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WEEK AHEAD

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15-May-2023

Economic Calendar

•Survey results from Bloomberg, as of 12 May 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
15 May	**US**	**Empire Manufacturing**	**May**	**-4.0**	**10.8**
	EZ	Industrial Production WDA YoY	Mar	0.1%	2.0%
	JP	PPI YoY	Apr	5.8%	7.2%
	JP	Machine Tool Orders YoY	Apr P	--	-15.2%
16 May	**US**	**Industrial Production MoM**	**Apr**	**0.0%**	**0.4%**
	US	**Retail Sales Adv/ Ex Auto and Gas**	**Apr**	**0.8%/0.2%**	**-0.6%/-0.3%**
	EZ	**GDP SA YoY**	**1Q P**	**1.3%**	**1.3%**
	GE	ZEW Survey Expectations/Current Situation	May	-5.5/-37.5	4.1/-32.5
17 May	US	Housing Starts	Apr	1400k	1420k
	EZ	**CPI/Core YoY**	**Apr F**	**7.0%/5.6%**	**6.9%/5.6%**
	JP	**GDP Deflator YoY**	**1Q P**	**1.8%**	**1.2%**
	JP	**GDP Annualized SA QoQ**	**1Q P**	**0.8%**	**0.1%**
	JP	Industrial Production YoY	Mar F	--	-0.7%
18 May	**US**	**Initial Jobless Claims**		**252k**	**264k**
	US	**Leading Index**	**Apr**	**-0.6%**	**-1.2%**
	US	**Philadelphia Fed Business Outlook**	**May**	**-19.8**	**-31.3**
	JP	Trade Balance	Apr	-¥600.0b	-¥755.1b
19 May	**JP**	**CPI/ Ex Fresh Food, Energy YoY**	**Apr**	**3.5%/4.2%**	**3.2%/3.8%**
	JP	**Tertiary Industry Index MoM**	**Mar**	**0.3%**	**0.7%**

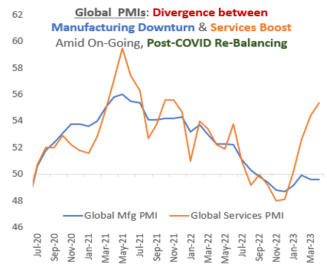
Asia

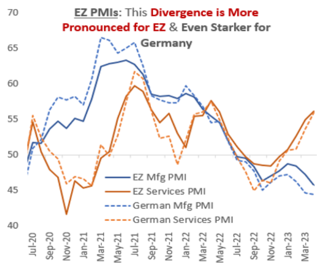
Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
15 May	ID	Trade Balance	Apr	--	$2910m
	IN	Trade Balance	Apr	-$19000.0m	-$19730.0m
	IN	Wholesale Prices YoY	Apr	-0.3%	1.3%
	TH	**GDP YoY/QoQ SA**	**1Q**	**2.7%/1.9%**	**1.4%/-1.5%**
15-18 May	**PH**	**Overseas Cash Remittances YoY**	**Mar**	**3.2%**	**2.4%**
16 May	**CH**	**Retail Sales/Ind Pdtn YoY**	**Apr**	**22%/10.8%**	**10.6%/3.9%**
	CH	Fixed Assets Ex Rural YTD YoY	Apr	5.7%	5.1%
	AU	RBA Minutes of May Policy Meeting			
17 May	**SG**	**Non-oil Domestic/Elect. Exports YoY**	**Apr**	**-9.6%/--**	**-8.3%/-22.3%**
	AU	**Wage Price Index YoY**	**1Q**	**3.6%**	**3.3%**
18 May	**AU**	**Employment Chg/Unemployment Rate**	**Apr**	**25.0k/3.5%**	**53.0k/3.5%**
	PH	**BSP Overnight Borrowing Rate**		**6.25%**	**6.25%**
19 May	MY	Trade Balance MYR	Apr	--	26.69b
	TW	BoP Current Account Balance	1Q	--	$23390m

