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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 28 Apr 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
01 May	US	ISM - Mfg/Prices Paid	Apr	47.1/53.2	46.3/49.2
02 May	US	JOLTS Job Openings	Mar	9736k	9931k
	US	Durable Goods Orders/Nondef Ex Air	Mar F	3.2%/-0.4%	3.2%/-0.4%
	EZ	CPI/Core YoY	Apr	-7.0%/5.6%	6.9%/5.7%
03 May	US	ADP Employment Change	Apr	145k	145k
	US	ISM Services Index	Apr	51.8	51.2
	EZ	Unemployment Rate	Mar	6.6%	6.6%
	US	FOMC Policy Decision		5.00%/5.25%	4.75%/5.00%
04 May	US	Trade Balance	Mar	-$69.4b	-$70.5b
	US	Initial Jobless Claims		240k	230k
	EZ	PPI YoY	Mar	5.9%	13.2%
	EZ	ECB Policy Decision		3.75%	3.50%
05 May	US	NFP/Unemployment rate	Apr	180k/3.6%	236k/3.5%
	EZ	Retail Sales MoM	Mar	-0.2%	-0.8%

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
01 May	KR	Trade Balance	Apr	-$2620m	-$4632m
02 May	AU	RBA Policy Decision		3.60%	3.60%
		PMI Mfg (ID/KR/MY/TH/PH/TW)	Apr		
	ID	CPI/Core YoY	Apr	4.4%/2.9%	5.0%/2.9%
	KR	CPI YoY	Apr	3.7%	4.2%
03 May	SG	PMI - Mfg/Electronics	Apr	--	49.9/49.4
	AU	Retail Sales MoM	Mar	0.2%	0.2%
	MY	BNM Policy Decision		2.75%	2.75%
	TH	CPI/Core YoY	Apr	2.7%/1.7%	2.8%/1.8%
04 May	CH	Caixin PMI Mfg	Apr	50.0	50.0
	AU	Trade Balance	Mar	A$13000m	A$13870m
05 May	CH	Caixin PMI Services	Apr	57.2	57.8
	SG	Retail Sales/Ex Auto YoY	Mar	-1.1%/--	12.7%/11.7%
	AU	RBA-Statement on Monetary Policy			
	ID	GDP YoY	1Q	5.0%	5.0%
	PH	CPI YoY	Apr	7.0%	7.6%
	TW	CPI/Core YoY	Apr	2.2%/--	2.4%/2.6%

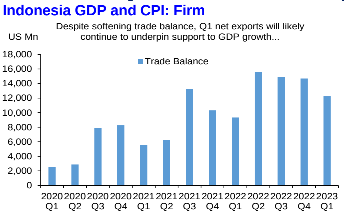
Week-in-brief: Of First & Last

- The week starts off with markets digesting news of **First Republic being seized by regulators and sold to JP Morgan Chase** to mitigate the insurance costs to FDIC and in hopes of shoring up confidence that had been rattled by revelations of $100 deposit flight from First Republic in Q1.
- Trouble is, this is **not the first bank failure** in this round of banking tremors (that had begun with SVB). **More worrying**, it **may not be the last**; as investors and markets cast *nervous glances across regional US banks, fretting* stresses from *elevated rates* and *commercial real estate fragilities.*
- It this is the **backdrop against which** markets and Fed watchers will have to frame the **burning question of whether May FOMC (Wed) will indeed be the last hike** of the Fed's tightening cycle.
- Point being, **markets will be increasingly inclined to declare not just an end to tightening**, but arguably a pending pivot; which prices in rate cuts in H2. And *First Republic's rescue framed as evidence of spillover banking stress* may be one of the justifications to validate piviot bets.
- *Whereas* the very same *rescue may be deemed effective ring-fencing of financial stability risks,* providing **cover for the Fed to be more stoic about lingering inflation risks**. Which in turn may at the very least defer rate cuts, and arguably keep another rate hike in the table.
- **Blinding clarity** on this **likely elude** at the May FOMC. But a *counter-intuitive and contrarian view* there may be a *lower bar for a hawkish surprise/reflex;* insofar that just the act of not expressly ruling out further rate hikes may disappoint markets piling into Fed pivot positioning.
- Although admittedly, **any hawkish shocks/reactions may be muted**; as *pivot bets are not in ignorance* of the Fed's more strident hold position, *but in defiance* of it.
- Elsewhere, the **ECB** (Thu) is in focus too. Here, the question being, **whether** this is the ECB's **last 50bp hike** or the **first sign of restraint** (at 25bp) *ahead of impending end to* the *tightening* cycle. And to what extent the ECB is concerned about second-round effects from services is the litmus test here.
- Down Under, **despite a convincing majority looking for the RBA** (Tue) **to hold**, **our non-consensus view is for a calibrated 15bp hike to 3.75%**. Point being, we are of the view that it is **premature to conclude that the RBA is done with its last hike**; especially as *inflation remains too elevated* despite easing. What's more, *resurgent home prices alleviate concerns of over-tightening.*
- This point of **not necessarily being done with the last hike** resonates even with the **BNM** (Wed), where for the record, **we expect a hold**. While not flagging a pipeline hike explicitly, some allusions to watching for two-way risks and data-dependence will not surprise us.
- **Resilience** in Indonesia's Q1 GDP and/or US jobs data underline the ***distinction between risks that are masked and mitigated***. Indeed, as markets mull *whether calm from the rescue of **First** Republic will **last**,* the fact is that first signs of relief and last signs stress may often be misleading.

