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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 31 Mar 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
03 Apr	US	**ISM Prices Paid/Mfg**	**Mar**	**--/47.5**	**51.3/47.7**
	JP	**Tankan Large Non-Mfg Index/Outlook**	**1Q**	**20.0/15.0**	**19.0/11.0**
	JP	**Tankan Large Mfg Index/Outllok**	**1Q**	**1.0/3.0**	**7.0/6.0**
	JP	**Tankan Large All Industry Capex**	**1Q**	**3.2%**	**19.2%**
04 Apr	**US**	**JOLTS Job Openings**	**Feb**	**--**	**10824k**
	US	Durable Goods Order/Nondef Ex Air	Feb F	--	0.2%
05 Apr	US	ADP Employment Change	Mar	210k	242k
	US	**Trade Balance**	**Feb**	**-$68.5b**	**-$68.3b**
	US	**ISM Services Index**	**Mar**	**54.5**	**55.1**
	EZ	Services PMI	Mar F	--	55.6
	JP	Services PMI	Mar F	--	54.2
06 Apr	US	Initial Jobless Claims	25-Mar	200k	198k
07 Apr	**US**	**Chg in NFP/Unemployment rate**	**Mar**	**240k/3.6%**	**311k/3.6%**
	JP	Labor Cash Earnings YoY	Feb	--	0.8%/-4.1%

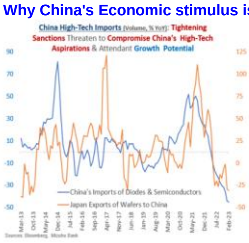
Asia   Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
03 Apr	CH	Caixin China PMI Mfg	Mar	51.2	51.6
	SG	PMI - Mfg/Electronics	Mar	--	50.0/49.3
	AU	Building Approvals MoM	Feb	10.0%	-27.6%
		Mfg PMI - ID/IN/KR/MY/TH/PH/VN	Mar	--	
	ID	**CPI YoY**	**Mar**	**5.1%/3.0%**	**5.5%/3.1%**
04 Apr	**AU**	**RBA Cash Rate Target**		**3.60%**	**3.60%**
	KR	**CPI YoY**	**Mar**	**4.3%**	**4.8%**
05 Apr	SG	Retail Sales/ Ex Auto YoY	Feb	--	-0.8%/2.1%
	TH	**CPI/Core YoY**	**Mar**	**3.3%/1.8%**	**3.8%/1.9%**
	PH	**CPI YoY 2018=100**	**Mar**	**8.0%**	**8.6%**
06 Apr	CH	Caixin China PMI Services	Mar	55.0	55.0
	AU	**Trade Balance**	**Feb**	**A$11245m**	**A$11688m**
	IN	**RBI Repurchase Rate**		**6.75%**	**6.50%**
07 Apr	KR	BoP Current Account Balance	Feb	--	-$4516.7m

Week-in-brief: Not Confusing Relief for Rejoice

- Admittedly, **softer than expected US Core PCE** Deflator and the **conspicuous absence of fresh banking instability headlines** have **inspired sizable relief**; triggering softer UST yields and a coincident rally in equities (Friday's 1.4% gains in S&P500 took the week's gains to 3.5%.
- But the **wider point is** that **relief should not be conflated with, or worse, confused for, rejoice**.
- For one, **despite the softer than expected core PCE** read, the overarching fact that **inflation remains uncomfortably sticky and elevated** (vis-a-vis) the target is unchanged.
- What's more, the **absence of a domino's of banking** areas headlines **does not distract from the broader risk** that there may **be some pipeline credit tightening**; even without an all out banking crisis.
- **All bets will be off for opportunistic equity bulls** if a banking crisis unfolds. And even a managed credit tightening will give cause to reassess what is now inflated profit assumptions that buoy valuations.
- Moreover, the **OPEC+ surprising with a 1.1MBpD cut** also **suggests** that **relief rallies may have cause for circumspection once the initial boost to energy counters from Oil prices fades** to reveal blowback to profits and consumption **from resultant economic strains**.
- Apart from the **direct cost impact of the 6-8% jump in oil** prices, **economic headwinds** are also **posed by** the **prospects of stickier inflation prolonging global tightening** cycle and/or intensifying policy trade-offs.
- So, not just the an absence of rejoice, but **a dampener of relief from elsewhere**.
- To be sure, the **surprise cut in crude output by OPEC+ is not just an economic inconvenience but a geo-political abrasion** for US-Saudi relations. Resultant **intensification of geo-political risks** may be disproportionately large *given* that Saudi not only inadvertently aligns with Russia but is also observed to becosying up with China.
- Speaking of China, **Micron in Beijing's security cross-hairs** is **hard not to framed as a retaliatory response to US chips/manufacturing equipment sanctions** imposed on China.
- Given this, the **state of play cannot possibly smell like rejoice**. But ***even relief is in short supply*** **for some**.
- **US jobs** data alongside **ISM may only provide partial relief** about the Fed fading off tightening bias. A 25bps hike is May is the default and June is more likely to be data-dependent than an unequivocal pause at this point.
- In our neck of the woods (**in Asia-Pacific**), there are **excuses, but no convincing reasons to pause tightening**.
- The **RBI will push through another 25bp hike to lift policy rates to 6.75%**; not just to be convincingly in *positive real rates* territory, but also to better *anchor sticky inflation* and *insure against macro-rupee stability* risks.
- The **RBA arguably has more leeway**. **But a pause requires deft messaging**; and one that will remind of an underlying (even if latent) tightening bias that remains intact. In any case, a **25bp hike is fair game**.

