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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 17 Mar 2023; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
20 Mar	EZ	Trade Balance SA	Jan	--	-18.1b
21 Mar	GE	ZEW Survey Expectations/Current	Mar	15.0/-44.7	28.1/-45.1
22 Mar	**EZ**	**ECB Current Account SA**	**Jan**	**--**	**15.9b**
	JP	Machine Tool Orders YoY	Feb F	--	-10.7%
	US	**FOMC Rate (Upper/Lower Bound)**		**5.00%/4.75%**	**4.75%/4.50%**
23 Mar	US	New Home Sales	Feb	650k	670k
	US	Current Account Balance	4Q	-$214.0b	-$217.1b
	US	**Initial Jobless Claims**		**200k**	**192k**
	US	**Chicago Fed Nat Activity Index**	**Feb**	**0.1**	**0.2**
	US	Kansas City Fed Manf. Activity	Mar	-2.0	0.0
	EZ	**Consumer Confidence**	**Mar P**	**-18.2**	**-19.0**
24 Mar	**US**	**Durable Goods Orders/Nondef Ex Air**	**Feb P**	**1.0%/-0.2%**	**-4.5%/0.8%**
	EZ	Mfg/Services PMI	Mar P	49.0/52.5	48.5/52.7
	JP	Mfg/Services PMI	Mar P	--	47.7/54.0
	JP	**Natl CPI/Ex Fresh Food, Energy YoY**	**Feb**	**3.3%/3.4%**	**4.3%/3.2%**

Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
20-30 Mar	**IN**	**BoP Current Account Balance**	**4Q**	**-$23.0b**	**-$36.4b**
20-22 Mar	**PH**	**BoP Overall**	**Feb**	**--**	**$3081m**
20 Mar	**CH**	**1-Year/5-Year Loan Prime Rate**		**3.65%/4.30%**	**3.65%/4.30%**
21 Mar	AU	RBA Minutes of March Policy Meeting			
	KR	**PPI YoY**	**Feb**	**--**	**5.1%**
23 Mar	**SG**	**CPI/Core YoY**	**Feb**	**6.4%5.8%**	**6.6%5.5%**
	TH	Customs Trade Balance	Feb	-$1239m	-$4650m
	PH	**BSP Overnight Borrowing Rate**		**6.25%**	**6.00%**
24 Mar	SG	Industrial Production YoY	Feb	-1.5%	-2.7%
	AU	Mfg/Services PMI	Mar P	--	50.5/50.7
	MY	**CPI YoY**	**Feb**	**3.6%**	**3.7%**
	TH	Mfg Production Index ISIC NSA YoY	Feb	--	-4.4%

