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WEEK AHEAD

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18-Mar-2024

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Economic Calendar

•Survey results from Bloomberg, as of 9 Mar 2024; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

G3

Date	Country	Event	Period	Survey*	Prior
18 Mar	**EZ**	**CPI/ Core YoY**	**Feb F**	**2.6%/3.1%**	**2.8%/3.1%**
	JP	Core Machine Orders YoY	Jan	-10.9%	-0.7%
19 Mar	**JP**	**BOJ Policy Balance Rate**		**-0.10%**	**-0.10%**
	JP	Industrial Production YoY	Jan F	--	-1.5%
	GE	ZEW Survey Expectations	Mar	20.2	19.9
20 Mar	**US**	**FOMC Rate (Lower/Upper Bound)**		**5.25%/5.50%**	**5.25%/5.50%**
21 Mar	US	Initial Jobless Claims		215k	209k
	US	**Philadelphia Fed Business Outlook**	**Mar**	**-2.5**	**5.2**
22 Mar	**JP**	**CPI/ Core YoY**	**Feb**	**2.9%/3.3%**	**2.2%/3.5%**
	GE	IFO Business Climate/Expectations	Mar	85.8/84.6%	85.5/84.1

Asia

Date	Country	Event	Period	Survey*	Prior
18 Mar	CH	Retail Sales YTD YoY	Feb	5.6%	--
	CH	Fixed Assets Ex Rural YTD YoY	Feb	3.2%	--
	CH	Industrial Production YTD YoY	Feb	5.2%	--
	SG	**Non-oil Domestic Exports YoY**	**Feb**	**-0.1%**	**16.8%**
	MY	Exports/Imports YoY	Feb	2.4%/7.5%	8.7%/18.8%
19 Mar	**AU**	**RBA Cash Rate Target**		**4.35%**	**4.35%**
20 Mar	**CH**	**1Year/5-Year Loan Prime Rate**		**3.45%/3.95%**	**3.45%/3.95%**
	ID	**BI-Rate**		**6.00%**	**6.00%**
21 Mar	**AU**	**Unemp. Rate/Emp. Chag**	**Feb**	**4%/40k**	**4.1%/0.5k**
	TW	**CBC Benchmark Interest Rate**		**1.875%**	**1.875%**

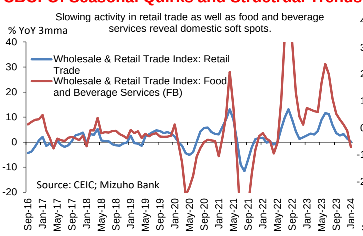
Week-in-brief: Restive Patience

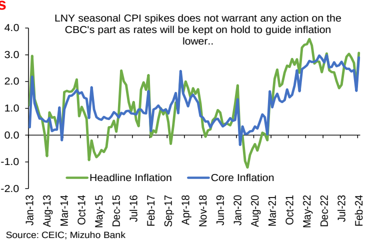
- A **wall of central bank decisions** confront markets this week, **featuring** the ***Fed*** and ***BoJ***, with the ***BoE*** possibly set to grab; alongside the ***RBA***,***SNB***, ***PBoC***, ***Bank Indonesia*** and ***CBC*** (Taiwan) .
- The **common thread** may be central banks **imploring patience on to impending policy shifts**.
- Irony being, the **cause for policy patience** ,ay **inadvertently set the stage for restive markets**.
- To be sure, the Fed is undeniably the big hitter on the global stage. But, the *BoJ that may steal the show;* being the only one on the cusp of tightening, while all other central banks are poised to ease.
- What's more, the *complexity of the BoJ's policy nuance is unmatched* given its **range of tools employed to tackle complicated tensions** between recent inflation and legacy if chronic deflation.
- **Sharp trade-offs** acccompanying policy tweaks mean the BoJ must move a lot more carefully than markets generally appreciate. In turn, this **sets JGB yields and JPY up for spasms of volatility**.
- The **Fed's March hold** is admittedly **universally anticipated**. However, the **aggressive reduction in rate cut bets** for the year (now deeply discounting H1 cuts) in the wake of hot inflation and jobs data reveal the propensity for wild swings on policy cues; *elevating latent UST yield/USD volatility.*
- **Validation of diminished cuts** in rhetoric and/or "Dot Plot" **may send UST yield and USD higher**,
- *Conversely, dialed back "last mile" risks reiterated could see pullback from pre-FOMC UST sell-off.*
- The **BoE could present a curve ball** if allusions to downside economic risks reveal propensity for BoE cuts to leap-frog the Fed; with attendant GBP andf Gilt flich expected.
- The **RBA will have every ground to reinforce a considered hold** and *patience in getting to cuts.*
- But **China risks** and **weaker consumer** give **little leeway for AUD to independently out-perform**.
- Elsewhere, Bank Indonesia is set to stand pat despite a tamer USD as latent rupiah volatility looms.
- **To mistake patience for calm would be costly**. As might prove one-way "anti-pivot" bets.

