar**	**--**	**6.8%**
04 May	US	Trade Balance	Mar	-$86.6b	-$89.2b
	US	**ISM Services Index**	**Apr**	**58.7**	**58.3**
	EZ	Services PMI	Apr F	57.7	57.7
	EZ	Retail Sales YoY	Mar	--	5.0%
	US	**FOMC Rate Decision**	**04-May**	**0.75%-1.00%**	**0.25%-0.50%**
05 May	US	Initial Jobless Claims	30-Apr	--	180k
06 May	**US**	**Change in Nonfarm Payrolls**	**Apr**	**400k**	**431k**
	US	Unemployment Rate	Apr	3.6%	3.6%

Asia

Date	Country	Event	Period	Survey*	Prior
02 May	IN	Mfg PMI	Apr	--	54.0
03 May	**AU**	**RBA Cash Rate Target**	**03-May**	**0.25%**	**0.10%**
	KR	**CPI/Core YoY**	**Apr**	**4.4%/--**	**4.1%/3.3%**
04 May	SG	Purchasing Managers Index	Apr	--	50.1
	AU	Retail Sales MoM	Mar	0.7%	1.8%
	ID	Mfg PMI	Apr	--	51.3
	VN	Mfg PMI	Apr	--	51.7
05 May	**CH**	**Caixin China PMI Services**	**Apr**	**41.0**	**42.0**
	SG	Retail Sales/Ex Auto YoY	Mar	--	-3.4%/-1.8%
	AU	Trade Balance	Mar	--	A$7457m
	TH	**CPI/Core YoY**	**Apr**	**4.7%/2.0%**	**5.7%/2.0%**
	PH	**CPI YoY**	**Apr**	**4.5%**	**4.0%**
06 May	CH	BoP Current Account Balance	1Q P	--	$118.4b
	AU	RBA-Statement on Monetary Policy			
	PH	**Trade Balance**	**Mar**	**-$4106m**	**-$3529m**
	PH	Unemployment Rate	Mar	--	6.4%

Week-in-brief: May the (Fed) Force ...

- **FOMC meeting is on May 4th**, and the **force is strong with this one**!
- Expectation are riding high. And the Fed, familiar with Master Yoda's wisdom, must know it is a **case of** "*Do, or do not. There is no try*". And indeed, expectations are riding high that the **Fed will do a "double"** with a **50bps rate** hike and announcing **QT flag-off**.
- In doing so, the **Fed will emphasize the unambiguous inflation (**expectations) containment objectives; qualifying that data-dependence will determine outcomes further out. Although the unexpected stumble in Q1 GDP will be discounted as inventory drawdown and import drag.
- Ahead of the FOMC, the **RBA (Tue) is slated for its MPC**, we now **expect "lift-off", albeit in a measured manner** with a *15bp hike to bring the cash rate to 0.25%*. It will be important to watch is to what extent the RBA re-prioritizes away from growth to inflation after broad-based Q1 CPI out-run.
- It will be **a shortened week** in **most of Asia** with **North Asia and Japan out for Golden Week** holidays early week, coinciding with Labour Day/Eid holidays in parts of South/Southeast Asia.
- And so a return to a "hawkish double" FOMC could potentially set off larger moves amid thinner liquidity. Against this backdrop, **USD is likely to retain allure** on a hawkish Fed (including QT).
- Meanwhile, US jobs data (NFP) and US ISM services may take a back seat this time around.
- Elsewhere **a dovish BoJ from this week has left JPY in shreds** (above 130). **Master Yoda's wisdom inevitably kicks in** "*Control, control, you must learn control*". In this case, pertaining to the yield curve, it appears. Regardless, this **drags on CNH and the wider AXJ complex**.
- All said, the **FOMC meet remains as the main watch**. The ***Force is strong with this one***!

Flaunting a "Hawkish Double" ... in Every Sense

2022 FOMC Meetings	27-Jan	16-Mar	04-May	15-Jun	27-Jul	21-Sep	02-Nov	14-Dec	Cumulative Hikes 2022
	Q1		Q2		Q3		Q4		
Mizuho	0.00-0.25%	0.25-0.50%	0.75-1.00%	1.25-1.50%	1.50-1.75%	1.75-2.00%	1.75-2.00%	2.00-2.25%	
Hikes	--	25bps	50bps	50bps	25bps	25bps	--	25bps	**200bps**
OIS Priced Hikes*			50.9bps	55.1bps	46.1bps	38.9bps	26.0bps	20.6bps	**263bps**
FOMC 'Dot Plot' (Mar)									175bps