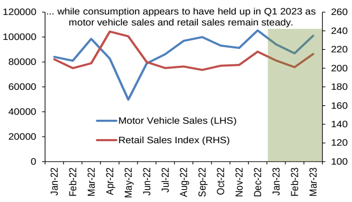
FOMC: A Contemplative Hike

- At this week's **May FOMC, a 25bp hike is virtually a shoo-in**; as is being priced in by the Fed Funds Futures (near-90% probability of a 25bp hike at the point of writing).
- But the hike will be a contemplative one that acknowledges heightened two-way risks and narrower path to a soft-landing; necessitating greater consideration and delicate calibration.
- For the record, **hotter-than-expected core PCE reveal** just days before May FOMC definitely **doubles down on the view that it may be premature to suspend** the **tightening** cycle imminently.
- And to be fair, the **Fed itself is not equivocating on its commitment to at least one more hike**; unlike what exceptionally volatile market pricing might lead us to conclude.
- Fact is, while **"Powell & Co" are** *undeniably cognizant of inadvertent* (credit) *tightening* from banking sector risks, the Fed is *not unduly fearful;* certainly not to the point of paralysis.
- Instead, the Fed has thus far **made at attempt at quantifying** the **expected credit tightening** from banking sector turbulence to be *equivalent to some 25bp of rate hike.*
- And so accordingly, where the **Fed had earlier expected that rates could go above 5.50%**, it ought to now **stop short ahead of 5.50%**.
- Consequently, this *leaves* the Fed with *25-50bp of hikes on the table* (including May's FOMC).
- Of this **May's 25bp hike is a given**, *whereas* the option of a *25bp June hike is subject to a significantly higher bar;* that would require not just economic/job market resilience alongside exceptionally elevated inflation, but also a good measure of financial/banking stability.

Indonesia GDP and CPI: Firm



Source: CEIC, Mizuho Bank



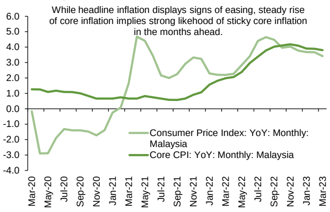
Source: CEIC; Mizuho Bank

- **Indonesia's Q1 2023 GDP growth (releasing on 5 May) is likely to sustain around Q4's 5.0%** as underlying support continues to remain resilient. While the **external tailwinds** which had provided strong support to Indonesia are showing **signs of fading**, it is likely to **remain supportive of growth in Q1 2023 given still substantial YoY growth of trade balance.**
- Specifically, non-oil and gas exports show waning demand while oil and gas exports stay firm.
- In addition, **household consumption indicators remain resilient** as retail sales continue expanding albeit at a slower pace as motorvehicle sales are still up 7% YoY in Q1.
- Meanwhile, **fiscal policy consolidation to meet the 3% deficit rule** imply that government expenditure will remain broadly netural or skew towards a small drag on growth.
- Softening inflation also assisted in purchasing power holding up.
- Turning to the April's inflation release, **headline inflation is expected to slide** towards close to 4.0% YoY from 5.0% in March on favourable base effects. That said, Eid holidays supporting discretionary spending will inevitably dampen the extent of **core inflation moderation** below 3%.