Why China's Economic stimulus is Hollow Cheer



- Admittedly, **Beijing's "all hands on deck" policy approach to firing up economic growth may deliver of the stronger side of** the official **"around 5%" growth guidance**. *But this is hollow cheer*.
- Not just due to flattering base effect from exceptionally weak 2022. But crucially because the **real worries about underlying growth involve pre-existing structural constraints** led by, but not limited to;

i) **Elevated Leverage**: Which inevitably results in that structurally higher credit intensity that conspires with growing risks to financial stability.

ii) **Confidence Deficit**: A by-product of uncertainty about far-reaching policy shifts associated with "**Common Prosperity**" campaign; and consequent overhang **hampers big-ticket spending/investments**, **compromising growth multipliers**.

iii) **Geo-politics**: Above all, **US stepping-up, unremitting embargo on chips/high-tech, directly challenges China's industries**; ***at worst posing an existential crisis***.

- Crucially, resultant adverse impact may be exceptionally large and far-reaching.
- And so, more retraineed growt target are a belssing in disguise rather than myopic, singular focus on rapid 2023 growth at all (at times exceptionally high) costs threatens to be counter-productive.
- Bottom-line being, **structural policy conflicts** exacerbated by **mounting geo-political threats** ***with real-time economic blow-back*** means *economic stimulus is a silver lining of cyclical pain relief but not a silver bullet offering any meaningful structural panacea*.

Why the RBI will Stick to its (Hawkish) Guns!

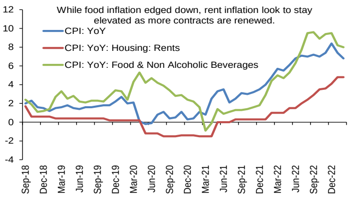
- At the April MPC it almost **appears like the RBI is being presented with options** for the first time in a while. Essentially, the question is "*to hike or not to hike*".
- For us, the answer is a **resounding "hike"**; with the nuance **of a calibrated 25bp**; ***conveying that the RBI is sticking to its Hawkish guns***.
- The reasons why it appears that the RBI has scope to pause, are that;

i) the *worst fears of resurgent inflation* have been *assuaged*, and;

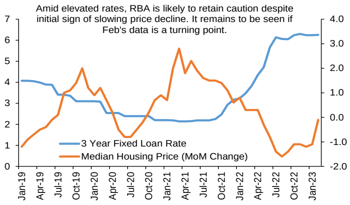
ii) perceived elevation in *downside risks to growth inflamed by* the *threat of a banking crisis/contagion* (with attendant demand destruction)

- But **neither clear the bar for the RBI to pause, much less suspend**, the on-going **tightening** cycle yet.
- On the first (i), **while inflation appears to be peaking**, and crucially does not pose the threat of an upward spiral, price pressures are **still too elevated and sticky**.
- The upshot is that inflation remains well above the 6% upper limit of the RBI's inflation target (at ~6.5%), and sticky components could stall the moderation despite signs of peaking.
- And so, the RBI may have to tighten a little further to positive real rates territory so as to anchor inflation expectations(and to demonstrate its price stability mandate unequivocally).
- As for (ii) **adverse economic impact from global banking sector risks**, this is ironically a **case for the RBI not to double down, not dial back, price stability commitments**.
- Reason being, financial shocks may initially impact via adverse capital outflows, and doubts about inflation anchor will inadvertently amplify macro-stability and rupee sell-off risks.
- And the economic devastation from capital (out)flows induced-macro-rupee stability risk spiral will likely be far greater than economic relief from a rate pause (or even cuts).
- Hence it makes sense to endure with **at least one more (measured 25bp) rate hike to insure against macro-stability risks while re-assuring lingering inflation concerns**.

