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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 5 May 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
08 May	US	Wholesale Inventories MoM	Mar F	0.1%	0.1%
	EZ	Sentix Investor Confidence	May	-7.5	-8.7
	JP	PMI Services	Apr F	55.4	54.9
09 May	**JP**	**Labor/Real Cash Earnings YoY**	**Mar**	**1.0%/-2.4%**	**0.8%/-2.9%**
10 May	**US**	**CPI/Core YoY**	**Apr**	**5.0%/5.5%**	**5.0%/5.6%**
	JP	Coincident Index/Leading Index CI	Mar P	98.7/97.9	98.6/98.0
11 May	US	Monthly Budget Statement	Apr	-$235.0b	-$378.1b
	US	Initial Jobless Claims		245k	242k
	US	PPI Final DD/ Ex Food and Energy YoY	Apr	2.5%/3.3%	2.7%/3.4%
	JP	BoP Current Account Balance	Mar	¥2903.4b	¥2197.2b
	JP	Eco Watchers Survey Current SA	Apr	55.1/54.1	54.1/53.3
12 May	**US**	**U. of Mich. Sentiment**	**May P**	**63.0**	**63.5**
	US	**U. of Mich. 1 Yr/5-10Yr Inflation**	**May P**	**4.2%/2.9%**	**4.6%/3.0%**

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
08 May	AU	Building Approvals MoM	Mar	-0.1%	4.0%
	PH	Unemployment Rate	Mar	4.7%	4.8%
	TW	**Trade Balance**	**Apr**	**$3.8b**	**$4.2b**
09-15 May	CH	Aggregate Financing CNY	Apr	2000.0b	5380.0b
09 May	CH	Trade Balance	Apr	$71.3b	$88.2b
	MY	**Industrial Production YoY**	**Mar**	**0.6%**	**3.6%**
	PH	**Trade Balance**	**Mar**	**-$4503m**	**-$3877m**
10 May	**KR**	**BoP Current Account Balance**	**Mar**	**--**	**-$518.4m**
	KR	Unemployment rate SA	Apr	2.9%	2.7%
11 May	**CH**	**CPI/PPI YoY**	**Apr**	**0.3%/-3.4%**	**0.7%/-2.5%**
	TH	Consumer Confidence Economic	Apr	--	48.0
	PH	**GDP YoY**	**1Q**	**6.2%**	**7.1%**
12 May	CH	BoP Current Account Balance	1Q P	--	$103.1b
	IN	**CPI YoY**	**Apr**	**4.8%**	**5.7%**
	IN	**Industrial Production YoY**	**Mar**	**3.5%**	**5.6%**
	MY	BoP Current Account Balance MYR	1Q	--	25.7b
	MY	**GDP YoY**	**1Q**	**5.1%**	**7.0%**

Week-in-brief: Discomforting, Not Derailing

- The **hot spots in US jobs** data is admittedly a point of **discomfort for**, *albeit not cause to,* **derail, the Fed's default position of a pause** for now. In fact, if anything, a wider read of NFP underpins our view of a **much higher bar to arouse the Fed from its deliberated hold into mid-2023** (June/July).
- Admittedly, **unemployment** (underemployment) rate slipping 0.1%-pt to 3.4% (6.6%) amid steady participation rate at 62.6% **suggests a solid job market**; even if the 253K out-run in non-farm payrolls is tempered for the near 150K downward revision in prior jobs.
- What's more, **bumped up weekly wage gains** (rising at a faster 0.5% MoM clip from 0.3% MoM) **warns that hot spots in the job market are not all convincingly quelled**.
- *Nonetheless,* considered in the context of **significant cooling in new employment** (*NFP 3-month avg. from 334K at start 2023 to 222K in April*) alongside **diminished job vacancies** (not filled), ***job market "hot spots" led by wage gains may be interpreted as remnant embers rather than fresh fuel.***
- Crucially, with the **Fed's cumulative 500bp of tightening acting as a binding restraint**, the current confluence of remnant of job market tightness and peaked (albeit sticky) inflation, **does not necessitate**, *certainly not with any urgency* at that, for a (further) **tightening policy response at this juncture**.
- What's more, **given that banking sector risks continue to linger**, despite not terrorizing from center-stage at this point, **Fed hawks are justifiably, and convincingly, kept at bay**.; if not arguing for a cut.
- Whereas, there is **some angst among Fed-watchers that** *US inflation* on the tap mid-week might reveal *discomfortingly sticky price pressures with elevated core services* (ex-rental) that could drive a narrative of a **Fed** that **just cannot cut yet**, of possibly even have work left on anchoring inflation expectations.
- Admittedly, **policy dilemma is set to mount amid two-way risks** and **agitations**.
- Nonetheless, the bigger picture is that , this **merely inflicts policy discomfort** (one way or the other), **but does not derail** the play book for a **policy hold**. If anything, it doubles down on the cautious hold.
- Meanwhile, **debt ceiling risks could infuse more** *volatility into UST yieleds and USD as correlations go awry amid QT and elevated rates colliding with bets on Fed pause-to-pivot transition.*