FOMC: Precarious Pivot Limbo

- Amid recent signs of **hotter-/stickier-than desired inflation** and **tighter jobs**, a **rate hold** at the FOMC this week is **universally expected**. *Yet FOMC-related volatlity may be elevated!*
- Partly because of a **sharp pullback from significant more aggressive rate cut bets** over the last few weeks resulting in an ***uncomfortable limbo for doves-in-waiting***, **not a neutral pause**.
- As a result of which, **policy dis-comfort/dilemma** is evident in **sharp trade-offs between cutting too soon** amid *complicated "last mile" dis-inflation, that inadvertently squanders hard-won policy gains* and in **cutting too late** *at pain of a not-so-soft landing.*
- For now, the **pendulum has swung in fear of hot inflation and jobs**. Accordingly, **markets have now have written off rate cuts in H1** and **diminish scope for deep cuts on H2** cuts.
- The pricing suggests *odds of a 25bp cut at ~1% for March,* rising only marginally to 8-9% odds of a cut *by May* with a *cut by June more a coin toss than a guarantee.*
- ***But*** this perhaps under-accounts for fact that the **next move being a cut is unfettered**. What's more, it's **undeniable that rate cuts will have some distance to go as inflation subsides**.
- Fact is, at current nominal FFR of 5.25-5.00% **implies that real rates of of 1-2%**, which is ***significantly higher than the 0.5% neutral real rates*** that Fed Chair Powell has alluded to.
- In turn, this means that **current policy setting is rightly recognised as** being **considerably restrictive**, which **constitutes rising "hard landing" risks as"higher for longer" persists**.
- Resultant, **precarious pivot limbo** means rising stakes associated with *gauging timing,* and *amplitude of rate cuts* will increasingly **dominate the policy agenda**; with attendant volatility in tow.
- For this week, the **hold will be framed in the usual caveats** about *data dependence, patiently assessing further evidence* and a *sensibly calibrating opposing risks.*
- Expect **heightened sensitivity** to **shifts in** the quarterly update of; i) the *'Dot Plot'*; ii) *summary of economic projections* (inflation, unemployment, growth) and; iii) *policy guidance;*
- Consequent **volatility may be concentrated in front-end yields and USD**.
- Although we think "risk off" from pivot reversal will fizzle, not flare if Fed Chair **Powell's post-FOMC presser assuages overdone pivot push-back** premised on inflation hot spots.
- **Key to dialing back volatility** from capitulation in "pivot bets" will be **Fed Powell reiterating a sanguine view on "last mile" dis-inflation** and the **'Dot Plot' retaining 75bp cut**.
- Point being, **"hot inflation" merely delays, but does not meaningfully deter rate cut plans**.
- And perversely, "*higher for longer*" stretched may inadvertently **amplify rate cuts in H2/early-2025**.
- If so, the case for forays back into "pivot "risk on" further out is not outlandish.

CBC: Of Seasonal Quirks and Structrual Trends





- The **CBC will look past the seasonal distortions** from both inflation and growth indicators to **keep policy on hold to anchor their route to price stability.**
- Given that the February spike in headline and core inflation driven by LNY effects on gifting for nursery and nursing care in a nod to the festivities, these effects will not trigger policy actions.
- In fact, **falling goods prices** 0.3% MoM despite the LNY season may be **telling of the softer underlying demand** though apparel prices were admittedly influenced by winter wear discounts.
- As for growth, **external demand remains resilient**. Total exports over January and February grew 9.7% YoY reveal a more holistic picture than a seemingly worringly drop in export growth to 1.3% from 18.1% in January. That said, the trade balance improvement to US$7.9b in Feb has been flattered by sharp import compression which may also been distorted by Lunar New Year effects in China and Asean. On the domestic front, **softer retail trade alongside weaker food and beverage sector in January may portend private consumption returning to trend** from their buoyant pace in 2023.
- All in, while a rate hold is a certainty at this meeting, **Governor Yang has cautioned that inflation may end up structurally higher which in turn necessitate a higher long run neutral rate**.
- Accordingly, the room for cuts in a policy normalisation scenario may be limited for the year ahead.

