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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 21 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
24 Apr	**US**	**Chicago Fed Nat Activity Index**	**Mar**	**-0.2**	**-0.2**
	US	**Dallas Fed Manf. Activity**	**Apr**	**-11.0**	**-15.7**
	GE	**IFO Business Climate/Expectations**	**Apr**	**93.4/91.1**	**93.3/91.2**
25 Apr	**US**	**New Home Sales**	**Mar**	**630k**	**640k**
	US	Conf. Board Consumer Confidence	Apr	104.0	104.2
	US	**Richmond Fed Mfg Index**	**Apr**	**-8.0**	**-5.0**
26 Apr	**US**	**Durable Goods Orders/Non-def Ex Air**	**Mar P**	**0.8%/0.1%**	**-1%/-0.1%**
27 Apr	**US**	**Initial Jobless Claims**		**250k**	**245k**
	US	**GDP Annualized QoQ**	**1Q A**	**2.0%**	**2.6%**
	US	Personal Consumption	1Q A	4.0%	1.0%
	US	**Kansas City Fed Manf. Activity**	**Apr**	**-2.0**	**0.0**
28 Apr	US	U. of Mich. Sentiment	Apr F	63.5	63.5
	US	**U. of Mich. 1/5-10 Yr Inflation**	**Apr F**	**--**	**4.6%/2.9%**
	US	MNI Chicago PMI	Apr	43.5	43.8
	US	**PCE/Core Deflator YoY**	**Mar**	**4.1%/4.5%**	**5.0%/4.6%**
	EZ	**GDP SA YoY**	**1Q A**	**1.4%**	**1.8%**
	JP	Industrial Production YoY	Mar P	-1.2%	-0.5%
	JP	Retail Sales YoY	Mar	6.1%	7.3%
	JP	Jobless Rate/Job-To-Applicant Ratio	Mar	2.5%/1.34	2.6%/1.34
	JP	**BOJ Policy Rate/10Y Yield Target**		**-0.10%/0.00%**	**-0.10%/0.00%**

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
24 Apr	**SG**	**CPI/Core YoY**	**Mar**	**5.5%/5.1%**	**6.3%/5.5%**
	TW	Unemployment Rate	Mar	3.6%	3.6%
	TW	Industrial Production YoY	Mar	-12.3%	-8.7%
25 Apr	**KR**	**GDP YoY**	**1Q A**	**0.9%**	**1.3%**
26-28 Apr	TH	Customs Trade Balance	Mar	-$1200m	-$1113m
26 Apr	SG	Industrial Production YoY	Mar	-6.8%	-8.9%
	AU	**CPI/Trimmed Mean YoY**	**1Q**	**6.9%/6.7%**	**7.8%/6.9%**
27 Apr	CH	Industrial Profits YTD YoY	Mar	--	-22.9%
28 Apr	AU	PPI YoY	1Q	--	5.8%
	KR	Industrial Production YoY	Mar	--	-8.1%
	TH	**BoP Current Account Balance**	**Mar**	**$1020m**	**$1332m**
	TW	**GDP YoY**	**1Q A**	**-1.2%**	**-0.4%**
29 Apr	**VN**	**Trade Balance**	**Apr**	**$280m**	**$650m**
	VN	Retail Sales YoY	Apr	--	13.4%
	VN	**CPI YoY**	**Apr**	**3.4%**	**3.4%**
	VN	**Industrial Production YoY**	**Apr**	**--**	**-1.6%**