Crude Risks

- **Brent Crude's sharp slide from $85-86/bbl in mid-April to test below $72** last week *before finding traction around $75* is **reminiscent of the downside volatility in March**.
- Consequently, this **flags attendant risks of unwelcome OPEC supply** (tightening) **response**, or at least jawboning from the OPEC+, in an attempt **to backstop/shore-up prices**.
- Fact is, the **similarities in sharp crude price drop are uncanny**; uncomfortably so, **forcing an evaluation of whether or not the OPEC will deliver another Saudi-led cut**.
- *Admittedly,* we **do not subcscribe to** the view of hardened lines in the sand (such as rapid price drop to, and below, $75) **that will trigger a sure-fire supply (cut) response** from OPEC+.
- *After all, the OPEC+ is not oblivious to gathering headwinds that challenge global demand.*
- Accordingly, not only could the OPEC+ concede that some degree of price moderation may be unavoidable, but it could very well recognize the futility of fighting such organic pricing response.
- Nontheless, the **speed of oil's pullback**, with little deference for the supply cut last month, is **likely to invoke disgruntlement, and perhaps even elicit a follow-up** (supply-tightening) **response**.
- **In particular to warn** against **bearish oil bets from the speculative corners** of the markets.
- In addition, **OPEC+ could also be taking pre-emptive steps to ensure that crude inventory re-building is dampened**; such that the expected pick-up in travel demand for oil will at least partly offset slowing industrial demand, rather than being smothered by inventory drawdown.
- As we have warned, such a **knee-jerk reflex to curb supply further on softer price triggers will be ultimately self-defeating for oil/OPEC+** insofar that **near-term policy dilemma from sticky oil prices will inadvertently accentuate hard-landing risks** for the global economy.
- To which, oil's bearish response tends to be out-sized (especially given the financial linkages) amplify the real economic dampening. And so, oil becomes a victim of its own tyranny.
- The **hope is that such crude risks** (pun intended) to the economy **are avoided**. **But given that the immediate incentives of the OPEC+ and those of global oil importers are mis-aligned**, this adverse outcomes from myopic policy mis-steps from OPEC+ cannot be ignored.

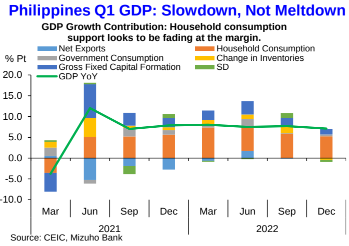
USD & Yield Impact from US Debt Ceiling Risks

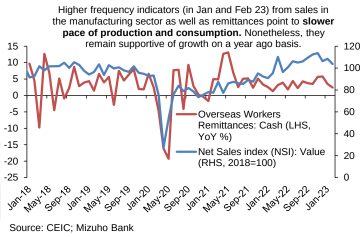
1) Acute Yield Volatility; Yields, with a Bias for Sharply Higher Yields -accelerating Inflation Trigger
•Sharply higher on brinksmanship & abrupt pullback on resolution.
•2011 yield slide fuelled by QE and "Twist"
•In contrast, **QT now** may **accentuate yield upside** from debt ceiling woes.