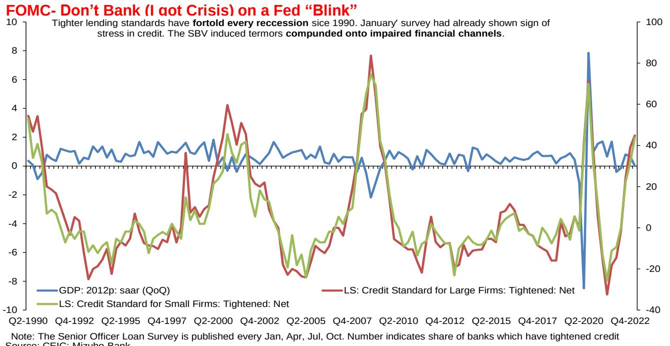
Week-in-brief: Credit Not Confidence

- Over the weekend, we witness **UBS taking over Credit Suisse** (CS) as relentless deposit outflows went against the semblance of confidence the SNB tried to instill with their earlier credit line. In this moment, the reflection must be that **restoring confidence is far harder than credit provision and liquidity backstops.**
- While the takeover attempts to stem contagion risks globally, a writedown of 16bn francs of bonds and an agreed price at 40% of CS's last traded share price will still ripple through financial markets as **actualization of these bond and share losses on balance sheets take hold.**
- Eurozone fragilities will once again be laid bare and **pockets of credit risks will restrain EUR.**
- Hopefully, this week's main event will be the Fed's decision. While Fed's financial stability fears are warranted, policy credibility on inflation remains paramount. We continue to expect the FOMC to hike rates by 25bps as they make a distinction on banking sector risks and inciting greater inflationary pressures.
- While equities may again be tempted to cling on to dovish hopes, caution signal by UST safe haven demand is telling that market confidence remains weak.
- In EM-Asia, inflationary pressures in the Philippines underpin **our call for the BSP to hike rates by 25bps on Thursda**y as they step back from 50bps increases after accumulative 400bps of hikes.
- Down under, RBA's minutes will continue to emphasize dovish leanings. While last week's jobs report surprise on the upside, we continue to hold the picture that while households may not be utterly stressed, signs of stress should not be dismissed.
- **All in, while credit for swift rescues should be given, unbridled confidence is a dangerous proposition.**

China's RRR Cut is About "Reasonable & Sufficient"

- Last Friday, the **PBoC announced a surprise 25bp RRR cut** (*effective 27th March*), that is set to lower the effective RRR rate to 7.6%. To be sure, the **surprise was not in the direction of the move, but the timing**; as the consensus had been for a RRR cut later. But clearly, the move is deemed as timely as it is apt **given the confluence of economic and financial risks that confront**.
- Crucially, with the strong disbursement of loans in Jan-Feb, consistent with front-loaded stimulus, the RRR cut may be **considered prudent, if not necessary bolstering of banking liquidity**.
- Point being, the **estimated CNY500bn released into the banking system from this cut will shore up banking sector liquidity**, and **mitigate spillover risks from global banking sector wobbles** - from SVB to Credit Suisse.
- What's more, a closer inspection of headline activity rebound in Jan-Feb data revealing shortfall, if not soft spots, under the hood of industrial activity and big-ticket outlays also **validate banking sector liquidity boost**.
- This **RRR cut is likely to reinforce expectations of more stimulus** ahead; *justifiably, but not unequivocally* so. Notably, the **PBoC is looking to lean against financial shocks while gently boosting the economy; but without exacerbating pre-existing risks of excessive leverage**.
- Hence, markets will do well to pay heed to this **not** being **a no holds barred "flood irrigation", but commitment to "reasonable and sufficient liquidity"**.

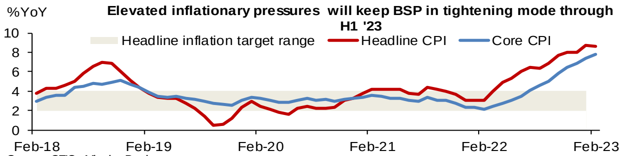
FOMC- Don't Bank (I got Crisis) on a Fed "Blink"



Note: The Senior Officer Loan Survey is published every Jan, Apr, Jul, Oct. Number indicates share of banks which have tightened credit
Source: CEIC; Mizuho Bank

- It may be **best not to bank on bets that the Fed will "blink" amid risks of a banking sector crisis** - that markets believe are unleashed by the tremors from SVB and Credit Suisse. Instead, the Fed is likely to continue with calibrated tightening to address stubborn inflation risks.
- Why? Well, simply because the Fed makes a **distinction between bank-specific stress (even if a few more banks may be exposed to similar risks) and systemic risks of contagion** via opaque and inextricably linked balance sheet risks across the global financial markets.
- What's more, prompt policy response from the Fed (to SVB) in providing guarantees to depositors as well as setting up the BTFP, which mitigates liquidity risks from falling values of UST portfolios, is also deemed to **ring-fence these more specific bank risks**.
- And that ought to decouple wider monetary policy from banking sector risk mitigation. Specifically, **allowing the Fed to continue with its calibrated 25bp tightening.**
- Especially as the evidence on taming inflation sufficiently remains scant. And prematurely reversing course may be deemed a greater inflationary risk than a dis-inflationary banking crisis; which the Fed likely considers sufficiently ring-fenced and backstopped. To be sure, between SVB and Credit Suisse triggered wobbles in markets fretting a banking/financial sector crisis, FOMC expectations have swung wildly.
- From stepping back up to a 50bp hike just before SVB shocks hit (and markets were fretting a hot and sticky core services inflation print) to suspending the hiking cycle abruptly on panic about a wider banking/financial crisis. Neither extreme reflects the Fed's temperament for steady and calibrated tightening; with work left but perhaps no haste required. All said, markets **should not bank on a banking crisis to derail a well-telegraphed 25bp hike; validated by inflation hot spots.**

