Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095

MIZUHO

WEEK AHEAD

Vishnu Varathan | Tan Boon Heng

10-Apr-2023

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Economic Calendar

•Survey results from Bloomberg, as of 7 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
10 Apr	US	Wholesale Inventories MoM	Feb F	0.2%	0.2%
	JP	BoP Current Account Balance	Feb	¥2197.2b	-¥1989.2b
	JP	Eco Watchers Survey Current/Outlook SA	Mar	52.8/50.9	52.0/50.8
11 Apr	**EZ**	**Retail Sales YoY**	**Feb**	**-3.5%**	**-2.3%**
	EZ	Sentix Investor Confidence	Apr	-10.1	-11.1
	JP	Machine Tool Orders YoY	Mar P	--	-10.7%
12 Apr	**US**	**CPI/Core YoY**	**Mar**	**5.1%/5.6%**	**6.0%/5.5%**
	US	Real Avg Hourly Earning YoY	Mar	--	-1.3%
	JP	PPI YoY	Mar	7.1%	8.2%
	JP	Core Machine Orders YoY	Feb	4.6%	4.5%
	US	**FOMC Meeting Minutes**			
13 Apr	US	Initial Jobless Claims		235k	228k
	US	PPI Final Demand/Ex food and Energy YoY	Mar	3.0%/3.5%	4.6%/4.4%
	EZ	Industrial Production WDA YoY	Feb	1.6%	0.9%
14 Apr	**US**	**U. of Mich. Sentiment/Current**	**Apr P**	**61.9/--**	**62.0/66.3**
	US	**U. of Mich. 1/5-10 Yr Inflation**	**Apr P**	**--/--**	**3.6%/2.9%**
	US	Industrial Production MoM	Mar	0.2%	0.0%
	US	Retail Sales Advance/Ex Auto and Gas MoM	Mar	-0.4%/-0.8%	-0.4%/0.0%

Asia

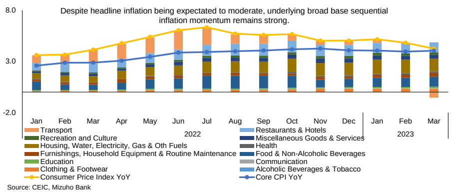
Yellow highlight indicates actual data

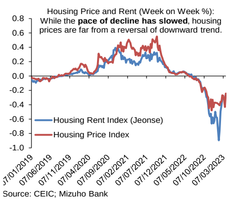
Date	Country	Event	Period	Survey*	Prior
10-15 Apr	CH	Aggregate Financing CNY	Mar	4530.0b	3156.0b
11 Apr	CH	FDI YTD YoY CNY	Mar	--	6.1%
	CH	**CPI/PPI YoY**	**Mar**	**1.0%/-2.4%**	**1.0%/-1.4%**
	KR	**BoK 7-Day Repo Rate**		**3.50%**	**3.50%**
	MY	Industrial Production YoY	Feb	2.7%	1.8%
	TH	Consumer Confidence Economic	Mar	--	46.8
	PH	Trade Balance	Feb	-$5040m	-$5740m
	PH	Unemployment Rate	Feb	--	4.8%
	TA	**CPI/Core YoY**	**Mar**	**2.2%/--**	**2.4%/2.6%**
	TA	Trade Balance	Mar	$2.7b	$2.4b
12 Apr	**IN**	**CPI YoY**	**Mar**	**5.8%**	**6.4%**
	IN	**Industrial Production YoY**	**Feb**	**4.9%**	**5.2%**
	KR	Unemployment rate SA	Mar	--	2.6%
13 Apr	CH	Trade Balance	Mar	$42.0b	$77.6b
	AU	**Employment Change/Unemploy. Rate**	**Mar**	**20.0k/3.6%**	**64.6k/3.5%**
14 Apr	IN	Trade Balance	Mar	-$17622.0m	-$17431.7m
	SG	**GDP YoY**	**1Q A**	**0.5%**	**2.1%**
	SG	**MAS April 2023 Monetary Policy**			

