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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 14 Apr 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
17 Apr	US	Empire Manufacturing	Apr	-18.0	-24.6
18 Apr	US	Building Permits/Housing Starts	Mar	1465k/1400k	1550k/1450k
	GE	ZEW Survey Expectations/Current	Apr	15.6/-40.0	13.0/-46.5
19 Apr	EZ	ECB Current Account SA	Feb	--	17.1b
	EZ	**CPI/Core YoY**	**Mar F**	**6.9%/5.7%**	**6.9%/5.7%**
	JP	Industrial Production YoY	Feb F	--	-0.6%
20 Apr	**US**	**Initial Jobless Claims**		**240k**	**239k**
	US	Leading Index	Mar	-0.7%	-0.3%
	US	**Philadelphia Fed Business Outlook**	**Apr**	**-19.7**	**-23.2**
	EZ	ECB March Meeting Account			
	EZ	**Consumer Confidence**	**Apr P**	**-18.5**	**-19.2**
	JP	Trade Balance	Mar	-¥1298.9b	-¥898.1b
	JP	Tertiary Industry Index MoM	Feb	0.40%	0.9%
21 Apr	EZ	Mfg/Services PMI	Apr P	48.0/54.5	47.3/55.0
	JP	Mfg/Services PMI	Apr P		49.2/55.0
	JP	**Natl CPI/ Ex Fresh Food, Energy YoY**	**Mar**	**3.2%/3.6%**	**3.3%/3.5%**

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
17 Apr	CH	FDI YTD YoY CNY	Mar	--	6.1%
	CH	1-Yr Medium-Term Lending Facility Rate		2.75%	2.75%
	SG	Non-oil Dom./Elect. Exports YoY	Mar	-8.3%/-22.3%	-15.6%/-26.5%
	ID	**Trade Balance**	**Mar**	**$4250m**	**$5480m**
	IN	Wholesale Prices YoY	Mar	1.6%	3.9%
	PH	Overseas Cash Remittances YoY	Feb	3.9%	3.5%
18 Apr	CH	Industrial Production YoY	Mar	4.4%	--
	CH	**Retail Sales YoY**	**Mar**	**7.5%**	**--**
	CH	Surveyed Jobless Rate	Mar	5.5%	5.6%
	CH	**Fixed Assets Ex Rural YTD YoY**	**Mar**	**5.7%**	**5.5%**
	CH	**GDP YoY**	**1Q**	**4.0%**	**2.9%**
	AU	RBA Minutes of April Policy Meeting			
	ID	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
19 Apr	**AU**	**Leading Index MoM**	**Mar**	**--**	**-0.1%**
	MY	**Trade Balance MYR**	**Mar**	**20.2b**	**19.6b**
20 Apr	CH	1/5-Year Loan Prime Rate		3.65%/4.30%	3.65%/4.30%
	MY	**CPI YoY**	**Mar**	**3.6%**	**3.7%**
21 Apr	KR	PPI YoY	Mar	--	4.8%

Week-in-brief: Heat & Hyper-Sensitivity

- **Markets suffer from more heat than light as hyper-sensitivity** (of Fed policy projections) to **US data continues to infuse out-sized volatility**. Friday was a case in point, with UST yields surging led by the front-end (2Y up almost 14bp to 4.11%) on the back of *robust core US retail sales alongside U. of Michigan confidence out-run conspiring with hawkish allusions from Fed Waller*.
- Specifically, his assessment that "*financial conditions have not significantly tightened*" backed by his conclusion that "*monetary policy needs to be tightened further*" **jolted front -end yields** as bets of Fed rate hike cessation were caught a tad too dovishly (flat-)footed.
- **USD** was **correspondingly squeezed off the week's lows**, although still softer on the week.
- This means that **one-way bets on USD decline are on notice**; *as are unbridled "risk on" bets premised on 'Fed pivot"*. Consequently, this may correspond to softer performance in tech and high-beta leveraged positions; inadvertently also adversely impacting certain bullish EM bets.
- What's more, the **seeming conflict between hawkish Fed cues** and *"intensifying (adverse) risks to growth*" to use the MAS' words (as it stood pat last week) will **probably intensify the imbalance between heat and light;** as clarity eludes and perceived risks rise.
- This in turn **reinforces hyper-sensitivity to data** and **headlines**; implying more pronounced latent volatility embedded in these markets. And so, ECB March meeting account and China GDP may present reasons for soul-searching on the dissonance between demand and Fed demeanour.
- Elsewhere, Bank Indonesia is widely expected to stay on hold, but policy rhetoric and whether IDR gains are sustained/durable may feature more prominently for policy calculus/risks ahead.
- Meanwhile **surplus of heat over light and hyper-sensitivity make for more precarity**.