2) USD-UST Correlation Compromised
•Brinksmanship: **UST Yields up** and USD down. (*paradoxically "risk on" move*)
•Resolution: UST Yields Down & USD up. (*oddly a haven reflex*)
•US Debt ceiling: **Imposes Negative USD-UST Yield Correlation; flipping positive correlation from Fed dynamics.**

Upshot being, **chaotic collisions between inflation, financial stability and debt ceiling risks**, may result in **cross-winds that make it far more difficult to predict market response** (yields and USD outcomes *as correlations fluctuate*)

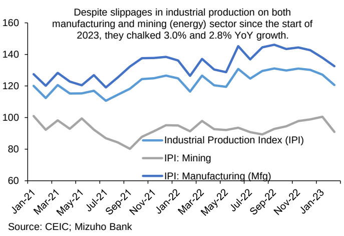
Philippines Q1 GDP: Slowdown, Not Meltdown

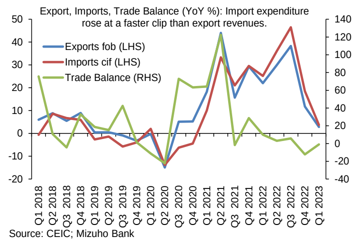




- **Philippines Q1 GDP print on Thursday is expected to slow** to 6.2% from 7.1% in Q4 2022.
- High frequency indicators show **slowing activity in the manufacturing sector** congruent with slipping global demand as **exports contracted 18.1% in Feb** from a year ago.
- **Weaker remittances growth** and a dimmed consumer outlook point to further erosion of private consumption. A weak peso feeding into **higher imported inflation** will also continue to be a key household budget stress point.
- With fiscal measures (fuel subsidies and income transfers) justifiably targeted at lower income groups, private consumption is not expected to receive unfettered boost as **fiscal consolidation** proceeds with goverment expenditure in Q1 staying somewhat flat from a year ago.
- All in, given the **global labour markets remain rather resilient** at this juncture, growth is expected to slow but not collapse as household consumption holds up.
- Looking ahead, aside from the passthrough from tighter monetary conditions, **El Nino risks** in mid-2023 may throw up unwelcomed disruptions for households and the agricultural sector.
- Moreover, while **headline inflation in April slowing to 6.6% was on the back of a 0.2% MoM decline solidifies the BSP considerations for holding rates**, the pass through of monetary tightening on economic activity bears close watching.

Malaysia Q1 GDP: Reversion





- Similarly, while signs of headwinds are evident, **Q1 GDP in Malaysia is also expected to revert to growth trends closer to pre-covid levels at a near 5% clip,** down from 7.0% in Q4 2022.
- As such, on a sequential basis, a technical recession will be averted (after Q4's 2.6% contraction).
- Coming off the highs in late 2022, industrial production levels have weakened in recent months on both manufacturing and resource sector fronts.
- That said, output still expanded at a decent 2.8-3.0% on a year ago basis.
- Growth support from net exports might fade as rising import expenditure (on the back of higher demand for fuel) collide with slowing export demand for manufactured goods, chemicals and palm oil.
- On the domestic front, **private consumption is likely to stay resilient as the labour market remains tight** with declining unemployment rate seen in early 2033.
- The upshot is that **BNM will likely be validated that their 25bps hike** last week;
- which was expressly positioned to **withdraw "Covid related monetary stimulus"** was **cognisant and consistent** with a growth trajectory **reverting to pre-pandemic trends**.
- Nonetheless, it is worth noting that while their previous statement espoused that their monetary policy stance was accommodative, last week's iteration has added the modifier '**slightly**' to **hint at some, albeit shrinking, room for further (calibrated) hikes**.
- Point being, the **bar for more tightening is high**; **requiring further upside risk to core inflation originating from compellingly strong demand**-end investment and consumption activities.
- What's more, **domestic fiscal policy changes on fuel price controls** (which may face arduous huddles in reform attempts).