Week-in-brief: Inflated Hopes

- **Inflated hopes of receding policy dilemma**, and consequent economic clarity and stability, suggest *scope for more disappointment and resultant volatility* in these markets.
- After **stronger than expected NFP** numbers accompanied **solid wage gains**, **lower unemployment** (accentuated by higher participation rate) *UST yields have risen* (led by the front-end) and *underpinned the USD;* suggesting that ***markets concede that hawkish Fed outcomes have been written off a tad too much.***
- And in that context, there may be **inflated hopes imposed on FOMC Minutes** (Wed) **to validate the case for an early withdrawal of Fed hawks**. Whereas the *reality* may be that while the ***Fed* is justifiably *cautious of pushing the envelope on the limits of peak rates,* it may *not be on the cusp of reversing hikes* either**.
- And by the **same token**, there will **probably be a wide berth for US inflation**. Specifically, the **Fed is less likely to change course either way**; be it responding to upside or downside surprises in US CPI data (Wed).
- The *irony* is that *markets will be exceptionally volatile* (and sensitive to data). Especially **as markets are defiantly wagering on a sharp Fed inflection**. In other words, **inflated hopes** of Fed relief, **which may prove premature**.
- US sentiments data (including inflation expectations) will also feature in Fed expectations; with potential for gyrations. And elsewhere, **inflated hopes** of policy dust having already settled **are set to come back to roost**.
- The **BoK** (Tue) may **not be at a juncture where it has certainty of being done with hikes**, despite growing concerns of excessive hikes on a slowing economy and elevated debt.
- Later in the week, **MAS** (Fri) meeting **could inadvertently lead to binary outcomes** in the **SGD** (via S$NEER). Mainly as the **base case for a hold** *after exceptional tightening* (from Oct 21 to Oct 22) is now **challenged by a** conflict of simultaneous inflationary (oil supply) and deflationary (recession/adverse financial) shocks. This **reflects the wider economic challenge**, whereby **diverging risks amplify the risks of policy mistakes**.

BoK: Probing for Optimal Terminal, Not Pushing the Envelope



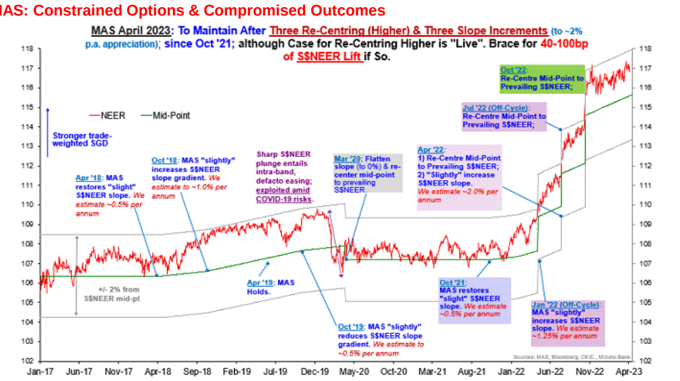


- The next BoK meeting on 11 April is one which they will be expected to **probe for the optimal terminal rates, rather than push the envelope on policy rates**. Uptick in consumer sentiments on current living standards as well as future economic conditions avails **room** for a calibrated 25bp hike.
- At this juncture, the upshot being that a 25bp hike is a search for the **optimal balance between inflation and growth trade-off** rather than test the boundaries of rates, debt and housing risks.
- A brief recap is warranted here that at their last meeting in February, only a single member of the committee saw the terminal rate at the current level of 3.50% while 5 members opted for 3.75%.
- Admittedly, a combination of falling headline inflation in March and still declining housing prices provide the valid grounds for the BoK to hold their policy rate at their next meeting at 3.50%.
- That said, given **fresh shocks** from OPEC+ production cuts, headline inflation's decline may slow in the months ahead. Afterall, the main drag on Feb's headline inflation was from transport cost as **prices of all other components experienced sequential increase**. As such, taming sticky core inflation is proving a challenge and a **reason for probing for rate optimality**.
- Domestically, a likely upward revision in utilities charges in Q2 may keep inflation elevated. To be clear, a rate hike is not a direct response to these administrative changes but rather an **awareness of pipeline indirect effects** from businesses passing on higher costs.