* As of 28th April 2022

- At the **May FOMC**, **potentially the most pivotal meet for 2022**, the **Fed is poised to unleash a "hawkish double"; in every sense** of that term.
- And for the record, the **Fed's "hawkish double" plan will be unfettered by the unexpected contraction in Q1 GDP**; particularly insofar that it was a reflection of inventory drawdown and net trade (whereas domestic demand remained resilient).
- Instead run-away inflation will be the overriding motivation, if not all-consuming obsession.
- That being the case, a **double amplitude 50bps hike** (to 0.75%-1.00%) **virtually guaranteed**.
- What's more, **double tightening**, with *accompanying balance sheet run-off,* is likely to be **featured on the menu**; given unanimous support for sooner and stronger QT at March FOMC.
- **OIS markets have fully priced a 50bps hike**, with marginal bets on a 75bps (first floated by James Bullard), emboldened by *hawkish Fed comments all but spelling out a 50bp hike for May.*
- But that's not all.The **OIS markets have priced in a pretty aggressive rate hike path**, which suggest **at least two more "double" 50bp hikes in June and July**; with cumulative 250-275bp hikes for 2022 . In other words, the bets are that with just 6 meetings to spread 225-250bps of hikes (beyond the 25bps in March), the **Fed may have 3-4 "double amplitude (50bp) hikes" in 2022**.
- With so much hawkishness baked in, it would be remiss not to question whether markets could "sell the fact", especially on any "data-dependence" caveats that are less strident in hawkish cues.
- Possibly. But **"double tightening" with a flag off of balance sheet run-off** (whether slated for May or June) is more likely than not to keep hawkish Fed positions in play. Which is to say that any "*sell the fact*" post-FOMC dip in UST yields and/or the USD (if any at all) may be limited.

RBA: Inflation Jolt to Hasten, Not Amplify, Lift-off

- With **significant intensification in Q1 CPI** suggesting *price pressures* that are *not just more profound, but also more pervasive,* the **RBA appears to be set to hasten a gentle lift-off** to this upcoming RBA meet May (rather than to wait till June or Q3).
- Fact is, while a **step-up in price pressures** (consensus: 4.6%) was par for the course, there **need to front-load some tightening**, albeit in a calibrated manner, was catalyzed by a confluence of;
  - i) a *larger than step-up in headline inflation* at 5.1%;
  - ii) *trimmed mean CPI up sharply at 3.7%* (suggesting broadening pressures), and;
  - iii) signs of *wage inflation picking up faster* than the RBA had imagined
- What's more, **since the last RBA meeting on 5th April**, the **AUD has tumbled brutally from mid-0.76 to below mid-.71** (a staggering 4.5% plunge), consistent with effective loosening of overall monetary conditions. This further validates the need to front-load tightening plans.
- **But Q1 inflation outrun does not amplify imminent policy tightening response**. Not yet in any case. For **May**, a **measured 15bps hike to 0.25% cash rate** will underscore this calibrated lift-off.
- Fact is, economic recovery, while having progressed substantially, remains uneven (skewed to the resource sector) which flatters the aggregate recovery.
- And so, the **RBA will remain cautious about tightening too brutally too soon**.
- Especially given **lingering susceptibility to soft spots in the labour market**.
- And more so as it keeps a watchful eye on **higher debt burdens** that link household and banks' balance sheets to the property market; which have *far greater sensitivity to (drag from) rising rates.*
- All said, the **RBA has a been triggered to hasten lift-off, but not necessarily amplify tightening brutally**. With further build-up to a cumulative 90bps of hikes for 2022, **confirmation of hastened RBA inflection may lend to AUD traction**. ***But very likely not a stellar AUD breakout*** given entrenched Fed-RBA divergence.

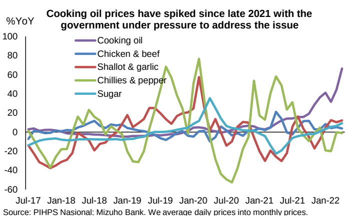
Philippines: April CPI To Justify June Hike?