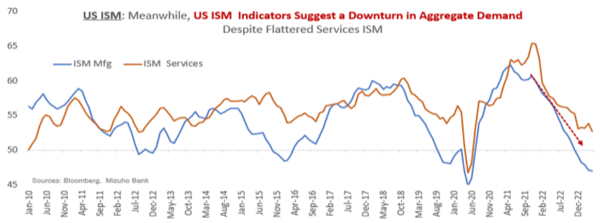
Week-in-brief: Of Silver-linings & Red Herrings

- **Global markets are kicking the tyres** *on perceived* and/or earlier declared **silver linings** (about peak Fed rate, banking sector risks back-stopped, China's re-opening) **to re-assess the dangers** of these may be no more than **red herrings overstating underlying resilience**.
- **At stake** are the **ability to avert policy miscalculations and "unforced errors"** that result in worse economic outcomes, and **amplifying hard-landing risks**; especially against inconvenient fiscal strains (including US debt ceiling fracas) and **conflicting inflation risks**.
- Speaking of which **US Michigan survey** revealing an **Anti-Goldilocks mix of a drop in confidence** (to 57.7 from 63.5) **and a surge in** 5-10Y **inflation expectations** to 3.2% (from 2.9%) prompted softening in markets; fretting "higher for longer" rates into gathering global headwinds.
- **Q1 GDP data for EZ and Japan** in G10 while in Asia **BSP meeting** sets the stage for **on-going debate on whether perceptions of Fed peak rate** is ***a silver lining*** for bona fide **for EM Asia's central banks' policy relief *or a red herring*** that **lulls into a false sense of security about macro-stability risks**.
- Over the weekend, **Thai elections** resulting in *Move-Forward Party and Phuea Thai garnering a simple majority of 287 seats* not unexpected. Arguably (and perversely), the **lack of a "super majority"** to pass votes through the Senate (biased to the military) **may be framed as a silver-lining for political stability**; insofar that it accommodates an uncomfortable, but relatively more stable, equilibrium.

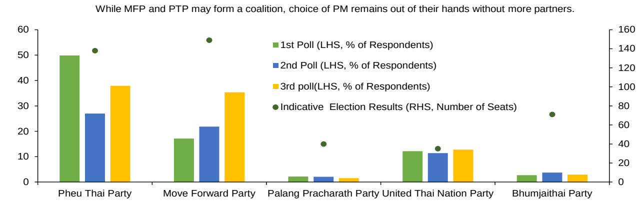




- The **growing divergence between resilient**, *if not resplendent,* **global services starkly at odds with sputtering**, *if not slumping,* **manufacturing** is **hard to ignore**.
- *But* what's **harder**, is **to correctly decipher** if this is **a silver lining of insulation for the global economy** (as services provide the buffer and time for manufacturing to turn round) *or* this is **merely a red herring that distracts from** more growing **recession risks**.
- The answer is unclear. On one hand, a **greater degree of household balance sheet buffer** are **understandable prima facie reasons for optimism** that buys into resilience of the global economy based on the compensatory buffer from services. Yet, this is an **untested conjecture, not a guaranteed**.
- Point being, **unprecedented** (and *unfamiliar*), **post-COVID good-to-services demand re-balancing** may be **flattered by** (fleeting) **pent-up demand that overstates aggregate demand**.
- In turn, suggesting **over-estimated global economic resilience**; *both in degree and durability.*
- What's more, **sharply higher global interest rates**, led by the Fed's fastest pace and greatest amplitude of post-Volcker hikes rate hikes, **could also hollow out perceived consumer resilience** that is **exaggerated by** *China's re-opening* and the *goods-to-services migration* of demand.
- At the very least, this **risks persistent, uneven economic activity**, with lagged services rebound out-running the manufacturing downturn, **exacerbating pre-existing policy complexity and conundrums**.
- In a worse case, **perceptions of consumer resilience prove illusory** and *demand is hollowed out very quickly as post-COVID boost fizzle quickly* under the harsh glare of tighter conditions; including a confidence-sapping conspiracy of banking sector risks and binding geo-political friction.
- Especially **as US aggregate demand conditions**, leading post-COVID consumption shifts, **appear to be softening rapidly**; regardless of relative service sector out-performance. **Broader demand pullback may prove even more emphatic for EM Asia**; given *far greater reliance on external demand.*
- Upshot: **Elevated global uncertainty** requires that **cheer about "silver linings"** buffering the global economy **be tempered by caution concerning red herrings** that understate risks in plain sight.