BoJ: No Rengo Hawkish Flex

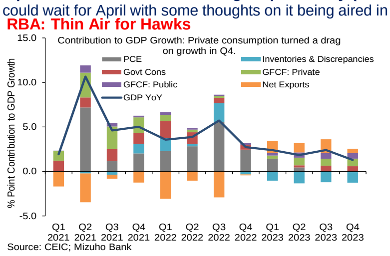
- Admittedly, a **much stronger than expected Rengo wage negotiation** outcome (with ~5.3% wage increase agreement) is **a piece of the key pre-condition (wage inflation) for a policy paradigm shift** *insofar it validates the narrative that Japan is durably surmounting* the *deflation* mindset.
- **But** it is **misguided to get carried away with notions of any imminent tightening cycle**. .
- For one, the *Rengo negotiations are neither conclusive* (accounting for only 16-17% of union workers) *nor a guarantee of a sustained and wider economic upturn;* involving significant portion of non-unionised workers who arguably don't enjoy the same wage uplift.
- What's more, **exceptional JPY weakness since 2022** (~30%; 115 to sub-150) probably **makes it more palatable to redistribute FX enhancement of exporter profits to wages. Whereas, bouts of JPY appreciation may deter similar wage increases in future**. So the **BoJ has every reason to be circumspect about the durability of wage gains** - even with two back-to-back bumper years.
- Finally, **scope to recalibrate policy** should **not be mistaken for justification to aggressively swimming against the in-coming (easing) tide** of other global central bankers.
- Granted, the starting points are very different between the BoJ and Fed/ECB/BoJ.
- But the *sheer divergence of policy threatens to inflict amplified upside JPY volatility,* which the BoJ will view as *a massive, additional and unwelcome tightening shock.* So, **more the reason the BoJ will be measured and considered**; and **not just in March, but further out as well**.
- So here's how some of the more prominent options for the BoJ stack up this week:

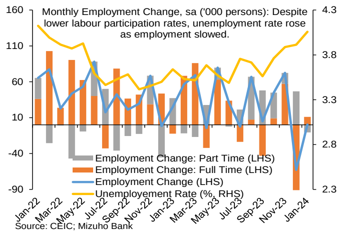
1) Rate calibration out of NIRP to ZIRP: We view this as the **highest *conditional* probability** (of around 70%). **Condition being the BoJ takes pains to stress** this **is a one off calibration** to remove distortions and **not the start of a hiking cycle**; for which it is premature. This **is a balanced move that can contain excessive JPY volatility** on either side ahead of what may be a hotter inflation print later in the week following the Rengo upside surprise.

2) YCC abandonment: This is the **lowest probability** (~20**%) given the threat of excessive JGB upside yield volatility with accompanying JPY surge**. Although clearly communicating that emphatic QQE (JGB buying across the curve) with follow-up action could quell volatility. On balance though the BoJ may gauge better traction in taking time to communicate the nuances while alluding to just discussing further on how to recalibrate policy from YCC to QQE.

3) Cessation of ETF purchases: While this is also *inter-twined with the intricacies of how QQE will be managed,* it might be **deemed to entail the lowest adverse impact given out-performance in Japanese equities**. As such, it could be a **higher probability (~40%) than YCC revocation**. Although on balance, it could wait for April with some thoughts on it being aired in March.

RBA: Thin Air for Hawks

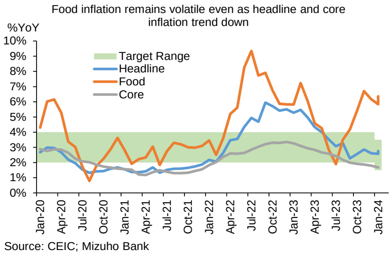




- The **RBA may be expected to stand pat at their upcoming meeting** (19 March) but the ***air is thin at this policy altitude***. With attendant policy scope for **AUD bulls to exploit compromised too.**
- While their previous monetary statement made a splash for not ruling out rate increases, **recent growth signals and communications have diminished the RBA's hawkish edge.**
- It is worth a repeated look at underlying growth beneath the headline Q4 growth of 1.5% YoY.
- Given GDP per capita contracting for the third straight quarter and private consumption turning a drag on Q4 growth, the **ability of household expenditure to drive growth looks suspect**.
- Furthermore, **employment increasing an aggregate of just 500 workers** in January after the 63k reduction in December points to labour market softening as unemployment rate rose.
- Even on the inflation front, Ja CPI print while being sticky at 3.4% YoY was below market expectations. Moreover, goods inflation eased. And notably, the *RBA has legitimate cause to look past in-coming "Swift" services inflation surge caused by Taylor Swift's concert in Feb.*
- That said, weak building approval coupled with falling new housing loans to owner occupiers in January amid higher population growth may portend sticky rental prices in the months ahead.
- All in, **dovish concerns may temper the RBA's statement even if imminent pivot is denied.**

Bank Indonesia: Continued Hold

- Despite a tamer USD, the **absence of any significant domestic shifts** (21 Feb), and **lingering global volatility**, argue for a **continued hold** by Bank Indonesia this week (20 Mar).
- Growth should remain supported as we enter into Ramadan, with continued boost spending for the celebrations, following election. Meanwhile, mineral exports (in volume terms) continued expanding even as a more meaningful lift in electronics exports await.
- Slight inflation uptick in Feb to 2.8% in is not a worry. But will advise caution given that food inflation remains high.