- Following BSP Governor Diokno's recent comment, **that a rate hike in June was on the table**, April CPI is now under scrutiny; to assess if it is the catalyst. We expect headline CPI accelerated from 4.0% in March% (Mizuho: 4.3%), breaching BSP's headline 2-4% inflation target range.
- This breach has occurred before and was not enough to move the needle for BSP. The difference this time will be fast building **signs of second-round effects manifesting in higher core inflation and inflation expectations**. These have shown an uptick recently and will likely rise further in April.
- **A solid Q1 GDP print** (to be released on 12 May)**, of "around 6-7%"** according to Governor Diokno, will corroborate **economic momentum able to withstand gradual normalization policy.**
- After emphatically stating that rate hikes would be considered only in H2 2022 (and initially only in Q4), **the Governor's latest statements mark an obvious shift in tone to hawkish and sooner.**
- **This shift is something we had expected**, given the gamut of factors weighing against BSP's previously more neutral tone, including building domestic and global price pressures, an overtly hawkish US Fed and a depreciating currency (PHP).
- **We remain comfortable with our forecast for a cumulative 75bp in rate hikes this year.**
- **The risk is now for BSP to do more in terms of rate hikes and not less**. This, however, will be data dependent with sharp upside surprises on growth and inflation being the main triggers.

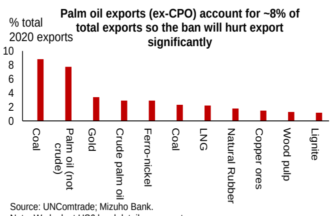
Thailand CPI: Open Letter & Open-Ended

- With headline inflation target set at 1-3%, the BoT's assessment that **headline inflation will average 4.1% over the next 12 months necessitated the MPC's open letter to the MoF.**
- In which, the **BoT reinforced its view that higher headline inflation was attributable to supply side factors** such as the surge in global energy, feed, fertilizer prices s and the African swine flu.
- Essentially, the **letter stuck to a dovish disposition** on an absence of demand side pressures, anchored inflation expectations **with no signs of second round effects** and **continued emphasis on supporting economic growth over price stability and financial stability.**
- Interestingly, allusion to **monetary policy "transmission lag of at least one year"** was framed as **justification for looking through temporary supply-side pressures. But growth recovery further out means this "transmission lag" cuts both ways; leaving policy open-ended.**
- Notably, **"lags" require immediate, pre-emptive response to address "second round" hints.**
- While economic recovery is incomplete, **GDP will head above pre-COVID by H2 2022** by **BoT's estimate**; validating our base case for a **gentle start to normalisation in Q3** .
- Such a **calibrated approach to normalisation is mindful of debt servicing burdens** of (households and corporates) amid expiring fiscal buffers (e.g. diesel price ceiling) that may have far-reaching impact; yet **wary of financial stability and imported inflation challenges** from THB drop.
- For next week, while we expect **April's inflation print** to ease to around 5% YoY given favourable base effects, it **will be no comfort** to the BoT on an increasingly tenuous hold.

Indonesia: Palm Oil Pains



Source: PIHPS Nasional; Mizuho Bank. We average daily prices into monthly prices.



Source: UNComtrade; Mizuho Bank.
Note: We look at HS6 level details on exports

- **Uncertainties, flip-flopping and general state of confusion have characterised Indonesia's palm oil export ban.** The main confusion is around the products included in the ban (which for a time included Crude Palm Oil exports and then it did not and it did again!).
- So as it stands, the **government has issued a blanket ban on the export of palm oil**, CPO included, **from 28 April with the intention to stymie the sharp increases in domestic cooking prices** (66%YoY in April from 44% in March) by reallocating supply earmarked for export to the domestic economy. The supply-demand mismatch is now more pronounced due to Lebaran.
- **The ban may temporarily achieve its objective but it in the process will exert additional pressure on the external balance**. Palm oil (with CPO) is Indonesia's biggest item of export.
- A back-of-the-envelope calculation suggests that the blanket ban will worsen the current account position by 0.2% of GDP for each month the ban is in place.
- **This will expose the IDR to higher volatility as abrupt protectionist policy decisions hurt credibility, even if the intention is to address domestic economy pitfalls.**
- More worryingly, **it is unclear whether the ban will have a lasting impact on domestic prices and with it inflation.** The ban aims to address a more fundamental supply and demand issue for the domestic consumer, which may go unresolved, as deeper logistical issues persist.
- Under these circumstances, we see **Bank Indonesia remaining in wait-and-see mode,** with hikes to start only in Q3 unless IDR depreciation and risks to macrostability force BI's hand this quarter.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	130.04	1.540	1.20%	126.00	~	132.00
EUR/USD	1.0564	-0.0226	-2.09%	1.000	~	1.070
USD/SGD	1.3789	0.008	0.57%	1.3450	~	1.4000
USD/THB	34.21	0.270	0.80%	33.25	~	34.70
USD/MYR	4.3523	0.027	0.63%	4.215	~	4.385
USD/IDR	14497	140	0.98%	14,350	~	14,600
JPY/SGD	1.0605	-0.006	-0.58%	1.019	~	1.111
AUD/USD	0.7159	-0.009	-1.17%	0.690	~	0.740
USD/INR	76.37	-0.117	-0.15%	75.3	~	76.3
USD/PHP	52.193	-0.137	-0.26%	51.3	~	52.6

^Due to early release, changes are based on close values at 4pm SGT on 29 Apr 22.