RBA: Cause, Not Conviction, to Pause



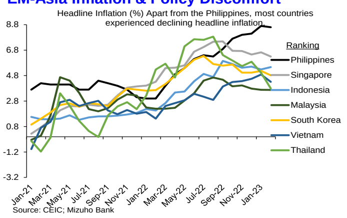
Source: CEIC; Mizuho Bank



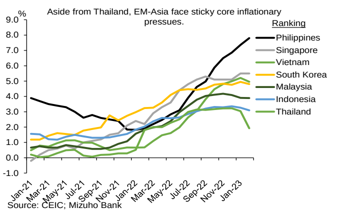
Source: CEIC; Mizuho Bank

- **February's monthly inflation print stepping down to 6.8% down from January's 7.4%** may provide **cause, but not conviction, to pause**; holding the cash rate at 3.60%. That said using the Australian Bureau Statistic (ABS)'s monthly inflation indicator requires some caveats.
- First, relative to the **more stable quarterly series which the RBA focuses** on, the **monthly series is an evolving one** which may incorporate new series as the ABS obtains new data sources.
- Second, the **monthly indicator is partial in that only about two** thirds of the CPI basket is updated compared to the more comprehensive quarterly series.
- Above all, the read of timelier components, the **evidence of dis-inflation is not unequivocally convincing**. Specifically, rents are still elevated amid low vacancy rates while food prices undergo mild dis-inflation. As such, any **pause may at best convey justifiable cause to assess more data not a concluded tightening cycle. In particular, more evidence on; i) inflation; ii) housing market and; iii) labor market health before their next meeting in May.**
- But admittedly, looming tightness from higher mortgage payments as fixed loan packages roll over ought will be scrutinized and closely monitored. **Servicing burden is already expected to increase in the coming months even without further rate hikes.**
- Meanwhile, the **incidence of households pre-paying mortgages are declining** and this is congruent with the observation that housing savings ratio **has now fallen below pre-pandemic levels.** Given the **outsized impact of mortgage loans on banking sector** balance sheets, recent global financial woes remind that banking wobbles should not be easily dismissed.

EM-Asia Inflation & Policy Discomfort



Source: CEIC; Mizuho Bank



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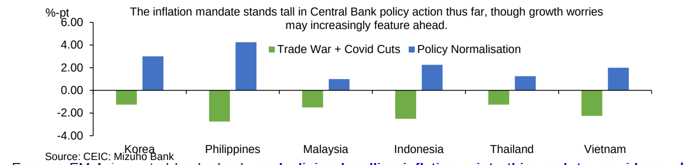


Source: CEIC; Mizuho Bank

- Even as EM-Asia central banks bank on **declining headline inflation prints this week to provide much-needed respite, sticky core may be a bugbear.**
- Across the region, it is evident that **inflation outcomes have justifiably dictated hawkish EM-Asia policy action thus far**. Nonetheless, **sharpening trade-off** between price stability and increasing strains on growth from rates elevated at multi-year highs is imposing **palpable policy discomfort.**
- Leading rate hikes, the **BSP's** hass more than reversed its combined "trade war" and COVID cuts now with 425bps of rate hikes to date; with policy rates atthe highest since **2007**.
- Similarly, the **BoK's** 300bps of hikes took their policy rate to highs of late **2008**.
- The **MAS** with an **unprecedented volley of three slope re-centring and three slope increments** since October 2021 (and into 2022 with two off-cycle moves to supplement the bi-annual meetings) speaks to Singapore's uncompromising assault on exceptionally elevated inflation. Here too trade-offs are amplified.
- **Bank Indonasia** is more measured, **only just reverting to pre-COVID rates** with the benefit of core inflation contained within target; but questions around fiscal share of inflation containment do bother.
- As for **Malaysia**, the **BNM** has arguably staved off undoing all of the trade war and COVID cuts only because of significant inflation relief from **fuel subsidies and price controls** (e.g. poultry).
- The **SBV is either bucking or poised to set the trend**; being the first to cut (by 100bp).
- Arguably, dismal Q1 growth reflects growth woes, but does not justify forsaking price stability prematurely; despite fortuitous decline of headline CPI (which is a far cry from sustained dis-inflation).
- However, fairly dire real estate (and related banking sector risks) may underscore delicate calculus straddling domestic (housing) and external macro-stability risks. The upshot is that a **cruel dilemma of sticky inflation and mounting growth risks** will torment EM Asia central banks policy calculus; especially with the complexity and opacity of external macro-stablity risks.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	132.86	2.130	1.63%	129.00	~	134.30
EUR/USD	1.0839	0.0079	0.73%	1.050	~	1.090
USD/SGD	1.3309	-0.001	-0.10%	1.3250	~	1.3600
USD/THB	34.198	0.053	0.16%	34.00	~	34.90
USD/MYR	4.4152	-0.014	-0.32%	4.400	~	4.550
USD/IDR	14995	-160	-1.06%	15,000	~	15,550
JPY/SGD	1.003	-0.016	-1.56%	0.987	~	1.054
AUD/USD	0.6685	0.004	0.60%	0.655	~	0.688
USD/INR	82.18	-0.299	-0.36%	82.1	~	82.7
USD/PHP	54.367	0.022	0.04%	54.2	~	55.1