OPEC's Crude Gambit

- **OPEC's surprise 1.16MBpD crude output cut**, over and above earlier Russian cut (in retaliation of Western sanctions) of 500KBpD, admittedly **poses significant upside price risks.**
- Given that the combined impact of 1.66MBpD reduction accounts for nearly 4% of end-2022 OPEC+ output, rule of thumb (of around 5X the price effect) suggests up to a 20% price surge.
- If such received wisdom about price-supply dynamics play out, it is **not inconceivable that** (Brent) **crude prices may very well be lifted to $100/bbl**; as some traders have suggested.
- **Especially if geo-political risks remain elevated and supply elsewhere is inelastic**.
- But to be sure, **first-order inflation risks are overblown**. *Even assuming sustained $100 price into Q1 2024,* **crude will be mostly dis-inflationary and consistent with broader dis-inflation**.
- And so crude price jump from OPEC cuts, in of itself, is **neither a disaster for CPI optics** *nor* a a **deal-breaker for pipeline termination of tightening** that central banks are poised for.
- In fact, if only first-order effects of crude were considered, it may be **tempting to dismiss it as an unwelcome and ill-timed (late-cycle) inconvenience**; that only defers, but does not derail, existing projections of peak policy rate.
- *Nonetheless*, **pervasive second-round inflation impact** conspiring with **geo-political risks accentuate threat of a hard-landing**; rendering *Oil a victim of its own tyranny*.
- Specifically, Oil's; i) sequential *sway on more generalized inflation expectations;* ii) *long-memory effect on, and from, longer-term energy contracts,* and; iii) groomed *expectations of OPEC intervention* to arrest/reverse rapid decline to/below $75; are likely to **infuse uncertainty around wider inflation impact and outcomes**.
- Especially in the current climate of elevated and sticky inflation. Moreover, geo-political risks only **amplify the underlying risks of policy mis-calculation** and **resultant economic pain**; as stockpiling amid diminished confidence **results in stagflation-type outcomes** that **accentuate, not alleviate central bank dilemma/overtightening risks**.
- **Oil's inherent duality**, as *both a source of inflation risks and adverse demand shock; Oil price jump incited by ill-timed OPEC cuts is a **crude gambit** that may unwittingly engineer its own eventual crash* on recession fears.

MAS: Constrained Options & Compromised Outcomes



- Our pre-banking turmoil **base case for MAS to hold** is now seriously **challenged, albeit with little clarity**; as **conflicting externalities** (inflationary shocks vs. adverse external demand shocks).
- To be sure, with the **MAS aggressively having front-loaded tightening** (with an unprecedented three rounds of S$NEER mid-point re-cenring higher) had pre-empted some of the risks from **elevated and sticky inflation** (which remains near 14-year highs).
- Instead a *cruel juxtaposition of potential oil/supply-side shock* (as the OPEC's supply cut conspires with lingering geo-political risks) and *looming recesssion risks* (amid harsh global policy tightening alongside signs of banking/financial sector risks).
- Which necessarily requires **compromised policy action, derived from four constrained policy options, that minimizes risks associated with the inherent and accentuated policy dilemma**:

	Option 1	Option 2	Option 3	Option 4
MAS Move	Hold **(Formerly unambiguous base case)**	Re-centre ***Higher*** ***but Below*** Prevailing S$NEER	Re-centre ***Higher*** ***to*** Prevailing S$NEER	Widen the Policy Band
Nature of Move	Neutral	Mildly Hawkish	Hawkish	Neutral (Defacto Mildly Hawkish)
Probability	40%	25%	20%	15%
S$NEER Impact	Declines 10-40bp	Rises 30-50bp	Rises 80-120bp	Rises 20-60bp

Option 1 - Stoic Hold: The first is to **stick with the policy hold**. This ***deliberate inaction*** will be **most effective in checking downside economic risks** without undoing prior inflation anchor. Nevertheless, it entails letting the guard down on fresh cost shocks.

Option 2 - Calibrated, Incomplete Re-Centring: Re-centring the S$NEER higher, but below, the prevailing S$NEER level provides the **benefits of additional inflation buffer**, while being relatively less aggressive (than re-centring to prevailing S$NEER levels) and having precedent (in April 2011).

Option 3 - Unrestrained Re-Centring: Re-centring the S$NEER to the prevailing S$NEER level provides maximum **inflation buffer**, but at the highest cost to growth; especially in the event of adverse shocks.

Option 4 – Wider Bands: Admittedly the most controversial tool. This is ***theoretically meant to temporarily accommodate higher volatility***, **not impose a durable policy hawkish/dovish slant**. Nevetheless, this allows for a temporary hawkish impact without compromising on credibility when it is revoked.