FX: Fed, Fact & Fund(ing)

- The **FOMC** next week, is without a doubt, set to be the main event.
- And **FX markets simply cannot ignore the potential for sweeping impact from hawkish outcomes**; both in terms of a (widely expected) 50bps rate hike and a likely flag off of Quantitative tightening (QT).
- But the **deeper, and perhaps more difficult question** is:
  i) **whether a hawkish Fed** (with a "hawkish double") will set off a **doubling down** in **short UST (higher yields) and long USD trades** or instead;
  ii) "**sell the fact**" **instincts may take over to send UST yields and USD lower**.
- Our sense is that the (sell the) **fact knee-jerk**, if at all evident, will be a **fleeting adjustment** in positions to lock in profits and/or look for better levels.
- Whereas, **trades premised on an aggressively hawkish Fed** that is simultaneously *lifting the price of USD* (rates) *and reducing supply of USD* (QT), may have a more enduring allure.
- **Especially as** markets consider how **rapid** the **USD's transformation from funding, to carry, currency**; *juxtaposed against the **BoJ's doubling down on JPY's durable funding currency status***.
- **Even against** the likes of **EUR and AUD**, given that the hawkish inflections if these two central banks are likely to fall well short of the Fed, the relative funding position of EUR and AUD vis-a-vis the USD means that sustaining **short USD bets is a precarious proposition**.
- To be sure, a hike by the RBA's hike ahead of the FOMC is likely to induce some AUD traction, especially if accompanied by some hawkish shifts in the RBA's pre-disposition.
- But there will no illusions of a true catch-up or policy convergence in 2022.
- And so **USD is likely to retain a lot of its tone**. Especially given that **higher Fed Funds rate and QT** are **likely to set EM Asia Fx on the back foot**; compounding the pre-existing drag from JPY and CNH.
- All said, whilst conceding some two-way impetus position adjustments into and after FOMC, the **combination of** (sell the) **fact** knee-jerk, **Fed** motivation and **funding** (currency) drivers are still likely to leave the Greenback in the driver's seat.

JPY: BoJ's Unlimited Dovishness (QE vs QT)

- The BoJ expectedly retained their stance for policy accomodation and **signalled unlimited bond buying to defend their yield cap** as Governor Kuroda justifies the **lack of need for exit plans by pointing to their price outlook and the current slow pace of economic recovery**.
- Consequently, the USD/JPY shot up to test 131 before retreating to mid-130.
- Policy divergence will certainly be more stark next week as the FOMC embarks on their 50bps hike and reveal details and commence on Quantitative Tightening.
- As such it is hard to see any relief for the JPY with the USD/JPY likely to be buoyed above 128 especially amid BoJ's repeated insistance that a weaker JPY remains beneficial for the economy on aggregate.
- That said, with MOF's repeated warnings on rapid JPY movements, we expect testing of 132 to remain weak if any.

EUR: How Low?

- This week, the EUR has plunged 1.9% to hit 1.05 and any CPI upside tonight is unlikely to provide unfettered upside to ECB hawkish bets as growth concerns will restrain.
- With gas threats and oil embargoes, the energy tangles are getting messier and looks to trap the EUR below mid-1.06 next week.
- With Fed's impending hike, a **confirmation of a follow up 50bps in June could send the EUR lower to test 1.04 while the dangers of parity should not be dismissed on QT**.

SGD: Dragged by a Conspiracy of EUR JPY & CNH Bears

- As we pointed out last week, SGD gains from the MAS' "double-barelled" tightening (especially the mid-point re-centring, which is effectively a "step appreciation") have been squandered.
- Apart from the technicality of a S$NEER that is not as richly valued vis-a-vis the S$NEER policy bands (which only aught to augment, not reverse, strength), it is really broad-based USD strength accentuated by acute JPY, EUR and CNH weakness that have set back the SGD.
- A dovish doubling down on YCC alongside CNH sell-off and EUR tumble means that significant currencies in the S$NEER trade basket have now contributed to SGD drag.
- We expect wider consoidation in the mid-1.37 to mid-1.39 range. But larger risks are skewed to the upside, with 1.40 not out of the policy-implied range of USD/SGD.