China (Q1) GDP: Low-Hanging Fruits

- The **expected acceleration to ~4% for Q1 GDP** (from cub-3% in Q4) on re-opening boost to momentum alongside the stimulus measures unleashed **is the low-hanging fruit**.
- But this *neither distracts from doubts around sustained growth recovery* back above 5% *nor does it adequately confirm recovery in private sector confidence* critical to inspire a virtuous growth cycle.
- **Flagging industrial profits**, while admittedly distorted by base effects, is nevertheless **rather telling evidence of underlying weakness in China's "organic" growth momentum** from the industrial sector; which in China's case, is still a key source of employment and growth multiplier.
- Crucially, the **conspicuous shortfall in front-loaded recovery** *(usually evident in February's industrial profits vis-a-vis full-year see Charts)* reinforces worries of sputtering boost. Especially considering a sharp 180-degree pivot to growth stimulus alongside re-opening pent-up demand boost, which in concert should have provided a far more emphatic leg-up to growth if indeed the underlying demand drivers were solid.
- Upshot being, as we have outlined before, our *nagging misgivings about China's growth prospects* are motivated by an "***acute cognisance of pre-existing constraints** on the economy*" comprising risks from;
  i) ***elevated leverage*** (constraining ability/willingness for aggressive credti-driven growth);
  ii) ***confidence deficit*** (that remains a bugbear limiting growth multipliers) *and;*
  iii) ***intensifying geo-political headwinds*** (that directly impact industry).
- And so, the **pick-up in China's Q1 GDP**/March activity data should be appreciated **as low-hanging fruits rather than an indication of rich pickings down the road**. Whereas the MAS' allusion to "intensifying risks to growth" is arguably a far more pertinent view of the road ahead.

MAS Review: Hold Amid "Intensifying Risks ... to Growth"

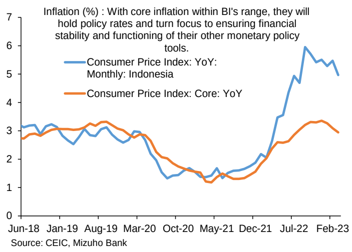
- Last week, ***after five successive rounds of tightening since October 2021*** (over three scheduled and two off-cycle meetings), the **MAS kept policy on hold**;
- maintaining S$NEER policy band mid-point, slope and width.
- In so doing, the MAS **rightly alluded to;** i) "*intensifying risks to global growth*", and; ii) "*five successive ... tightening moves* since October 2021 … tempering … momentum of price increases*"; as mitigating factors against further tightening to tackle "still elevated" inflation.
- Crucially, **given the lags of monetary policy**, the MAS is on point in stating that the "*effects of ... monetary policy are still working through ... and should dampen inflation further*"; thereby **negating the need for urgent, incremental tightening at this point**. In other words, **patience in assessing the policy course** as "*both upside and downside risks to inflation*" obfuscate the view ahead.
- With **fraught risks and low-visibility backdrop**, the **MAS aptly assesses policy to be** "*sufficiently tight and appropriate for securing medium-term price stability*" for now.
- We expect an extended hold with the next 6-12 months skewing risks to easing rather than tightening.