- Furthermore, a tamer USD environment while alleviate BI's pro-currency stability concerns does not absolve pipeline USD volatility amid increasing risks of pivot pushback.
- All in, BI is expected to hold given that there are no fundamental changes since the last meeting.

- Accordingly, the room for cuts in a policy normalisation scenario may be limited for the year ahead.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.04	1.980	1.35%	145.00	~	151.00
EUR/USD	1.0889	-0.0050	-0.46%	1.083	~	1.100
USD/SGD	1.3383	0.008	0.59%	1.3250	~	1.3410
USD/THB	35.775	0.355	1.00%	35.10	~	35.95
USD/MYR	4.7072	0.024	0.51%	4.660	~	4.720
USD/IDR	15595	5	0.03%	15,500	~	15,700
JPY/SGD	0.8973	-0.008	-0.88%	0.877	~	0.925
AUD/USD	0.656	-0.006	-0.97%	0.650	~	0.668
USD/INR	82.89	0.105	0.13%	82.7	~	83.1
USD/PHP	55.528	-0.051	-0.09%	55.3	~	56.0

^Weekly change.

FX Outlook: More Heat than Light

- **Taking FX dynamic at any one point of time** during the week **to get a sense of trends** will **be an exercise in frustration**. More importantly, it **could be costly given propensity for abrupt swings**.
- Especially given the **noise from a plethora of central banks' futile attempts to accurately convey nuanced policy signals** about patient policy shifts contingent on broader dis-inflation**.**
- Furthermore, trying to make sense of relative policy differences only exacerbates the challenge of attempting neuro-surgery with a sledge-hammer.
- Point being, by the end of the week, there will still be **more heat than *light*** *as policy conditionalities leave markets with little more to go on other than **"not just yet"***.
- In which case, two themes could resonate.
- One, is that as long as the BoJ does not aggressively push-back on the need for sustained policy calibration; albeit not excessively or imminently (beyond NIRP-to-ZIRP) calibrations;
- there may be **some sustained allure to JPY**.
- **Especially** so, **if this is coupled with a Fed that is visibly less perturbed by the recent run of inflation hot spots** than markets believe they would be.
- To that end, **reassurances that there is no alarm about "last mile" dis-inflation** will be key.
- This would **set the JPY up for strength on "competitive pivot"**.
- **But not the USD for unmitigated weakness**; which is the other theme.
- It is **not just pivot push-back** that the USD could benefit from.
- More importantly, it could be **US exceptionalism that reveals** the likelihood for the BoE and perhaps **other central banks to leap-frog Fed cuts**; in timing and/or amplitude. And that in essence will underpin a "competitive pivot" that is no longer unequivocally positive for USD.
- Taken alongside more antagonistic China rhetoric from Trump, the prospects for CNH and other EM Asia FX to chalk up sizable gains against the Greenback is less convincing in the absence of an overwhelming bearish USD tide.

Bond Yield (%)

15-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.728	25.4	4.306	23.1	Flattening
GER	2.940	18.8	2.440	17.5	Flattening
JPY	0.178	-0.7	0.770	4.6	Steepening
SGD	3.433	11.6	3.063	9.7	Flattening
AUD	3.858	14.5	4.129	0.1	Flattening
GBP	4.303	7.9	4.096	12.5	Steepening

Stock Market

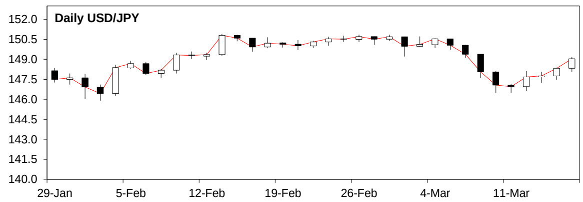
	Close	% Chg
S&P 500 (US)	5,123.69	-0.26
Nikkei (JP)	39,688.94	-0.56
EuroStoxx (EU)	4,961.11	1.35
FTSE STI (SG)	3,147.09	0.36
JKSE (ID)	7,381.91	0.96
PSEI (PH)	6,942.21	0.33
KLCI (MY)	1,539.86	0.12
SET (TH)	1,386.42	1.39
SENSEX (IN)	74,119.39	0.42
ASX (AU)	7,846.98	1.31