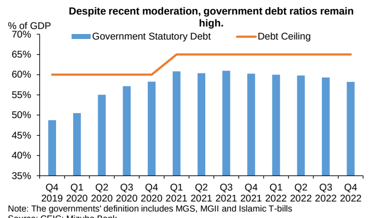
ECB: 50 & 50-50

- A **50bp hike** (to take the deposit/refinancing rates to 3.50%/4.00%) at this meeting is a given **amid elevated and "sticky" inflation**, which the ECB has expressly characterized as unacceptably high.
- What's more, the **surge in services PM**I, suggesting a wider spillover of the re-opening recovery across a broader range of sectors, **also ups the risks if "second round" effects**; thereby **necessitating an upsized and upfront move**.
- But ***after this*** **meeting**, the **calls become more "50-50"**.
- Both with regards to *whether to persist with outsized 50bp moves,* especially as the QT aspects of policy start to bite; as well as to how much higher to go with rate hikes. The bias for the former is that **further hikes beyond May, if required, are likely to be calibrated 25bp moves**.
- As for the latter, one more 25bp rate hike in Q3 beyond the 50bp hike at this meeting may be the base case. Although arguments for more may persist as inflation remains stickier, amid second-order effects; contingent on risk to growth and financial stability being checked.

BNM: Ajar Doors



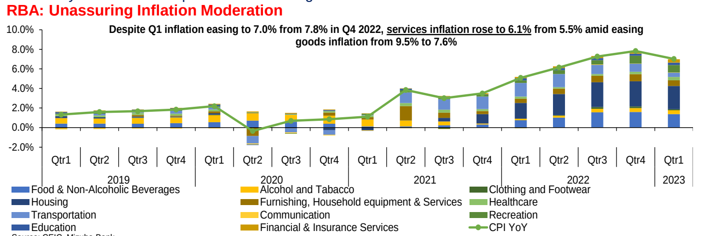
Source: CEIC; Mizuho Bank



Note: The governments' definition includes MGS, MGII and Islamic T-bills
Source: CEIC; Mizuho Bank

- While we expect the **BNM to keep policy rate on hold at their meeting on 3 May**, the **door remains ajar for further hikes.**
- It is worth re-iterating that alongside an easing headline inflation, core inflation has exceeded headline inflation for the past 6 months with a **troubling steady rise in core inflation in 2022** imply that base effects are nearly absent to lend favourable optics in the months ahead.
- In fact, the BNM has clearly indicated that **the current stance for monetary policy remains accommodative** and supportive of economic growth, a clear departure from the restrictive territories of counterparts such as the Fed and BoK.
- At this juncture, **fuel price caps have long kept inflation within control** though **impending plans to tweak and implement mean-tested subsidies may lift the lid on price pressures.**
- Nonetheless, these **fiscal consolidation measures are likely to take place in more favourable growth** environment which in turn opens the door for further monetary policy normalisation.
- All said, the **BNM is staying cautious on their growth outlook and deferring a pre-emptive hike**. This is certainly not unfettered optimism surrounding inflation's near term return to historical trends.

RBA: Unassuring Inflation Moderation



Source: CEIC, Mizuho Bank

- While headline inflation indeed moderated from 7.8% to 7.0% in Q1, **it looks like a facade for another pause rather assured comfort on the dis-inflation process.**
- **As such, our call is an out of consensus one for a resumption of tightening by the RBA, albeit by a smaller 15bps.**
- Afterall, the **RBA's minutes explicitly** stated that their **staff forecast** which **has inflation return to target by mid-2025** would be **inconsistent with the Board's mandate**.
- What's more, these forecast were already **conditioned on a further hike.**
- But under the hood of headline dis-inflation, **record high** (since 2001) **services inflation** at 6.1% in Q1 (Q4: 5.5%) on higher prices from holiday travel, medical services, rents and restaurant meals.
- **Goods dis-inflation provided the offset** as it declined from 9.5% to 7.6%. Nonetheless, this **relief ought to be dampened** by the fact that this was in part due to **post christmas discounting** on furniture and applicance as well as **discounting on summer stock** for clothing.
- Nonetheless, we **acknowledge that Q1's inflation downshift could move forward RBA's forecast of inflation's return to target to end-2024. As such, a finely calibrated move of 15ps might be a sweet spot compromise between slipping growth and stubborn inflation risks.**
- While the RBA might opt for a further hike, AUD's recovery may remain lethargic given the persistent Fed-RBA differential and dismal commodity outlook.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	136.3	2.140	1.60%	133.00	~	138.10
EUR/USD	1.1019	0.0033	0.30%	1.083	~	1.114
USD/SGD	1.3344	0.000	0.01%	1.3280	~	1.3440
USD/THB	34.143	-0.245	-0.71%	33.85	~	34.60
USD/MYR	4.4622	0.025	0.56%	4.450	~	4.470
USD/IDR	14670	-175	-1.18%	14,500	~	15,000
JPY/SGD	0.98	-0.015	-1.46%	0.962	~	1.011
AUD/USD	0.6615	-0.008	-1.15%	0.654	~	0.678
USD/INR	81.83	-0.265	-0.32%	81.5	~	82.4
USD/PHP	55.36	-0.660	-1.18%	55.0	~	56.4