Bank Indonesia: Holding the Fort

Table: Indonesia Exports Proceed Term Deposit Auction Result

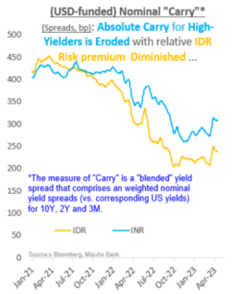
	Tenor	Average Rate	Amount (Millions USD)
2-Mar	1 m	4.58-4.86%	15
7-Mar	1 m		21.75
9-Mar	1 m		56.75
14-Mar	1 m		22.75
16-Mar	1m		56.75
21-Mar	1m		77.75
24-Mar	1m		5.25
28-Mar	1m		29
	3m	4.97%	9
30-Mar			0
4-Apr	1m	4.77-4.87%	30
	3m	4.99-5.09%	26.5
6-Apr	1m	4.77%	11.25
	3m	4.97%	1.5

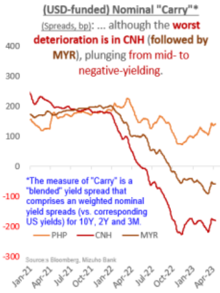
Source: Bank Indonesia



- Bank Indonesia is expected to **keep policy rate on hold at 5.75%** as **core inflation at 2.9% in March is now well-within the BI's 2-4% target range.**
- Since BI's previous meeting on 16 March which held rates, the IDR being the regional outperformer will partially allay fears of FX stability being upset by their decision to hold rates.
- Clearly, **healthy trade balances backed by still strong coal export demand** provided fundamental IDR support.
- Policy-wise, with the aim of boosting FX buffers by encouraging FX inflows, Bank Indonesia has continued to utilise their Operation Twist and also rolled out a new facility since the start of March which is **a term deposit for exporters' foreign proceeds (with tenors from 1, 3 and 6 months)**.
- While the latter is still in its infancy as deposit amounts are still a small fraction of trade balances **(6.9% in March)**, there are **initial signs of willingness to place longer tenor 3 month deposits**.
- Given the rather **competitive yields**, further increments in export revenue deposit inflows will be expected. While the **non-mandatory nature** of the facility may not incite strong inflows, **market driven mechanisms allow exporters to better manage cashflows** rather than foster unnatural lumpy desposits and withdrawals.
- Combined with efforts from operation twist to sell shorter end government bonds to boost yield,these tools employed by BI **continues to provide peripheral support for the IDR** alongside the main policy tool of interest rates.
- Looking ahead, with the on-going dis-inflation process backing up Bank Indonesia, they will hold onto policy rates, barring unforeseen financial shocks.

EM-Asia FX: "Carry On" But "Calm" Not Guaranteed





i. "Carry" trade proposition **premised on Fed pivot bets under-account for potentially enlarged volatility,** which is the biggest bugbear for "carry" traders. So, **unqualified optimism about "carry"** is invariably "**vague and unconvincing**".
ii. In particular, **sharp declines in nominal USD-funded "carry" accentuate risks** associated with defiant bets that a wrong-footed Fed will cut rates sharply, thereby restoring "carry" desirability.
iii. What's more, **diminished nominal "carry" has limited and fast fading (real) offset** as the aberration of higher US inflation vis-à-vis EM Asia normalizes.
iv. Crucially, **dangers of sharp capital loss** (currency depreciation) from abrupt risk re-pricing poses an outsized risk to aggressive "carry" trades.

For details, see Mizuho Chart Speak: EM-Asia FX - "Carry On", But "Calm" Not Guaranteed, 13 April 2023.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	133.79	1.630	1.23%	129.00	~	135.10
EUR/USD	1.0992	0.0087	0.80%	1.070	~	1.110
USD/SGD	1.3301	0.000	0.02%	1.3250	~	1.3500
USD/THB	34.25	0.177	0.52%	33.85	~	34.60
USD/MYR	4.4012	0.000	-0.01%	4.385	~	4.450
USD/IDR	14700	-213	-1.43%	14,600	~	15,000
JPY/SGD	0.9945	-0.011	-1.13%	0.981	~	1.047
AUD/USD	0.6707	0.003	0.52%	0.655	~	0.685
USD/INR	81.86	-0.042	-0.05%	81.5	~	82.5
USD/PHP	55.21	0.795	1.46%	54.7	~	55.7

^Weekly change.