US Treasuries: Thick Plots

- **Hot PPI prints and a tight labour market** sent UST yields soaring last week with front end 2Y yields rising 25.4bp.
- It is notable that markets are heading into FOMC rather aligned to **the Fed's December Dot Plot at least for 2024 with 3 cuts.**
- Perversely, while the **2024 portion of the 2024 may be retained in tact in a nod to economic soft softs, it is not unforseeable for the Fed to lift 2025 rate projections in an allusion to structurally higher inflation amid higher productivity growth**.
- As such, volatility may be accentuated this week given the slew of information to digest even if yields are more likely to experience a downside bias as UST bulls smell opportunity at these levels.
- All in, UST 2Y yields are expected to trade in the enlarged 4.55-4.85% range while 10Y yields trade in the 4.1-4.4% range.

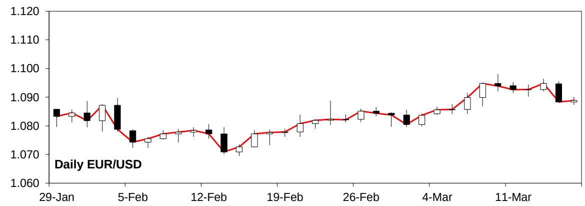
JPY: Negotiated Calibrations

- Inevitably heading into the BoJ decision this week, **volatility is accentuated as markets may be tempted to extrapolate a likely exit of NIRP into a tightening cycle which ought to be pushbacked by BoJ Governor Ueda.**
- **Even after the policy decision, Japan CPI print will add further temptation for JPY bulls as headline inflation looks to print higher.**
- That said, the USD/JPY will have to attempt to calibrate these swings especially in a calendar filled week of central bank moves.
- All in, we expected the USD/JPY to navigate this week in the 146-151 range.



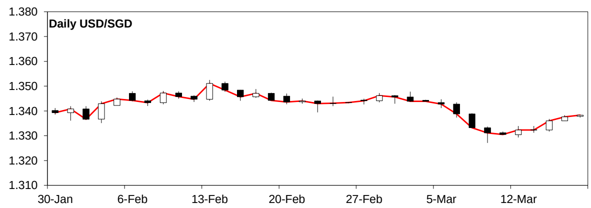
EUR: Sideways Sideshow

- The ECB may not be in policy action this week but it does not refrain ECB speakers from elaborating on the conditions for a June hike which in all likelihood may even leapfrog the Fed.
- China's woes continue to dent EZ outlook on top of struggles from higher energy prices and elevated Russia and Ukraine concerns.
- All in, the EUR looks to remain pressureed below 1.10 and consolidated around 1.09.



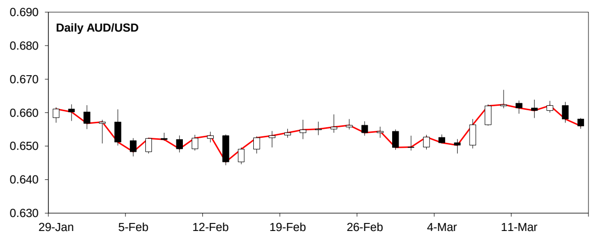
SGD: Caution

- Last week, USD/SGD moved back above mid-1.33 following US PPI surge, which dialled back Fed rate cut expectations.
- We expect cautious trading on the USD/SGD at around 1.33-mid-1.34 in the run-up to FOMC.
- Some SGD pressure could be seen at the start of the week with a slew of China data due -- the data is unlikely to provide a durable boost for CNH on still weak sentiments and PBoC's dovish bias.
- Meanwhile, risks are to a stronger SGD below 1.33 handle post-FOMC on overdone pivot-push-back prior the blackout period.



AUD: No RBA Boost

- The big picture is that AUD could continue to struggle for sustained traction above 66 cents.
To be fair, we will be the first to admit that on the surface, the RBA is engaged in the most "neutral" hold. That's to say, it is not imminently turning dovish. On a relative policy posture, it should support the AUD.
- But the reality of stretched Aussie consumers and fading buffer from fixed rate mortgages reveal hawkish policy limitations.
- What's more China risks making itself felt on softening iron ore prices also impose a drag on the AUD. So barring a major bearish tide that accompanies a large UST yield drop, AUD is likely to be contained ahead of 0.67 with downside to 0.65 not ruled out.



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