^Weekly change.

FX Outlook: Deals, Debt & Dollar

- **May FOMC week** may be **marked by a lack of clarity** as markets struggle to digest a chaotic mix of factors swaying USD sentiments from one side to another.
- For one, the **First Republic deal** to sell the beleaguered bank to JP Morgan in a loss sharing deal with the FDIC may (at least *initially*) be **supportive of the USD**; at least at first glance.
- Not just owing t o the fire-fighting with regards to US banking sector risks dousing risk premium for USD vis-a-vis EUR; but arguably insofar that this *backstop in favour of financial stability* could *allow* for the *Fed to retain a greater degree of hawkish bias to be retained.*
- Although admittedly this provides **no concrete assurance that absolves wider risks concentrated around other regional US banks**. In which case, USD buoyancy may prove shallow.
- Speaking of deals, the **burning policy question** is *whether a Fed plateau, if not pivot, is a done deal after a 25bp hike at this meeting.* And that will be the swing factor for the USD. If the Fed indeed aligns with that, expect USD sell-off amid falling (UST) yields. But if the Fed is emphatic about not being done with hikes yet, reiterating "higher for longer", UST yields and USD may be buoyed.
- Focus is also turning to debt. Specifcally **US debt ceiling risks**. Here, **reactions may not be open and shut**. Rising US debt ceiling risks, in the *initial stages may send both UST yields and USD higher.*
- But beyond a certain threshold may correspond to higher yields alongside USD slump.
- And so, depending on how much more concerned markets get about US debt ceiling risks, USD bear could be waiting to pounce; even if the policy mix favours USD support.
- *Especially if the Fed is more hawkish than expected, while the ECB steps back from 50bnp hike.*
- Nothing is a done deal. And US debt ceiling concerns are more likely to elevate than guarantee one-way bets. And so, our sense is that the USD may initially be supported through FOMC, but will be restrained in moves either way.
- Whereas downside USD risks will not necessarily inspire bona fide "risk on" that ensures follow-through rallies in EM and commodity FX.
- In fact, any AUD traction is more likely to be from RBA hawkish surprise than unadulterated optimism funnelled via commodity prices, and resultant investment sentiments.

USD/JPY: Short Term Buoyancy?

- The USD/JPY soared above 136 last week as the BoJ stood pat on policy and commenced a policy review which is likely to span 1 to 1.5 years.
- Nonetheless, in the longer term, removal of forward guidance on policy rates staying the same or going lower highlights the need to keep policy options open.
- It is also worth nothing that Governor Ueda signalled that a policy change need not come only at the end of the review.
- For now, the near term focus on FOMC this week which will pull policy differential higher will keep the pair buoyed above 134.

EUR: Consolidation or Capitulation?

- The EUR continued to trade in the 1.10 vincinity, assisted by lower UST yields.
- This week, the ECB's decision will follow hot on the heels of the Fed, though perhaps with a matching step at best.
- Even a possible 50bps hike may not set off EUR rallies as financial sector and fragmentation worries may notch up and calibrate policy path forward.
- All in, EUR consolidation around both sides of 1.10 is the base case but capitulation on policy risks is worth watching.