FX Outlook: Watch for Risk Premium

- Rising UST yields give cause, as we mentioned above, to **be more nimble (and certainly less complacent) about one-way bearish USD bets** powered by 'Fed pivot' narrative.
- Point being, at the very least, with the **heightened volatility to be expected from hyper-sensitivity to data/headlines**, and the attendant gyrations in yields;
- , FX trades are unlikely to be a sanguine sustained trend-based source of steady returns to count on.
- But inherent exposure to **volatility is likely to be driven by more than just the swings in UST yields** (as important as this is for confidence around USD positioning).
- Fact is the **rapid undulations in UST yields merely pertain to pricing affected by shifts in the so-called risk-free rate**.
- Whereas under conditions of greater uncertainty, **shifts in/re-pricing of risk premium** (especially a shift higher in risk premium to account for uncertainty) could also trigger sharper moves in valuations and currencies accordingly.
- For now, we expect that underlying caution may restrain gains in EM Asia FX and Antipodeans;
- as China GDP data re parsed for signs of the underlying health and momentum.
- A **steady CNH could provide confidence for re-exploring more upside in AUD and AXJ** vs USD.
- **But** this is **likely to be limited**; especially shallow and cautious if expectations of more hawkish adjustments to Fed guidance is anticipated amid signs of relative US data resilience.
- Elsewhere, any hawkish ECB cues to boost EUR from the March meeting account could also be restrained by fragmentation risks and concerns of flagging momentum amid geo-political risks.
- All said, **remembering risk re-pricing risks may help avert being wrong-footed on episodic USD squeeze** that is likely to check 'peak USD' bets that come in too fast too soon.

Bond Yield (%)

14-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.099	11.8	3.513	12.2	Steepening
GER	2.849	31.1	2.432	25.3	Flattening
JPY	-0.063	1.3	0.443	-0.1	Flattening
SGD	2.856	-5.0	2.755	0.8	Steepening
AUD	2.963	13.8	3.318	0.1	Flattening
GBP	3.582	24.7	3.656	23.3	Flattening

Stock Market

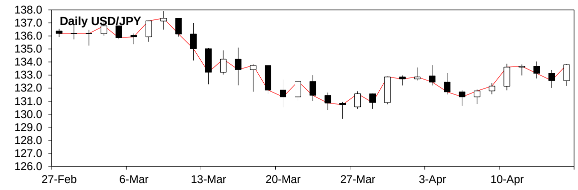
	Close	% Chg
S&P 500 (US)	4,137.64	0.79
Nikkei (JP)	28,493.47	3.54
EuroStoxx (EU)	4,390.75	1.89
FTSE STI (SG)	3,302.66	0.07
JKSE (ID)	6,818.57	0.38
PSEI (PH)	6,481.91	-0.10
KLCI (MY)	1,435.13	0.57
SET (TH)	1,592.67	0.99
SENSEX (IN)	60,431.00	1.00
ASX (AU)	7,361.58	1.98

US Treasuries: Anchoring Higher

- Headline CPI proceeding with expected dis-inflation contrasted with also within expectations sticky core inflation to impart caution to **UST bulls remained cautious from pushing Fed pivot bets a tad too far.**
- Admittedly, the **final push came from surging inflation expectation from the University of Michigan survey** which sent front end yield soaring as 2Y and 10 yields ended the week 11.8bp and 12.2bp higher respectively.
- For this week, **Fed speakers** will be expected to weigh in on **the policy implications** of this latest surveyed inflation expectations print.
- At the margin, it is **not unexpected for a little downplaying from policy makers of already un-anchored inflation expectations from a single data point.**
- All in, 2Y UST yields look to remain anchored above 4% this week while 10Y yields may follow with restrain as stagflation risks mount.