Week-in-brief: The Peak-Pivot Gap

- The week will require **more soul-searching about the asymmetry between (Fed) peak and pivot**.
- Specifically, the **inclination of markets to rush towards peak Fed cheer** (justifiably so) at odds with the **reluctance of markets to trim back on pivot bets**.
- So, while UST yields were bumped up by the strong services PMI, it is notable that while an already expected (25bp) May hike was reinforced, the pricing for H2 cuts was oinly marginally trimmed.
- In other words, it appears that **we are in** "*bad new is good news*" and "*good news is good news*" territory. Which in turn gives rise to a **flaccid USD and buoyant risk markets**.
- But this is **neither a steady state** of markets, **nor a one-way bet**.
- In other words, the **peak-pivot gap**, most notably as expressed by **markets defiantly expecting sharp H2/early-2024 cuts in sharp contrast to the Fed's guidance for a hold**.
- For now, the *"risk on" impetus appears to have the upper hand;*
- **favouring convenient Fed pivot bets**; regardless of firm data (which is used to bolster the soft-landing case) or soft spots (that is justification for even sharper pivot/rate cuts).
- Nonetheless, there are **reasons to be cautious as Fed speakers are unlikely to back down from holding rates at elevated levels**. And under certain circumstances, markets could sit up and take notice In which case, risk markets could have a shake down rather than just shaking it off.
- For this week though, the **BoJ is the star**, as Governor Ueda chairs his inaugural meeting as Governor. *Policy review is the buzzword. But* that is *not* a cry to take arms on *policy revolt.*
- We expect that the **policy review will be comprehensive and considered**.
- Whereas, **policy action will be conspicuously absent**. Instead, the rhetoric and economic revisions will be where the focus will be. Meanwhile JPY volatility may be accentuated by the tensions between market hawks looking for signs of impending (if not imminent) hawkish pivot versus a BoJ that may be far more restrained about the prospects for future policy tightening.
- Elsewhere, Euro-zone Q1 GDP (Fri) may underpin further ECB hikes . In contrast, Korea's growth soft spot (Tue) is more likely to validate BoK pause amid sharpening policy trade-off.

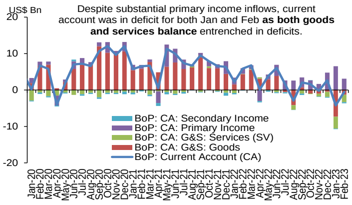
BoJ: Review, Not Revolt

- **Governor Ueda's inaugural BoJ meeting** will admittedly entail, and then buil upon, **a thorough review of policy**. But that should **not** be mistaken for **a hawkish revolt** *from the get go.*
- In fact, the **policy review to be undertaken has a neutral starting point**; which assumes a *disapassionate assessment* looking to better align policy to economic realities/challenges *rather than the pre-determined hawkish agitation* **to abandon YCC** that markets have been too eager to ascribe.
- To be sure, this is **not to negate any case for augmenting YCC** further down the road.
- **Nor does it preclude the case for calibrated rate adjustment out of NIRP** (negative interest rate policy) to effectively ZIRP (zero interest ratre policy).
- **But** these will be implemented **after careful consideration, and not in haste**.
- Especially given the enlarged tail risks that the BoJ will have to deal with.
- For one, the **looming risks of a global downturn** led by sharp pressures on external demand is one reason to exercise restraint in abandoning policy stimulus.
- And arguably, an *unforced late-cycle tightening may be the worst policy error* at this stage.
- Second, while there have been more evidence of welcome wage inflation, the **durability of the 2% inflation target that may be sustained after the cost-shock is debatable**.
- So, **restraint on revoking stimululs may be warranted**;
- not just from a cyclical error view-point but also a structural policy setting stance.
- Finally, **with the worst of JPY depreciation pressures behind** us now, the **need for an urgent** (a **high-cost tightening so as to stabilize the JPY** has also **disssipated** considerably.
- Which reinforces incentives/reasons for BoJ patience.
- Knowing this, the **focus of this policy meeting will be on updated economic/inflation forecasts;**
- as well as guidance on the thinking of the BoJ on the *appropriateness of current policy settings.*
- *E*pecially **in the context of rapidly shifting global economic sands**.
- And so, even if initially inspired by potential for tightening sooner rather than later, *JPY bulls looking for excuses to rally on BoJ cues may come up short;* as underlying restraint surfaces.