AUD: RBA-Iron Lining?

- A rough week might be an understatement for the AUD as it steadily receded, with a few valiant attempts at rebounding, and ending below 0.72.
- This was in spite of the 5.1% inflation rate that had many market watchers bring forward their rate hike forecasts to the meeting on Tuesday next week.
- We expect a calibrated 15bps tightening from the RBA which may lend some traction to the AUD and relieved downward pressures to stay buoyed above 0.70.
- The unrivalled USD with a double tightening will continue to suppress any significant and sustained gain in the AUD.
- In a week tightening central bank action, AUD bulls will be hoping to see a silver lining appear from RBA as rising iron ore prices provide some assistance, though stellar run ups above 0.74 remain some distance away.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

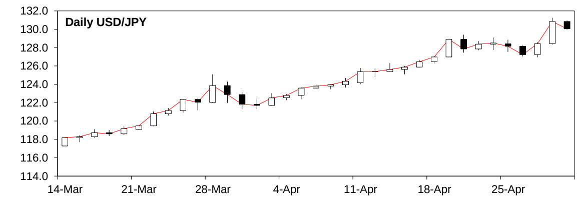
26-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.627	-4.0	2.839	-6.0	Flattening
GER	0.202	-6.6	0.878	-8.9	Flattening
JPY	-0.062	0.0	0.211	-3.0	Flattening
SGD	1.989	2.3	2.513	-6.4	Flattening
AUD	2.420	7.0	3.120	0.1	Flattening
GBP	1.492	-19.3	1.837	-12.3	Steepening

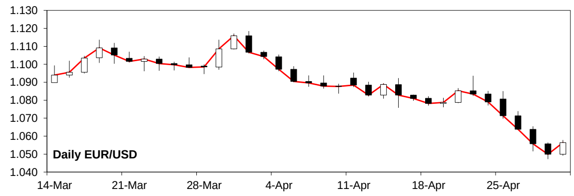
Stock Market ^US equities are based on Thurs close (28 Apr).

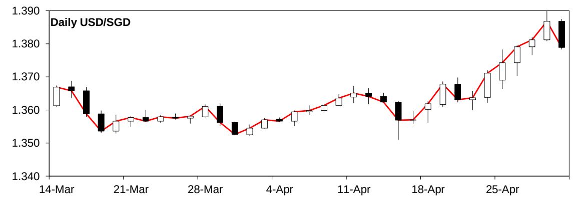
	Close	% Chg
S&P 500 (US)	4,287.50	0.37
Nikkei (JP)	26,847.90	-0.95
EuroStoxx (EU)	3,825.18	-0.39
FTSE STI (SG)	3,381.92	0.62
JKSE (ID)	7,228.91	0.05
PSEI (PH)	6,731.25	-3.82
KLCI (MY)	1,604.35	0.15
SET (TH)	1,668.79	-1.29
SENSEX (IN)	57,708.90	0.89
ASX (AU)	7,435.01	-0.51

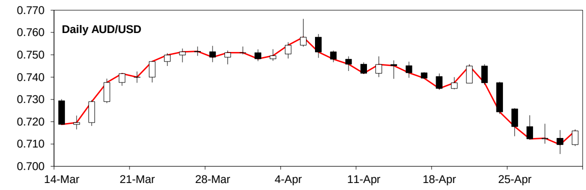
US Treasuries: Higher Guidance

- This week, thus far, both UST 2Y and 10Y yields retreated ~4-6bps; as **demand came in from external vulnerabilities ranging from Europe and EM-Asia growth-inflation risks to stock market mauling.**
- Inflation expectations (proxied by 10Y breakevens) have also stayed elevated as the brief mid-relief was reversed as commodity prices climbed higher.
- Next week with FOMC looming, **treasuries will brace for volatility** from position adjustments into and after FOMC.
- We expect 2Y yields to stay above 2.5% as the Fed starts on course for 50bps and **post-FOMC dip in UST yields looks to remain limited.**
- **Forward guidance** on **double** 50bps rate hikes (or even more) may **see 2.8% being challenged for 2Y yields**.
- More importantly, **QT phasing in may set the tone for 10Y yields to follow suit and test 3%,** though **displays of growth concerns may quickly dampen 10Y yields to reverse toward 2.7%**









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