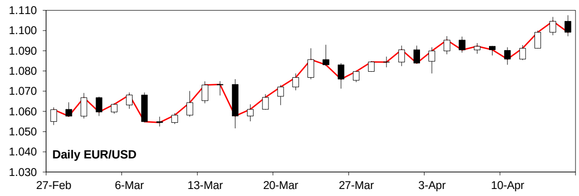
USD/JPY: Buoyed

- With Governor Ueda declaring his view that **inflation will fall back to below 2%** and the consequent implication that BoJ's monetary easing, buoyancy for the USD/JPY was evident last week as the pair was pull higher on ascending UST yields.
- Oil prices consolidating around the US$85/barrel further backstops the pair.
- That said, rallies towards **135 look to remain cautious** as the end of week CPI print may again renew bets for a BoJ pivot.



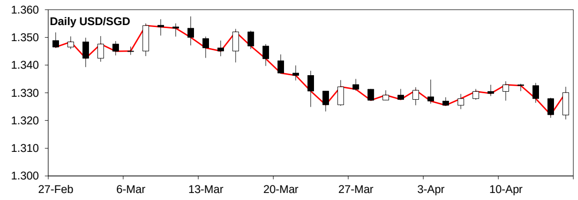
EUR: Conflicted

- **Once again**, we saw a dispersion of opinions from the ECB's governing council members from **Bundesbank's Nagel who thinks it is far too early to stop raising rates** to Portugese Central Bank's Mario **Centeno who views a 25bps as the most that ECB has to deliver**.
- More importantly, the underlying difference lies on the **interpretation of ECB's single mandate of price stability,** with those arguing for **slowing hikes focusing on already peaked headline inflation while the opposing camp cites unrelenting core inflation.**
- Technically, the ECB's inflation target looks to be 2% headline inflaiton in the medium term.
- That said, underlying core inflation being elevated would inevitably prevent durable dis-inflation on a headline basis.
- All in, EUR's rallies look to be weakening, though attempts to consolidate on both sides of 1.10 par for the course.



SGD: MAS' Restraints

- The MAS holding policy steady on Friday, citing "intensifying growth risks" has knocked back SGD bulls that had been rising a bearish USD whilst revelling in growing marginal bets on a tightening by the MAS (most of these bets calling for a re-centring higher, that is typically consistent with a one-off jump in the SGD).
- This "disappointment" of an absence of policy cues for step appreciation in SGD alongside Friday's USD squeeze have conspired to take USD/SGD from 1.32 to above 1.33.
- And we can expect that with the MAS' restraints on a richly valued S$NEER (and SGD), scope for SGD out-performance will probably be limited.
- Caution ahead of China's Q2 GDP, and in the absence of fresh surge in the CNH (and/or EUR) USD/SGD trades are most likely to be contained in the sub-1.32 to 1.34 range.
- Fresh USD buying is a left-field risk that could impose more upside; whereas the impact of the MAS' restraint is already mostly baked in.



AUD: Finding Bearings

- Late-last week, the AUD's surhe to test 0.68 is now mostly undone; floundering to retain traction above 67 cents. While the pun embedded in finding bear-ings for the AUD was not inityially intended, its resonance is not unappreciated.
- So in every sense, AUD bulls are looking lost for the time being as Fed hawks and global demand caution (if not bearish slant) has dampened the case for fresh AUD rallies.
- Chinese GDP this week will also probably need to reveal solid signs of sequential demand pick-up over and above the low-hanging fruits of higher GDP (from a very low base) to inspire fresh AUD boost from the commodity angle.
- Finally, a non-committal read of the RBA Minutes are also not where AUD bulls will find vindications. But bears might find some bearings if it conspires with soft read of demand elsewhere. Neart-term range of low-0.66 to low-0.68 may trap trades for now.