Thailand Elections: Uncomfortable Equilibrium



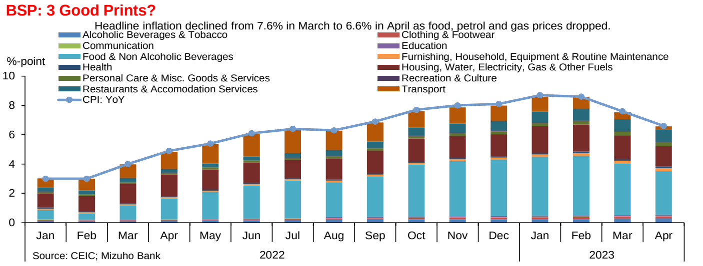
Source: Elections Comission, National Insituate of Devliopment, Mizuho Bank

- As it stands with over 98% of the votes counted, the **Move Forward Party is in pole position** with an indicative 149 seats (113 Constituency and 36 Party) while the Pheu Thai Party captured 138 seats (111 Constituency and 27 Party). **The base case is for a coalition involving these two parties** who remain broadly aligned in their democratic ideologies.
- That said, this **equilibrium is an uncomfortable one**. Given the surge in popularity towards the MFP who has been considerably more liberal and outspoken against the 'lese majeste' rule, **the discomfort and potential risks from disqualification and social challenges rises.**
- What's more, their **combined seats remains unable to dictate the choice of PM** as they remain unable to offset the 250 Senate which may favour the more tradition fractions.
- Consequently, a **compromised PM candidate outside the PTP and MFP may ironically underpin greater political stability;** insofar that it provides the more stable equilibrium with the military-backed royalist parties, in turn further diminishing tail risks of agitations/protest.

Thailand Q1 GDP Preview: Recovery, Not Outperformance

- Following last quarter's 1.4% YoY growth (-1.5% QoQ SA), Thailand's economy while being expected to **avert a technical recession may fall short of expectations** by posting growth at a clip of around 2% YoY which **just offsets the earlier Q4 contraction**. High frequency indicators point to **value added (VA) production remaining in contraction territory** down 4.6% YoY.
- Despite improving business sentiments, private investment index declined by 1.4% YoY. Investment spending plans may be deferred as that corporates ,ay recoup pandemic losses. Admittedly, the **silver lining** is that the contractions for VA output and investments are milder than in late Q4 2022.
- Much growth will have to be driven by the **services sector which will shoulder a huge burden on a rather relatively labour intensive sector**. **External demand also likely softened** as shipments declined alongside **inventory build-up**. Point being, even if GDP growth surprises on the upside, **the inventory build-up needs to re-assess given that in may be a future drag.**

BSP: 3 Good Prints?



- After hiking rates by 425bps, their **meeting on 18 May** will be an apt juncture for **the BSP to hold their policy rate** to assess the dis-inflation trajectory and hold onto growth gains thus far.
- Afterall, BSP Governor Medalla had said that "**3 good prints in a row, and we would be in a position to pause." The third good print** was the **sequential MoM decline** in headline CPI which **culminated in April's 6.6% YoY print** as **declines in food, gas and diesel prices provided much needed respite for cost of living issues.**
- To be clear, given the BSP's inflation target of 2-4% range, **coming close to the upper limit is looking probable in H2 2022.**
- Nonetheless, **beneath the "good" print**, **services inflation continues to be a challenge** as cost of eating out at restaurants, accommodation cost and recreation inflation rise.
- Reflecting these pressures, **core inflation edged down a mere 0.1% point from 8.0% in March to 7.9% in April**. The implication being that the headline inflation is **unlikely to settle comfortably** within the BSP target this year.
- Meanwhile on the growth front, the BSP will look to preserve the underlying momentum. While Q1 GDP printed at a respectable 6.4%, household consumption dropped from 7% YoY in Q4 2022 to 6.3% in Q1 2023 as household budgets are eroded by inflation and remittances slip. Upshot being, **the BSP remains inclined to pause their rate hiking cycle in hope of more good prints ahead.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	135.7	0.900	0.67%	133.30	~	137.00
EUR/USD	1.0849	-0.0170	-1.54%	1.076	~	1.102
USD/SGD	1.3383	0.013	0.94%	1.3280	~	1.3440
USD/THB	34.000	-0.030	-0.09%	33.60	~	34.40
USD/MYR	4.48	0.044	0.99%	4.460	~	4.490
USD/IDR	14750	75	0.51%	14,500	~	15,000
JPY/SGD	0.9861	0.002	0.25%	0.969	~	1.008
AUD/USD	0.6646	-0.010	-1.53%	0.654	~	0.678
USD/INR	82.17	0.370	0.45%	81.5	~	82.5
USD/PHP	55.778	0.468	0.85%	55.2	~	56.4