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	134.8	-1.500	-1.10%	133.30	~	137.00
EUR/USD	1.1019	0.0000	0.00%	1.083	~	1.112
USD/SGD	1.3258	-0.009	-0.64%	1.3280	~	1.3440
USD/THB	34.03	-0.113	-0.33%	33.85	~	34.60
USD/MYR	4.4363	-0.026	-0.58%	4.450	~	4.470
USD/IDR	14675	5	0.03%	14,500	~	15,000
JPY/SGD	0.9836	0.004	0.37%	0.969	~	1.008
AUD/USD	0.6749	0.013	2.03%	0.654	~	0.678
USD/INR	81.80	-0.032	-0.04%	81.5	~	82.4
USD/PHP	55.31	-0.050	-0.09%	55.0	~	56.4

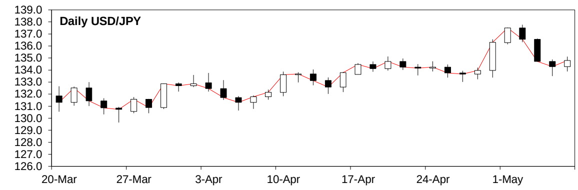
^Weekly change.

FX Outlook: Of Debt & Dollar

- There are signs that what may be **assumed** to be familiar **market responses** and/or **correlations may be confused, challenged, or outright contrary** (to expectations).
- For one, prospects of a **Fed pause** (amid banking risks) had **paradoxically inspired "risk off"** earlier last week, backstopping the USD;
- **whereas** the **hot jobs data** (that ought to have been associated with Fed hawks) fuelled "risk on" moves that boosted equities **and knocked back the USD**.
- Ostensibly, markets are **looking past second-order Fed response to concentrate more narrowly on the economic first order economic implications**;
- given **perceptions of a greater degree of Fed policy insensitivity to data moves** as the Fed, which has aggressively taken steps to tame inflation, is hesitant to prematurely unwind tightening.
- And so, **USD response** function is now getting past the familiar " the Fed is the only game in town" type of projected moves premised on policy expectations. But in so doing remains somewhat cautious.
- What's more, **mounting risks associated with the US debt ceiling** adds **another layer of complexity** to received wisdom on USD and UST yield dynamics.
- For one, the *propensity for USD sell-off on default risks,* which may *correspond to higher UST yields* that reflect diminished interest to aggressively long US debt, will **overturn the logic of higher UST yields driving USD higher** (on interest rate differentials).
- And the **relief from US debt ceiling risks might incite just the opposite** (higher USD and softer UST yields) based on demand for both the USD and UST yields.
- **Yet** this **provides little clarity for EM Asia FX** on two counts.
- For one, *even if the USD suffers for US debt default,* **generalized "risk off" and/or adverse aggregate demand triggers could inflict injury on exports-dependent EM Asia FX**.
- Second, and crucially, banking sector risks in the US could spillover as USD funding stress that might affect EM Asia FX at some point, warnings of abrupt loss of softer USD tailwinds.
- Upshot is US debt might still be EM Asia's problem. So, *betting on AXJ gains against the USD is better off as cautiously opportunistic; and not even cautiously optimistic.*

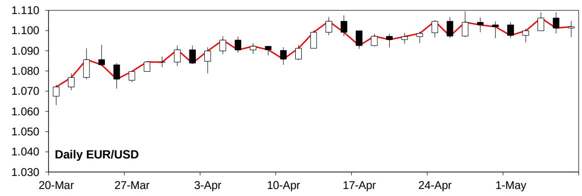
USD/JPY: Fading Tailwinds

- Having bounced off lows of mid-133 to close the week above mid-134 as tailwinds of lower energy prices and lower UST yields faded, it may be tempting to project further buoyancy outright.
- That said, caution surrounding more flight to safety on US credit concerns may **check rallies above 136.** With energy prices edging higher, the USD/JPY ought to keep the pair buoyed above 133. The trading range is projected to be noticeably larger as US CPI print may impat volatility amid the clouded policy outlook.



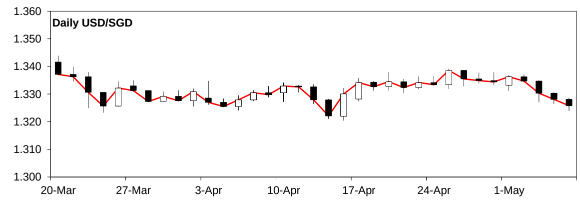
EUR: Restricted Rallies

- Backing out case for consolidation last week, the EUR was unable to capitalise on lower UST yields as **the ECB's 25bp togther with Lagarde's insistence that the ECB was not pausing looked unconvincing** in the face of borrowing costs being in **restrictive territory** and past rate increases are being transmitted forcefully.
- While we are cognisant that **rallies towards 1.10 ought to be incited on either tighter credit conditions** in the US or soft CPI prints, these challenges are **increasingly restricted** as the growth worries (reflected by EZ retail sales) asserted.
- All in, the EUR testing 1.11 to be weak while drops toward mid-1.09 watched on US inflation fears.