- **The pity though is that challenges in credibly communicating policy intent** significantly affect the viability of '*Option 4 - Widening Bands*'.
- Hence, we *"only" ascribe a 15% probability* to this **while retaining a hold (Option 1: 40%) as the most likely discrete outcome** given growing headwinds to growth.
- **But** that said, the **likelihood of** measured tightening via **mid-point re-centring higher** simply **cannot be dismissed** (combined 45% in the partial and unreserved iterations).
- **More complex calculus of various discrete policy options** suggest **potential for greater S$NEER/SGD volatility on MAS policy** decision.
- **Ironically our preference for a hold (as a discrete outcome) is at odds with a greater combined probability of measured S$NEER (and SGD) appreciation bias**.
- In any case **binary SGD outcomes** - either jumping on midf-point re-centring or slipping back on a hold - **remains a distinct likelihood amid split bets**; and *unfortunately "winning" outcomes are precious few*.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	132.16	-0.700	-0.53%	129.00	~	134.30
EUR/USD	1.0905	0.0066	0.61%	1.050	~	1.098
USD/SGD	1.3298	-0.001	-0.08%	1.3250	~	1.3600
USD/THB	34.073	-0.125	-0.37%	33.85	~	34.60
USD/MYR	4.4015	-0.014	-0.31%	4.390	~	4.450
USD/IDR	14913	-82	-0.55%	14,850	~	15,200
JPY/SGD	1.0059	0.003	0.29%	0.987	~	1.054
AUD/USD	0.6672	-0.001	-0.19%	0.655	~	0.688
USD/INR	81.90	-0.285	-0.35%	81.6	~	82.5
USD/PHP	54.415	0.048	0.09%	54.2	~	55.1

^Weekly change.

FX Outlook: Dithering

- There appears to be **no clear-cut trend in the FX space**, **despite the early USD declines** that boosted most other currencies. But the bottom-line is that *Fed relief* (based on bets that the Fed will have to stop hiking far sooner and reverse course sharply in H2) is now *somewhat more fraught.*
- Against this more uncertain outcomes of the (Fed-markets) expectations gap, **USD bears may be dithering** rather than being on a determined course.
- Moreover, and notably, the **positive correlation between USD and UST yields have not just weakened** (amid background fears/"risk off"), but might have reversed.
- And that makes it harder to predict what might otherwise have been more predictable FX outcomes.
- This week, **FOMC Minutes and US CPI could infuse some unexpected upside risks in the USD**; whihc translates into the potential for some soft spots.
- Meanwhile, SGD is facing binary risks heading into the bi-annual **MAS** meeting on Friday.
- The earlier **consensus for a hold being increasingly challenged by the case for a measured tightening** (most likely by a calibrated re-centring higher) suggests that may likely have been increased bets on a "step appreciation" in the SGD. So, **even if the MAS delivers on an "expected" hold, this will disappoint the non-base case of tightening**, therefore taking some air out of SGD.
- Whereas a re-centring the mid-point higher will catch the consensus for a hold on a dovish footing, dragging S$NEER (and correspondingly SGD) higher.
- But this risk of a **snap either way** (albeit less pronounced on the downside) **for the SGD does not distract from the bigger picture of dithering FX markets**; as Fed expectations are recalibrated.

Bond Yield (%)

7-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.981	-4.4	3.391	-7.7	Flattening
GER	2.538	-12.5	2.179	-10.7	Steepening
JPY	-0.076	-1.1	0.444	13.9	Steepening
SGD	2.906	-15.9	2.747	-17.2	Flattening
AUD	2.825	-12.0	3.180	0.1	Steepening
GBP	3.335	-7.6	3.423	-6.0	Steepening

Stock Market

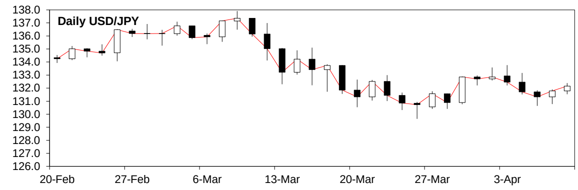
	Close	% Chg
S&P 500 (US)	4,105.02	-0.10
Nikkei (JP)	27,518.31	-1.87
EuroStoxx (EU)	4,309.45	-0.13
FTSE STI (SG)	3,300.48	1.28
JKSE (ID)	6,792.77	-0.18
PSEI (PH)	6,488.51	-0.17
KLCI (MY)	1,427.04	0.31
SET (TH)	1,577.07	-1.99
SENSEX (IN)	59,832.97	1.43
ASX (AU)	7,218.98	0.57

US Treasuries: Frightened Bears?