^Weekly change.

FX Outlook: Growth Fears Fuelling USD Backstop

- A point we have repeatedly made, and arguably bears repeating, about **"peak USD" should not be conflated with a Greenback that is going down quietly without a fight**.
- Two key reasons for this. First, the **economic (and the consequent policy) divergence** between US and elsewhere in the West/DM means that the **USD may retain a Fed-induced edge**; especially once the debt ceiling uncertainty blows over.
- Second, and crucially, **gathering global headwinds** against a backdrop of **heightened geo-political uncertainties** are **consistent with episodes of haven demand for the USD**.
- More so, if there is a *recognition that the on-going turbulence within US regional banks can easily spill-over as global crunch in USD funding*. And any false sense of security associate with of ring-fence or insulation may prove painfully fleeting if not outright illusory. In particular for EMs.
- And part of the **haven demand for USD theme was in play as global growth concerns came home to roost**; as **China data disappointments were compounded by 'Anti-Goldilocks' US U.o.M sentiments**, presenting a *cruel mix of softer confidfence and hotter inflation expectations.*
- The upshot is that as **confidence is drained and inflation is elevated**, a double whammy of;
  i) *"risk off" USD out-performance* colliding with;
  ii) *Fed-induced USD pick-up*
- could rather brutally punish "pivot bets" that call for USD decline (alongside UST yields).
- In other words, a **combination of Fed and "fear" are burying USD bears**.
- But equally USD rebound is not a sustained trend, rather a positioning reflex.
- And so, **two-way volatility is likely to persist for the time being**; at least until clearer data trends and policy response are established.
- But be that as it may, **EM Asia FX is likely to be on the back foot** for now; given softer Chinese economic data denting re-opening cheer. As a result, **AUD could also under-perform if commodity-channel bearish impulses persist**.

Bond Yield (%)

12-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.987	7.3	3.463	2.6	Flattening
GER	2.573	1.9	2.272	-1.6	Flattening
JPY	-0.061	-1.4	0.376	-3.1	Flattening
SGD	3.027	1.7	2.703	5.8	Steepening
AUD	3.160	8.5	3.320	0.1	Flattening
GBP	3.776	1.8	3.772	-0.1	Flattening

Stock Market

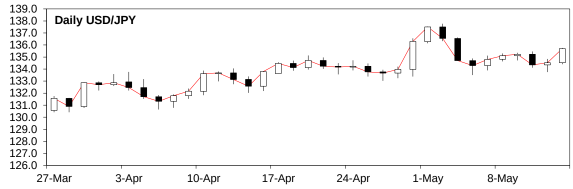
	Close	% Chg
S&P 500 (US)	4,124.08	-0.29
Nikkei (JP)	29,388.30	0.79
EuroStoxx (EU)	4,317.88	-0.52
FTSE STI (SG)	3,208.55	-1.78
JKSE (ID)	6,707.76	-1.18
PSEI (PH)	6,578.15	-1.61
KLCI (MY)	1,422.92	-0.57
SET (TH)	1,561.35	1.83
SENSEX (IN)	62,027.90	1.59
ASX (AU)	7,256.65	0.51