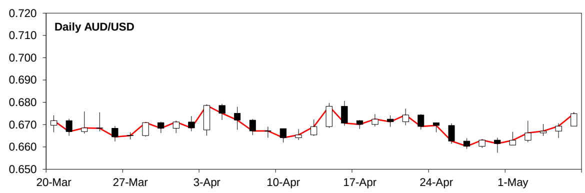
SGD: Shallow Strength

- As we had expressed earlier, SGD traction to probe higher (USD/SGD below mid-1.32) is likely to be founded mostly on post-Golden Week strength in JPY and CNH.
- But that is both shallow and fleeting. Fact is, USD slippage on the back of hot jobs and US debt ceiling risks are at best a noisy move in FX land, rather than an established one-way trend for the SGD to lacth on to from S$NEER perspective.
- Instead, two-way risks may be the more enduring theme; as the initial support on relative banking sector refuge (Singapore vs. US regional banks) and against US debt ceiling crisis, the bigger picture is for circumspection to kick in if "generalized risk off" takes over US soft spots. In which case USD/SGD range of high-1.31 to mid-1.33 is liklely.



AUD: Of Commodities & Corners

- The case for commodities turning a bullish corner in a demand-led move remains tentative at best, tenuous to be more realistic. And so it follows that AUD traction above 0.67 enroute to 0.68 is not an exercise in unfettered altitude gains.
- Instead, we expect a good deal of back and forth as general risk sentiments and doubts about how much commodity demand may be revived by spots of strong jobs data will inevitably be posed to AUD bulls looking for excuses to puch higher.
- Admittedly, a more hawkish RBA provides relatively more cover for AUD bulls; especually if US debt ceiling risks are expected to tie hands or reverse moves.
- But that may be a move on a short leash as overall risks appetite and projected commodity demand revival may remain bug bears.
- Range of low-0.66 to mid-0.68 likely to contain the Antipodean for now.



Bond Yield (%)

5-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.914	-9.2	3.437	1.5	Steepening
GER	2.554	-10.6	2.288	-2.0	Steepening
JPY	-0.047	0.0	0.407	3.1	Steepening
SGD	3.010	-1.3	2.645	-9.8	Flattening
AUD	3.075	4.3	3.315	0.1	Flattening
GBP	3.758	0.7	3.773	6.1	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,136.25	-0.80
Nikkei (JP)	29,157.95	1.04
EuroStoxx (EU)	4,340.43	-0.43
FTSE STI (SG)	3,266.63	-0.12
JKSE (ID)	6,787.63	-1.85
PSEI (PH)	6,685.66	0.91
KLCI (MY)	1,431.04	1.07
SET (TH)	1,533.30	0.27
SENSEX (IN)	61,054.29	-0.10
ASX (AU)	7,220.01	-1.22

US Treasuries: Of Pausing and Stalling

- With the **Fed signalling a tentative pause, front end yields took a dive last week as 2Y yields dropped 9.2%.**
- That said, the **end of week NFP print ought to incite the doubts surrounding the possiblity of a continued decline** in front end yields.
- This week, the Fed's Senior Loan Officer survey on Tuesday will become closely watched as an indicator for the health of credit channels in the US economy.
- The outcome is likely towards **further tightening in lending standards which will trigger bouts of flight to safety to send UST yields lower.**
- **Afterall, stalled credit flows foretell impending recessions.**
- What's more, the need to digest the implications of another likely sticky inflation print which may not move the needle on policy imports further volatility.
- **Nonetheless, stalled debt ceiling negotiation retain potential for UST abandonement.**
- All in, an enlarged trading range is expected as 2Y yields retain downside bias trading in the 3.75% to 4.05% while 10Y yields ought to be keep in check below 3.55%.