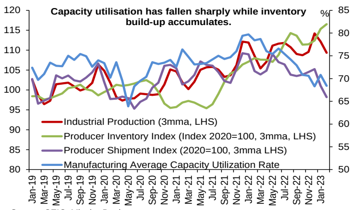
RBA Minutes: Revealing Amplified Risks

- Notwithstanding the decision to pause, RBA minutes last week revealed amplified tail risks.
- First the RBA highlighted that **upgraded population projections could generate additional upward pressure on housing***; watering down earlier risks of a downward balance sheet spiral.*
- The spillover to stronger demand for good and services should certainly not be lost here.
- Indeed, the **pressure on rentals could certainly remain unrelenting**. Even from the perspective of the education sector, considering that **student arrivals remain 22.5% in February lower than pre-Covid 2019 arrivals, the record low vacancy rates coupled with dismal construction activity** elevates the threat of higher rental growth.
- Second, the RBA remains **wary of impending substantial wage increases later** in the year (inclusive of public sector employees). Yet again, the wage price spiral threat may burn longer.
- On the downside, while higher immigration flows may alleviate wage pressures, the overall effect would still be a near term boost on price pressures.
- Third, in **characterizing possibility of negative housing equity as a tail event**, the RBA Minutes is essentially **warning that a pause is not a termination of tightening**; as the base case continues to suggest that upside inflation risks may not be fully offset by (tail risks of) adverse shocks.
- Given the **uncertainty amid enlarged possibilities and the need to allow monetary policy transmission lags to play out**, the RBA had decided to wait for additional data points **(inflation, labour market, household spending and business conditions**); highlighted in our RBA decision preview (Mizuho Week Ahead: 3 Apr).

Korea GDP: Slowdown



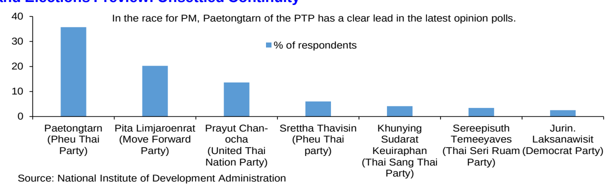
Source: CEIC, Mizuho Bank



Source: CEIC, Mizuho Bank

- After the dismal performance of Q4 2022 GDP at 1.4% YoY which representation a 0.4% QoQ SA sequential contraction, **upcoming Q1 2023 GDP looks unable to shake off this gloom as external headwinds have grown since then**.
- We continue to observe **inventory accumulation** as **shipments declining** reflects the weak external demand environment.
- Consequently, **capacity utilisation has sunk back to recent lows** as earlier capacity building coming onstream coincides unfortunately with the sharp downturn in demand.
- Reflecting these, our forecast of 1.0% YoY represents a mild 0.3% QoQ economic expansion.
- Even as the BoK has held policy rate at 3.50%, monetary policy is still restrictive and will continue to weigh on housing markets and investment decisions.
- Looking ahead, even if Q1 growth stays at a resilient pace, it would be prudent to recognise that **impending slowdown is looking inevitable** given the announced step down in electronics production by major producers.
- What's more, being entangled in the semiconductor wars of US-China tensions may entail re-tooling supply chains and diminished margins worsening an already dire demand situation.

Thailand Elections Preview: Unsettled Continuity



Source: National Institute of Development Administration

- Thailand's general **elections which will be held on 14 May** will inevitably incite a myriad of sentiments ranging from worries of street protests which necessitated a state of emergency in 2020, to the optimistic hopes of pre-and post- election spending boost. A closer look reveals **a base case of political and economic continuity with significant potential for upheavals.**
- In particular, the race of PM is a high bar even for opinion poll front runners **Paetongtarn Shinawatra of the Pheu Thai Party** and Pita Limjaroenrat of the Move Forward Party facing an incumbent favouring Senate having an outsized role in PM selection and the potential of support base overlap of these two opposition candidates.
- Specifically, the **bar for opposition is the need to secure 75% of the House seats to overcome the Senate's traditional pro-establishment support.**
- On the other hand, PM Prayuth joining the United Thai Nation Party from the ruling Palang Pracharat Party (PPRP) implies facing off or at the very least dividing the pro-status quo electorate with his mentor General Prawit who is standing for PM under the PPRP.
- As such, **coalition governments look par for the course and may impart greater stability than narrow single party win outcomes.**
- While the fiscal budget approval for FY24 may be delayed due to the need for approval from the new government, **election spending boost look to add 0.3% point to GDP as consumption rises**.
- Post elections, many **broad based campaign pledges** such as cash transfers and higher minimum wages may need **to concede to the need for fiscal consolidation**.
- Nonetheless, a slower pace of fiscal consolidation in FY24 may avail room for measured policies to lift poorer segments of the population or provide more assistance for farming communities.