- Given the resurgent threat of higher oil prices which ought to back UST yields on the inflation transmission effects, the lower UST yields with 2Y yields dropping 4.4bp while 10Y yields dropped 7.7bp underscores the **overwhelming fears surrounding growth.**
- The resilient labour market picture painted by the end of last week payrolls report ought to **buoy UST yields which will await the mid-week FOMC minutes and the critical CPI print.**
- Inevitably, volatility will be par for the course as growth fears tussle with the inflation threat. Any hawkish inclinations from the FOMC or even higher than expected CPI prints which will send 2Y yields to test 4.10% have to contend with amplified recession fears.
- All in, with stick core inflation being the base case, 2Y UST yields is expected to remain buoyed above 3.85%. Meanwhile, 10Y UST yields to trade in the 3.30%-3.50% range as haven demand may exert on the longer end.

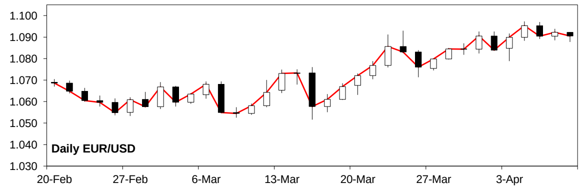
USD/JPY: Tussle to Give Way

- Admittedly, **lower UST yields tussled with elevated oil prices** as the USD/JPY ended last week just above 132.
- At this juncture, it is **too much to make direction of BoJ Govenor Ueda taking the helm** and steering a new course.
- All said, our case for the USD/JPY to stay buoyant continues to hold for this week. It is expected that the pair to remain buoyant above 131 as the US CPI print sets up challenges for 134.



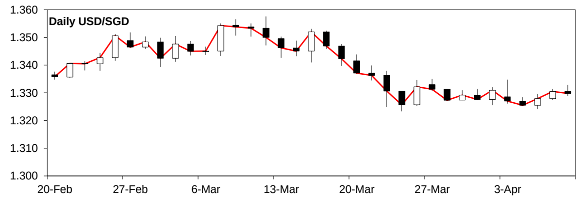
EUR: Baseline Worries Hold

- Despite ECB's Knot stating that the ECB's is certainly not done with interest rate and Chief Economist Lane highlighting that a rate hike in May may be appropriate if banking stress can be contained, **EUR rallies have been looking increasingly restrained**.
- This speaks to the **financial turmoil alongside the resurgent threat** of higher energy prices keeping **core inflation** elevated.
- As such, attempts to rally towards 1.1 may falter as the EUR consolidates in the lower half of 1.08-1.10.



SGD: The MAS Tensions

- As pointed out before, **SGD could either jump or slip**; depepnding on MAS decision.
- Especially as the *views are split between a hold and a calibrated tightening;* this being polarized by the conflicting risks of **inflation shocks from oil on one hand** and **recession risks warning against overtightening on the other**.
- What this means is that disappointment on either end (hold or tightening) may either trigger a **jump in the SGD** (taking lead from S$NEER shift up) **or a slip** as marginal pricing of tightening unwinds.
- We expect that slippage risks, if realized, may be less pronounced in amplitude (10-40bp), that could push USD/SGD above mid-1.33 from today's low-1.33 levels.
- Whereas a surprise tightening may see USD/SGD slip below mid-1.32 to 1.32 if it corresponds to a 50-80bps shift.
- MAS imposed tensions on SGD may likely result in some volatility.



AUD: Slippery

- Despite softer UST yields that ought to have softened the USD and boosted the AUD; but the AUD is far from on a boost.
- Instead, AUD has been slippery; slipping back below 0.67 from several attempts at 0.68+.
- Underlying recession risks juxtaposed against higher oil prices is just one of the dilemmas for AUD that is being expressed in this volatile two-way swings.
- The other is the RBA's rate hold (last week) reflecting restraint; despite rhetoric not yet ruling out further hikes or tightening.
- For now, AUD is expected to trade 0.66 to sub-0.68; whilst more of USD gyrations may come through.