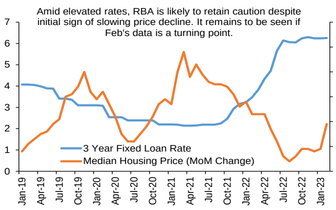
Bangko Sentral ng Pilipinas: Blinkers On



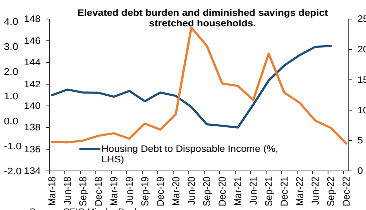
Source: CEIC; Mizuho Bank

- **The focus for BSP remains squarely on persistent price pressures, which makes a 25bp hike the most likely outcome at its 23 March meeting, in our view.**
- This still means that the BSP is dialling back on the pace of hikes from 50bp at its Feb meeting.
- **The February inflation print rubbed salt in BSP's wounds.** While headline inflation eased marginally to 8.6% YoY from 8.7% in Jan, core inflation jumped further to 7.8% from 7.4% in Jan.
- **This underscores the broad-based nature of price pressures and the diluted impact that the cumulative 400bp in rate hikes have so far in taming inflation.**
- **There are incipient signs that food prices may finally be easing, albeit from multi-high levels. Food imports of a wide ranging items from sugar to potato to chickens and other meats have increased and the government has issued more permits to encourage additional importation.**
- Meanwhile, **logistic and transportation hurdles have been acknowledged, even if not addressed satisfactorily.**
- **But given the delay in addressing food shortages, lags from logistical deficiencies and heightened second-round price effects, inflation is not about to U-turn any time soon.**
- **Prices will ease in slow and unsteady manner, with spikes in food prices not completely unlikely. The upshot for BSP is clear. Reigning in inflation is the number one priority.**
- And while recent stresses in global financial markets stemming from financial stability concerns is obviously relevant to BSP, **contagion risks onto the domestic banking system are buffered.**
- **If anything, longer lags in reflecting BSP's rate hikes onto bank lending rates has (oddly, albeit) mitigated risks from sharp spikes in domestic interest rates.**
- Fundamentally, **the Philippines banking system is in good shape** with CARs, LDRs and NPLs within acceptable range; the bigger banks remain in a strong position to absorb shocks from periods of heightened global/domestic volatility.
- Moreover, **PHP remains in a vulnerable position compared to regional peers**. Although the currency has recuperated some of the significant losses versus USD in 2022, elevated inflation and a worsening 'twin deficit' situation.
- **The deterioration in the external balance is off particular significance to BSP.** The trade deficit remains large and the poor show from export growth in the past few months implies that a sustainable recourse remains elusive in the near-term.

RBA Minutes: Stretched, Not Stressed?



Source: CEIC; Mizuho Bank



Source: CEIC Mizuho Bank

- Admittedly, **RBA minutes are now clouded by the uncertainty surrounding the global financial backdrop.**
- The latest jobs report exceeded both market and our expectations with strong full time job gains and a decline in unemployment rate. While this ought to marginally raise the odds of a further hike, the uncertainties over the financial system contagion and associated fragilities have dampened these probabilities.
- RBA minutes is set to **emphasize the dovish leanings of their March monetary policy statement which has raised the possibility of a policy pause** by highlighting the need to examine "when" to raise rates rather than the usual "more interest rate increase are needed in the months ahead".
- We will closely watch for their assessment of housing market risks given the decline in lending values and building approvals. The **complexity of these risks are taken up a notch considering their interactions with current banking balance sheet worries**.
- Specifically, rolling off of fixed rate mortgages will raise the debt servicing burden and stretch household finances. Even in April 2022, the **RBA estimated that 25% of fixed rate borrowers who rolled off needed to spend more than 30% of income on loan payments compared to 10% of borrowers before they rolled off.**
- Admittedly, it has been observed that 20% of fixed rate borrowers made large prepayments which suggest that **savings buffers were utilised to reduce their servicing cost ahead**. That said, given the **latest snapshot** which tells of **depleted savings**, households may be increasingly stretched.
- As such, household may have turned to labour market opportunities. Higher labour force participation rates and higher hours worked per worker hint at increasing willingness to supply labour. Consequently, providing much needed cash flows and alleviate financial stresses.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	131.85	-3.180	-2.36%	130.80	~	135.00
EUR/USD	1.067	0.0027	0.25%	1.050	~	1.073
USD/SGD	1.3423	-0.008	-0.57%	1.3400	~	1.3600
USD/THB	34.228	-0.837	-2.39%	34.00	~	35.50
USD/MYR	4.486	-0.034	-0.75%	4.350	~	4.550
USD/IDR	15345	-105	-0.68%	15,300	~	15,550
JPY/SGD	1.018	0.017	1.73%	0.993	~	1.040
AUD/USD	0.6697	0.012	1.78%	0.655	~	0.690
USD/INR	82.55	0.494	0.60%	82.0	~	82.7
USD/PHP	54.715	-0.428	-0.78%	54.6	~	55.5