US Treasuries: Expectations Gap

- A late surge in UST yields last week meant that both 2Y and 10Y yields ended higher for the week by 7.3bps and 2.6bps respectively.
- With **inflation epectations** exceed consensus estimates, **front end yields were inevitably calibrated to dial back** on still **over hyped rate cut expectations**.
- This week, **Fed speakers will be expected to back up their stance for a prolonged rate hold and backstop front end yields**.
- Meanwhile, signs of progress from debt ceiling talks on Tuesdays may seed confidence in shorter end USTs and cap yields.
- On balance, 2Y yields will attempt to consolidate higher within the 3.85-4.08% range while 10Y yields move in a lagged manner to trade in the 3.37%-3.55%

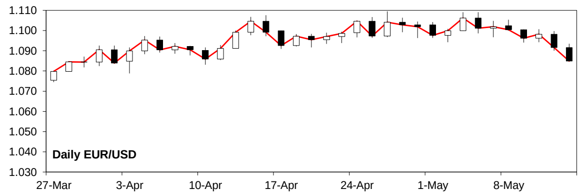
USD/JPY: Checked

- Justifiably, **the USD/JPY was pulled higher** on the renewed UST yield surge.
- That said, expectations continue to be for rallies above mid-136 to fade as sustainability remain suspect as the commodity outlook weakens to favour the JPY.That's barring a surprise OPEC+ response in week where US data releases retreat to the background.
- Coming to the fore though may be potential resolution on debt ceiling talks which send UST yields lower and allow the pair to consolidate around 134-136.



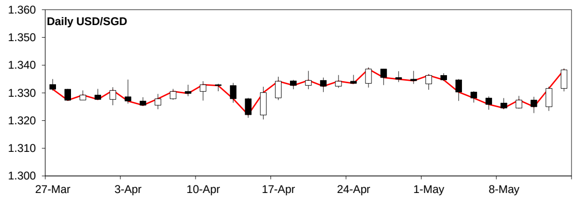
EUR: Diversity and Caution

- The ECB Governing Coucil diverse composition has allowed a myriad of considerations and perspective and at this juncture, it is again illustrated by Guindos who signalled that tightening is in home stretch while Nagel warn of further hikes in H2.
- Amid these mixed directions, the EUR increasingly look devoid of strength.
- What's more, upside surprises on the CPI's final print might dent the EUR as ECB's ability and room to hike further remains doubted.
- All in, the EUR may consolidate lower in the 1.08-1.10 range.



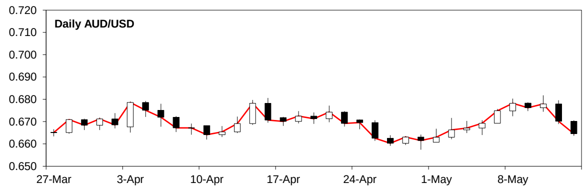
SGD: Squeezed by China

- **Generic USD rebound** is admittedly to be blamed for the corresponding squeeze in USD/SGD from below mid-1.32 to sub-1.34 last week.
- But to be more specific, the sharp SGD (USD/SGD) move down (up) was **underpinned by a correspondingly sharp upswing in USD/CNH** from 6.92+ to 6.97+.
- In particular, **insofar that CNH slide was correlated with disappointing imports and credit data, flagging fears of China's demand recovery** giving way, the inferred downturn expected from exports channel probably weighed even more heavily on the SGD.
- We expect SGD sensitivities to CNH will be elevated.
- And **ahead of more China activity (retail sales/IP) releases**, the **bar may be higher for retail sales to boost CNH** (and hence SGD) whereas IP could be a drag if signs of recovery underwhelm.- Near-term range of mid-1.32 to mid-1.34 likely.



AUD: Growth Drag

- **Growing concerns of headwinds to global demand**, especially with softer Chinese demand indicators disappointing China re-openming cheer, have **adversely affected AUD**.
- Especially as demand fears are amplfied via Australia's commodity - via both trade and investment - channels. In turn this has knocked the Antipodean back to mid-0.66, negating the rallies testiing 0.68 last week.
- Admittedly, the RBA's surprise hawkish inklings revealed a couple of week back may yet provide some backstop/buffer against re-assessed Fed resistance to rate cuts.
- Nonetheless, the **bar may be fairly high for RBA Minutes to spur a sustained rally in AUD** back to (and beyond) 68 cents; at least in the absence of broader recovery in global demand prospects that help lift commodity prices more broadly.



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