^Weekly change.

FX Outlook: Between Softer & Safer

- An over-simplification on our part, but it appears that the **USD is caught between**;

  - **bears seizing upon softer** (PCE) **inflation view** projected on a **resultant softer policy take** banking on less hawkish policy outcomes on one hand and;

  - haven demand that rightly surmises that (long) **USD** may ironically be the **safer bet** if recession fears and/or geo-political spill-over risks grow.

- Essentially, **if the relief rally loses steam** and **underlying economic, banking, geo-political risks get back into unflattering focus**, then knee-jerk *USD selling in reaction to softer* US data (core PCE last week, and possibly jobs this week) *may prove premature and overdone, if not outright wrong.*

- To be sure, expectations of **the Fed stopping short of earlier (pre-SVB) indications of peak rates underpins a softer USD**; especially against the likes of the EUR and other G10 currencies, where sticky inflation has the ECB and other major central banks committed to tightening still.

- Notably, there is a **clear separation between monetary response** (to inflation) and **macro-prudential recourse/preventative measures for** banking sector risks **by the ECB**.

- And this is arguably a case for more EUR strength to the detriment of broad-based USD footing.

- Nevertheless, with *China's retaliatory posturing against Micron*, **geo-political risks tied far more tightly to an economic downturn** (from activity impact) could have more **"safer" bets boosting USD demand than** the **softer USD bet premised narrowly on Fed outcomes**.

- And this may be **particularly reflected in EM Asia FX** space *if US-China and China-Asia inter-dependencies show up acutely as a softer CNH with knock on impact* on EM Asia FX more broadly.

- Easter and Qing Ming holidays in shortening the week may also curtail excessive risk taking in defiance of fraying sentiments. And so, **stronger Oil after OPEC+ surprise output cut may not broadly compromise the USD**; *even if it provides measured boost for MXN, CAD and NOK.*

- All said, between a **softer USD and safe USD refuge, there may be more volatility than clarity** this week. We *merely warn against aggressively short USD bets* in defiance of broader risks *rather than denying the Fed's tempering effect on the Greenback.*

Bond Yield (%)

31-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.025	25.8	3.468	9.2	Flattening
GER	2.663	29.4	2.286	16.6	Flattening
JPY	-0.065	2.1	0.305	6.1	Steepening
SGD	3.065	27.1	2.919	9.8	Flattening
AUD	2.945	8.5	3.293	0.1	Flattening
GBP	3.411	24.1	3.483	20.9	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,109.31	3.48
Nikkei (JP)	28,041.48	2.40
EuroStoxx (EU)	4,315.05	4.46
FTSE STI (SG)	3,258.90	1.44
JKSE (ID)	6,805.28	0.64
PSEI (PH)	6,499.68	-1.55
KLCI (MY)	1,422.59	1.64
SET (TH)	1,609.17	1.09
SENSEX (IN)	58,991.52	2.55
ASX (AU)	7,177.75	3.20

US Treasuries: Ring Fenced Bears?

- UST Bears finally had their day as front end 2Y yields surged an emphatic 25.8bp while 10Y yields rose 9.2bp.