^Weekly change.

Bond Yield (%)

17-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.837	-74.9	3.429	-27.0	Steepening
GER	2.354	-71.2	2.097	-40.4	Steepening
JPY	-0.085	-4.8	0.279	-10.8	Flattening
SGD	3.181	-31.9	2.918	-28.6	Steepening
AUD	3.025	-33.3	3.388	0.1	Steepening
GBP	3.212	-40.3	3.276	-35.7	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	3,916.64	1.43
Nikkei (JP)	27,333.79	-2.88
EuroStoxx (EU)	4,064.99	-3.89
FTSE STI (SG)	3,183.28	0.18
JKSE (ID)	6,678.24	-1.29
PSEI (PH)	6,469.72	-1.82
KLCI (MY)	1,411.73	-1.49
SET (TH)	1,563.67	-2.25
SENSEX (IN)	57,989.90	-1.94
ASX (AU)	6,994.80	-2.10

FX Outlook: Brief Relief

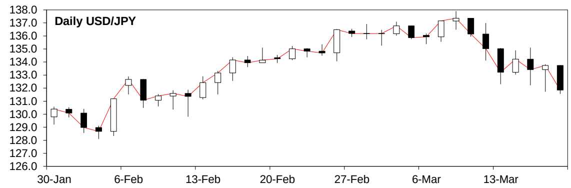
- With the **buyout of Credit Suisse by UBS having ostensibly gone through**, and at a considerably higher price (of 0.76) than initial fire sale numbers, there could be the **initial heave of relief.**
- But this is **likely to be brief** given that this still leaves unanswered questions about further ripples of banking sector risks; especially amid smaller regional banks.
- Moreover, **Credit Suisse shareholders will nonetheless be smarting** from the fact that the buyout was well below closing price of $1.86.
- And bond-holders invariably feeling the burn of the fallout and the
- That may just be the psyche of **relief from "falling knives" giving way to the hard knock of a haircut**.
- The wider point is that banking sector liquidity (adequacy) concerns suggest that the bias to hoard USD may not dissipate altogether.
- And so, the **pullback in the Greenback from recent mid-week surge may merely be setting the stage for another squeeze**.
- *More so, if the Fed proves to be unfettered in its hiking path;* deeming banking risks to be ring-fenced.
- So a **non-dovish 25bp hike** alongside **loftier 'Dot Plot'** that is 25-50bp higher **may prompt another USD squeeze**.
- In which case, recent rebound in EUR (to test 1.07)and AUD (above 0.67) may fizzle as USD reasserts dominance.
- Although **fragile risk sentiments lingering will likely keep JPY on a strong footing**; with tests below 131-132 not being ruled out.
- All said, best not to mistake respite for "risk on"; and accordingly, it will do well not to aggressively bet against USD. Especially for high-beta/EM currencies.