Australia CPI: Insufficient Moderation

- Speaking of these data releases, Australia's **Q1 headline inflation** print on Wednesday is expected to **moderate closer to 7% from 2022 Q4's 7.8%.** The usual suspects of lower fuel prices are expected to lead this moderation to offset the persistent food inflation.
-On the services front, increases in holiday travel and accommodation cost accompanying the demand recovery as well as higher adjustments on tertiary education fees will also contrbute to the underlying inflation.
- Looking ahead, given the persistent employment gains which are **skewing toward full-time jobs** rather than temporary assignments **and unemployment rate remaining at record lows,** the dis-inflation process will likely be less than sufficient for the RBA to pause policy rates.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	134.16	0.370	0.28%	132.00	~	135.60
EUR/USD	1.0986	-0.0006	-0.05%	1.070	~	1.110
USD/SGD	1.3342	0.004	0.31%	1.3250	~	1.3500
USD/THB	34.388	0.138	0.40%	34.00	~	34.80
USD/MYR	4.4373	0.036	0.82%	4.400	~	4.450
USD/IDR	14845	145	0.99%	14,850	~	15,200
JPY/SGD	0.9945	0.000	0.00%	0.977	~	1.023
AUD/USD	0.6692	-0.001	-0.22%	0.654	~	0.678
USD/INR	82.10	0.242	0.30%	81.7	~	82.7
USD/PHP	56.02	0.810	1.47%	55.5	~	56.6

^Weekly change.

FX Outlook: Dormant, Not Dead

- This refers not just to the risks if bullish USD outburtsts, but more broadly to the incidence of "risk off" that could rattle markets (and in the process also buoy the USD).
- Admittedly, there has been *some degree of USD de-sensitization to the Fed* (as stronger than expected services PMI read did little to inspire Fed-driven USD traction).
- This is perhaps to be expected **as Fed speakers are conceding caution about how far the rate hike envelope may be pushed**.
- What's **far more contentious** though is the **gap between (Fed) peak and pivot**;
- as markets defiantly bet on steep cuts late-2023/early-2024 despite Fed signals for steady "higher for longer" rates, threatening the stability in UST yields and potentially the USD.
- But that is for another day down the road. This week, it would really be the **propensity for "fear"** (not full blown, but just shivers of it) **giving rise to "risk off" demand for USD**.
- One mechanism that may prompt this is the **re-visit of the vulnerabilities to policy mistakes** as strong PMIs on both sides of the Atlantic steer impetus away from soft-landing mode.
- The other being headlines around **intensifying geo-political risks**; including *increasingly fraught US-China relations* as South Korea also gets dragged into the spat.
- These are **notable as the downdraft may impact the ability of EM Asia FX to retain traction** against, much less mount fresh challneges on, the Greenback.
- For now, we think caution may limit EM Asia FX gains.
- Moreover a **volatile JPY eyeing the inaugural meeting helmed by Governor Ueda** could also drag AXJ if the ability of JPY to reatin traction is compromised.
- And so, the USD's dominance is arguably not dead. Certainly the **propensity for USD rebounds** (within bounds rather than unbridled) appears to be **at best dormant**; with *prospects for sudden outbursts of USD strength in the coming weeks.*

USD/JPY: Watch For Enlarged Risks

- Despite the pair's mild increase to close above 134 last week, the **pull of higher UST yields was indeed clear as 135 was tested.**
- Though as expected, last Friday's higher inflation (ex-fresh food and energy) continue to incite side bets for a BoJ pivot. Nonetheless, a pivot on YCC is likely to remain elusive at the BoJ policy meeting this week.
- This week, JPY bulls are likely to come up short as the pair is likely to stay buoyant above 132. **A US PCE deflator upside surprise sending rallies above 135 bears close watching.**

EUR: Capped?

- Increasingly, the EUR's rally look to be running out of steam as ECB members depict a picture that available room for further policy rate hikes are limited, albeit to varying degrees.
- While Eurozone GDP this week may underscore concerns surrounding fragile growth, any exit (cuts) are far off the table and therefore will backstop the EUR.
- All in the EUR rallies above mid-1.10 looks to come out short while slips back towards 1.08 not ruled out if US PCE deflator upside conspires with weak EZ growth.

SGD: Stuck

- Noise rather than clarity continue to impress upon FX markets that have resulted in the USD/SGD consolidating around the 1.33-1.34 range.
- And this stalemate interms of setting a decisive breakout direction may persist as markets digest the disparity between a sticky USD (on extended declines) and peak USD excitement.
- Another dimension to this could come about from lack of JPY surge alongside a softer CNH that appears to be feeling the geo-political pressures despite stronger than expected GDP data last week.
- In concert, this makes for some holdback in SGD; especially given that the MAS abstained from further tightening in mid-april.