SGD: Between (being) Stuck & Slip

- We suggested last week that SGD will be stuck in a range; and not due to a dearth of impetus, but rather from the conflict between the various drivers.
- And that view has proved mostly accurate with USD/SGD mostly stuck between low-1.33 to high-1.33; albeit with no lacjk of two-way gyrartions within this contained range.
- What's more with continued noise obfuscating sustained signals at this point.
- A firmer USD over the May Day long weekend, alongside FOMC-ECB risks suggest that there may be a marginal preference for USD buoyancy; which in turn is likely to compromise the ability of USD/SGD to make any sustained forays below 1.33.
- Especially as CNH looks to be on a softer footing and the Golden Week holidays could render markets more cautious about placing large (one way or another) bets on a cautious CNH. For now, stall at sub-1.33 and restraint above 1.34 could persist.

AUD: RBA Swing?

- While the majority consensus is for the RBA to stay on hold, this is not a dopne deal.
- Not just yet. And the RBA could have good cause on elevated inflation and sigsn of property resurgence nott o prematurely end its tightening cycle.
- If so, further tightening - whether in May or in the near future - need not be ruled out.
- And so, the AUD may yet be receptive to mild hawkish triggers (by deed or work) from the RBA. and it is on this account that bouts of upside to and a tad beyond 0.67 remain on the table. although admittedly, we expect stamina to follow-through to 0.68 to be significantly compromised by softer commodities and less supportive "risk on" sentiments lurking close to the surface of calm waters.

Bond Yield (%)

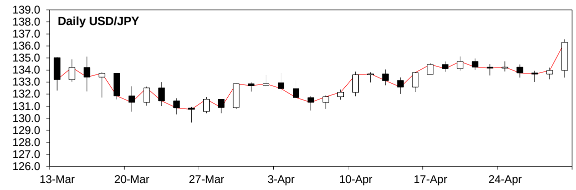
29-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.006	-17.6	3.422	-15.0	Steepening
GER	2.660	-23.9	2.308	-16.8	Steepening
JPY	-0.047	0.2	0.376	-8.3	Flattening
SGD	3.023	5.8	2.743	-8.3	Flattening
AUD	3.033	-11.0	3.333	0.1	Steepening
GBP	3.751	3.4	3.712	-4.0	Flattening

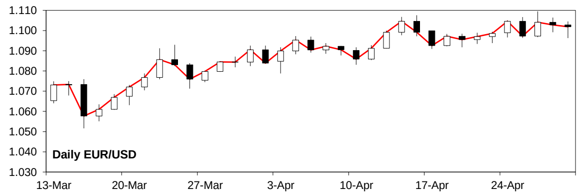
Stock Market

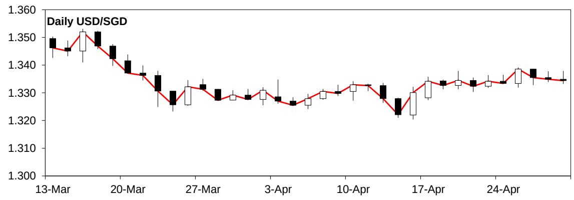
	Close	% Chg
S&P 500 (US)	4,169.48	0.87
Nikkei (JP)	28,856.44	1.02
EuroStoxx (EU)	4,359.31	-1.12
FTSE STI (SG)	3,270.51	-1.54
JKSE (ID)	6,915.72	1.38
PSEI (PH)	6,625.08	1.60
KLCI (MY)	1,415.95	-0.43
SET (TH)	1,529.12	-1.88
SENSEX (IN)	61,112.44	2.44
ASX (AU)	7,309.15	-0.29

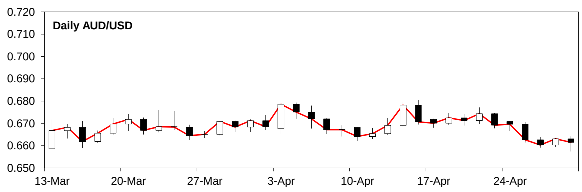
US Treasuries: Clouded Outlook

- Admittedly, while we saw a sharp plunge in UST yields last week as caution reigned, this **early week surge in UST yields** on signs of higher cost pressures from ISM survey have reversed much of the yield decline.
- At this juncture, **certainty** beyond this week's FOMC 25bp hike **eludes and unfortunately volatility ensues.**
- At this stage of the growth cycle**, room for further hikes persist albeit one which is increasingly limited.** Yet, inflation remains troubling.
- Furthermore, debt ceiling risks may impart two way volatility insert sell-off on default risk or substitution towards longer tenure at the margin to look past near term woes.
- On balance, 2Y yields may venture towards testing 4.3% while 10Y yields trade in the 3.45%-3.65% range.









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