US Treasuries: Fright and Flight

- **Even a flight to safety theme is an understatement** considering the sheer 74.9bps free-fall in 2Y UST yields and 27bp drop in 10Y UST yields.
- Given **the fright from the free-falling yields** underscoring the prevailing caution amid the financial contagion concerns, a full recovery for UST bears is too much of a stretch.
- **Frightened UST bears may venture a small step as the Fed re-adjust focus back on inflation with a 25bp hike**.
- The **depths of the Fed's 18M-3M inversion** will also incite caution as markets look to **take cover from the rising risks of an impending recession**.
- This week, we expect 2Y yields to test 4% on an **upgrade of the Dot-Plot signaling higher rates in 2024** while inflation resolve to buoy above 3.6%
- 10Y yields look to enjoy marginal demand on flight to safety and trade between 3.3-3.6%.

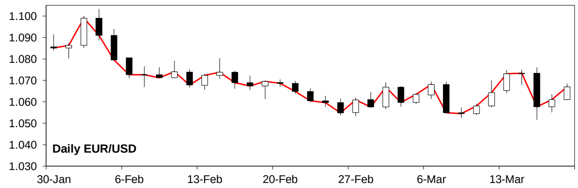
USD/JPY: Slippery and Sticky

- The free falling UST yields send the USD/JPY sliding down 2.4% to below 132.
- At the margins in contrast to the CHF, JPY safe haven needs may play out.
- What's more, slipping oil prices by 11% over last week will alleviate current account stresses.
- Certainly, the end of week CPI print which is expected to stay sticky will not be lost on JPY bulls keen for a BOJ pivot.
- All in, slips towards 131 remain likely though with Fed set for another hike, the pair looks to stick around the enlarged range of 130-135.



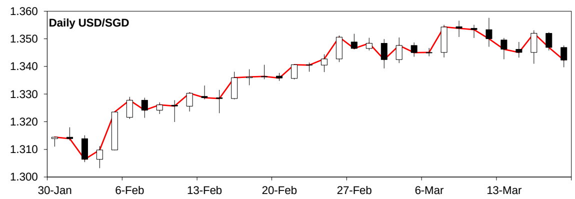
EUR: Relief

- Despite the tumult in the Swiss banking system, EUR/USD held up relatively well last week. And ECB hiking rates by the expected 50bp helped only marginally since the path ahead was obfuscated by numerous hurdles.
- EUR will benefit from the sense of relief that global financial markets are experiencing on account of the UBS takeover of CS, but the depth and durability of this relief is still not known.
- Hence, a greater band of trading for the week may be par for the course.



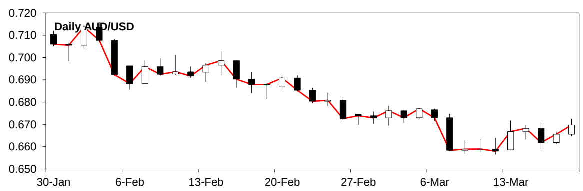
SGD: Checked CNH Boost

- While the relief rallies in global markets may continue to benefit SGD, the boost is unlikely to be unbridled.
- To be sure, SGD is in the sweet spot, gaining both from a relative re-positioning quality and the banking relief dampening the SD/
- What's more, the expected CNH boost from China's stimulus bias expressed in RRR cuts should also buoy SGD.
- That said, the incremental boost may be limited, if not overall gains checked as;
i) banking sector risks, while allayed, are far from put to bed, keeping underlying caution in place, and;
ii) sufficiently unfazed Fed hawks prompt some clawback of SGD gains (USD slippage)
- In any case, insofar CNH boost is both measured, and are reflection of underlying soft spots, this may be a measured and shallow boost.
- For now, 1.33 could pose a hurdle in the absence of dovish FOMC triggers.



AUD: Shallow Boost

- Admittedly, the general relief in markets from UBS' buyout of Credit Suisse have helped buoy AUD (above 0.67);
- with the stimulus impact on China from the PBOC's RRR cut expected to further bolster AUD ... at least for now.
- But for all the relief lifting AUD, this is far from a linear and sustained boost. Fact is, despite RBA's Kent providing assurances on Aussie banks (which is a boost to AUD),
- his allusion to considering all impact on policy hints at a dovish slant at the margin.
- Which in turn could check AUD gains; especially if Fed hawks are unfetterd.
- In any case, fragile risk sentiments could imbue AUD with two-way volatility than unchallenged bullish turn.
- Range of sub-0.66 to around 0.68 expected for now.



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