- As financial contagion fears faded, Fed officials such as James Bullard sent UST yields higher with a double whammy of speech and essay which sought to **dissociate using interest rates to alleviate financial stability stresses** and lifting his personal policy rate forecast to 5.625%.

- While financial stability risks are somewhat ring-fenced, growth risks are increasingly rising to the fore especially as energy prices represent a renewed threat.

- All in, while **UST yields may retain upside bias on account of resurgent inflation from oil, growth worries act as a dampener**.

- As such, UST 2Y yields will remain buoyed above 3.9% with weak testing of 4.2% on the cards while 10Y UST yields trade in the 3.35%-3.60% range.

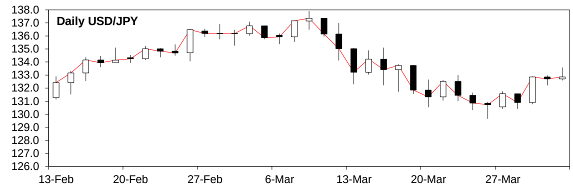
USD/JPY: Oil Buoys

- The JPY was weakened by the rising UST yields last week as the USD/JPY closed above mid-132.

- This week, OPEC+ cuts to buoy oil prices will inevitably buoy the pair this week.

- In fact, the vicious loop between oil prices inciting higher UST yields on policy tightening worries may again rear its ugly head.

- All in for this week, the USD/JPY will remain buoyed above 132 and move towards 135 if Brent crude sustains above $85.

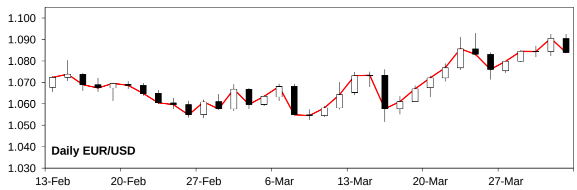


EUR: Little Head Room

- A slew of ECB speakers had largely either stressed on data dependence or in the case of Villeroy stress on a **little way** to go on policy rates.

- These comments alongside **lower headline inflation in the Eurozone restrained attempts of the EUR to stage durable rallies** above 1.09.

- The start of the week burst of higher energy prices does not bode well for the EUR as well. On balance, the EUR look to consolidate closer to the lower half of 1.06-1.09.



SGD: Pre-MAS Boost & CNH Caution

- As we have pointed out before, S$NEER may have **incrementally bullish tendencies ahead of the MAS meeting** as there has been a nuanced but noticeable shift towards bets on tightening. But **precise SGD moves in relation to S$NEER buoyancy may be obfuscated**.

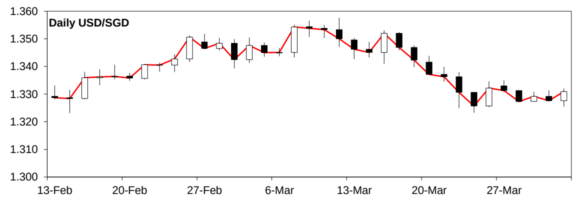
- For one, there has been limited headroom for aggressive S$NEER pick-up and so the order of S$NEER rallies may be innately more measured.

- Crucially, **greater USD volatility** with *underlying haven demand* propping up the Greenback, especially against EM currencies, means that SGD bulls have been hampered in the ability to express a firmer S$NEER.

- That's to say, while SGD (in aggregate) out-performs regional currencies in the trade basket, it is not unequivocally and unconditionally stronger against the USD.

- Finally, signs of CNH slippage amid rising temperatures on the US-China geo-political front means that a critical buoyancy factor for SGD is compromised.

- Given a **cautious global risk environment ahead of the MAS meeting** (next week), we expect USD/SGD to consolidate in the sub-1.32-1.34+ range for now.



AUD: RBA Watching

- With the **door opening for a potential pause by the RBA has meant that AUD bulls have struggled** to seize upon episodes of USD slippage.

- So much so that **even with a sudden and sharp jump in oil prices** (by 6-8%), the sympathetic **impact on AUD has been hard to identify**.

- Whereas higher proportion of LNG exports means that AUD was more bullishly inclined to Oil price gains before this. And so this suggests that latent commodity boost appears to be dampened by China, wider economic and policy risks.

- but by the same token, if the RBA presents a hawkish surprise with a rate hike; some catch up play in reinstating AUD traction above 0.67 to mid-0.657 may not be outlandish.

- For now, AUD is expected to trade 0.66 to sub-0.68; whilst RBA watching.