AUD: Sputter

- To be sure, the RBA's rate hold was a qualified pause. It did not explicitl;y rule out resuming rate hikes; which could be cause for AUD pick-up later if so.
- What's more , reference to factors that could lend upside to housing and wages, it appears that markets may be prematre in declaring RBA policy inflection.
- And if so, this again could be a bounce catalyst for AUD.
- But while there may be upside triggers for AUD in the RBA read at the margin, a softer CNH and pressures spilling over into hard commodities may keep on the soft side.
- At the very least, AUD bulls could sputter in early attempts that lack follow-through.
- Meanwhile the Antipodean may be traded sub-0.66 to 0.68+ for the time being.

Bond Yield (%)

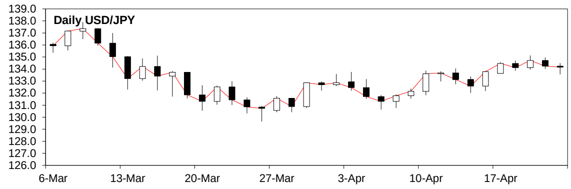
21-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.182	8.3	3.572	5.9	Flattening
GER	2.899	5.0	2.476	4.4	Flattening
JPY	-0.049	1.4	0.459	1.6	Steepening
SGD	2.965	10.9	2.826	7.1	Flattening
AUD	3.143	18.0	3.455	0.1	Flattening
GBP	3.717	13.5	3.752	9.6	Flattening

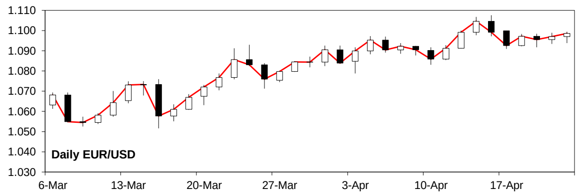
Stock Market

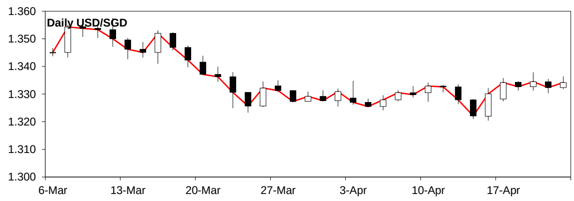
	Close	% Chg
S&P 500 (US)	4,133.52	-0.10
Nikkei (JP)	28,564.37	0.25
EuroStoxx (EU)	4,408.59	0.41
FTSE STI (SG)	3,321.82	0.58
JKSE (ID)	6,821.81	0.05
PSEI (PH)	6,520.44	0.59
KLCI (MY)	1,422.11	-0.91
SET (TH)	1,558.36	-2.15
SENSEX (IN)	59,655.06	-1.28
ASX (AU)	7,330.38	-0.42

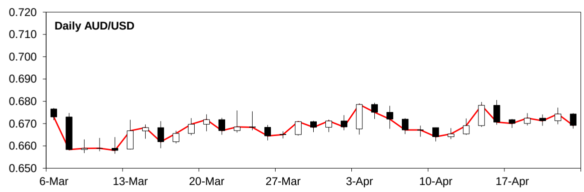
US Treasuries: Higher for Longer?

- Last week, the tussle within various economic data as well as with Fed speakers espousing holding restrictive rates was evident on UST yields.
- End of week PMI data surprising on the upside renewed worries of strong underlying demand **emboldening the Fed to hold long if not push higher**.
- While earlier higher initial jobless claims data point to a soft labour market, the **activity outlook may instead dour hopes of linear uptick in claims and dampened prospects of weaker inflaiton**.
- While the **black-out period means no Fed speakers until the policy meeting**, the slew of **GDP data, PCE deflator and Fed activity survey** will impart significant volatility. Nonetheless, growth worries remain skewed to the downside retain the lagged 10Y yield movements relative to the 2Y UST yields.
- **Financial indicators certainly look unable to the gloom** with the Fed's recession indicator (18M-3M spread) which is **inverted and entrenched at a deep 135 bps.**
- That said, the likes of PCE deflator will likely hold more sway for the Fed to keep at another 25bps.
- All in, with buoyancy retained, 2Y yields may explore meekly test 4.3% while 10Y yields trade in the 3.45%-3.65% range.









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