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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 10 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
14 Mar	**US**	**CPI/Core YoY**	**Feb**	**6.0%/5.5%**	**6.4%/5.6%**
	US	Real Avg Hourly Earning YoY	Feb	--	-1.9%
15 Mar	**US**	**PPI Final Demand/Ex Food & Energy YoY**	**Feb**	**5.4%/5.2%**	**6.0%/5.4%**
	US	**Retail Sales Adv/Ex Auto and Gas MoM**	**Feb**	**-0.4%/-0.3%**	**3.0%/2.6%**
	US	**Empire Manufacturing**	**Mar**	**-8.0**	**-5.8**
	EZ	Industrial Production WDA YoY	Jan	0.3%	-1.7%
16 Mar	US	Building Permits/Housing Starts	Feb	1346k/1310k	1339k/1309k
	US	**Initial Jobless Claims**		**205k**	**211k**
	US	**Philadelphia Fed Business Outlook**	**Mar**	**-15.0**	**-24.3**
	EZ	ECB Main Refinancing Rate		3.50%	3.00%
	JP	Trade Balance	Feb	-¥1141.4b	-¥3498.6b
	JP	Industrial Production YoY	Jan F	--	-2.3%
	JP	Core Machine Orders YoY	Jan	-3.5%	-6.6%
17 Mar	**US**	**U. of Mich. Current Conditions/Sentiment**	**Mar P**	**--/67.0**	**70.7/67.0**
	US	**U. of Mich. 1 Yr/5-10 Yr Inflation**	**Mar P**	**4.0%/2.9%**	**4.1%/2.9%**
	US	Industrial Production MoM	Feb	0.2%	0.0%
	US	Leading Index	Feb	-0.3%	-0.3%
	EZ	**CPI/Core YoY**	**Feb F**	**8.5%/5.6%**	**8.6%/5.6%**
	JP	Tertiary Industry Index MoM	Jan	0.5%	-0.4%

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
13-18 Mar	**CH**	**FDI YTD YoY CNY**	**Feb**	**--**	**14.5%**
13 Mar	**IN**	**CPI YoY**	**Feb**	**6.4%**	**6.5%**
	MY	Industrial Production YoY	Jan	2.2%	3.0%
14 Mar	**IN**	**Wholesale Prices YoY**	**Feb**	**4.0%**	**4.7%**
	PH	Trade Balance	Jan	-$4341m	-$4600m
14-18 Mar	**PH**	**Overseas Cash Remittances YoY**	**Jan**	**5.3%**	**5.8%**
15 Mar	CH	Fixed Assets Ex Rural YTD YoY	Feb	4.5%	5.1%
	CH	1-Yr Medium-Term Lending Facility Rate		2.75%	2.75%
	CH	Industrial Production YoY	Feb	2.6%	1.3%
	CH	**Retail Sales YoY**	**Feb**	**3.5%**	**-1.8%**
	ID	Trade Balance	Feb	$3241m	$3870m
	IN	Trade Balance	Feb	-$19200.0m	-$17750.0m
	KR	**Unemployment Rate SA**	**Feb**	**--**	**2.9%**
16 Mar	**AU**	**Employment Change**	**Feb**	**50.0k**	**-11.5k**
	AU	**Participation/Unemployment Rate**	**Feb**	**66.6%/3.6%**	**66.5%/3.7%**
	ID	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
17 Mar	**SG**	**Non-oil Domestic/Elect. Exports YoY**	**Feb**	**-9.5%/--**	**-25.0%/-26.8%**
	MY	Trade Balance MYR	Feb	18.7b	18.2b

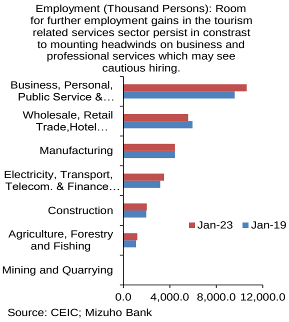
Week-in-brief: Of Shut Downs, Start-Ups and Back Stops

- Last week, **shutdown of Silicon Valley Bank** (SVB) which is the second largest bank failure in US history inevitably shared the limelight with Fed Chair Powell's testimony and the non-farm payroll release.
- These events though are certainly not explicitly dissociated. Afterall, SVB's need to raise capital to cover customer deposits arose due to the plummeting values of longer end USTs and Mortgage bonds in their portfolio which in turn was a result of the Fed's aggressive rate hikes.
- While financial sector equities bore the ramifications of the fall out as SVB's shutdown was a result of a bank run, the **situation is somewhat far from typical**. SVB's deposit holders were of startups and venture capital in a **rather tighter than usual community**. As such, **crisis of confidence could spread faster and in much larger magnitudes** (of withdrawals) as many start-ups would have similar backers.
-Nonetheless, the **Fed's actions are amplifiers** of SVB's **underlying duration mismatch** between assets and liabilities and therefore **still serves a valid warning** to financial institutions and corporates.
- The effects of SVB's collapse on start-up payrolls and operational abilities as well as contagion effects on fellow financial institution warrants close watching. To be clear, **the US Treasury, Fed and FDIC have moved to enact a facility for all depositors to access all their money on Monday which is effectively a backstop much of the real economy fall-out though shareholders and debt holders will not be protected for now.**
- Markets are **hyper sensitive to US data and CPI release on Tuesday** this week will be **the most acute one**. Dovish hopes are looking to **desperately cling onto spots of data which could temper Fed's tightening** and trigger **brief rallies**.
- This was evident in the **immediate reactions** of weaker USD and lower UST yields **post NFP** which selectively focus on a lower job gains of 225k (vs Jan's 311k), lower than expected average hourly earnings and an uptick in unemployment rate. But **"brief" is the operative word**, as hurdles to dis-engaging tightening remains high.
- Amid the cautious backdrop, softer equities are expected as valuations, earnings and balance sheets will be under the microscope. Meanwhile, ironic clutching to UST safety may restrain yield surge.
- Across the Atlantic, **the ECB is firmly engaged in tightening another 50bps on Thursday**. The question is certainly how much higher. Sovereign debt and financial sector risks will certainly not be lost on the ECB.
- In contrast, amid easing core inflation, **Bank Indonesia is biased to hold policy rate on Thursday.** Nonetheless, the **door on further rate hikes if far from being shut given** recent IDR weakening considering that US CPI might **start up another round of FX depreciation**.
- Meanwhile in China, President Xi's third term has started **with recognition of the need to backstop economic progress** by retaining PBoC governor Yi Gang and majority of finance and commerce minister.
- In Australia and South Korea, labour market tightness look to have peaked as services employment gets filled by households are increasingly under pressure to re-join the labour force.
- **All in, risks are mitigated but far from being shut down even if backstops are being start up.**

ECB: A well-telegraphed 50bp Hike

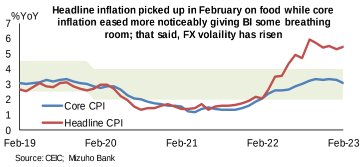
- **ECB's February policy statement made explicit mention that another 50bp hike was forthcoming at its March meeting so the outcome of the meeting is a foregone conclusion.**
- The meeting nonetheless is significant as it will shed light on ECB's most recent forecasts and its current playbook in dealing with still sticky inflation.
- **The most pressing question for ECB, we reckon, will be on whether it should suggest a back down from rate hikes of 50bp back to 25bp or leave all options on the table.**
-A recent lesson from that Fed's pre-commitment to dial back on the magnitude of rate hikes may have been premature suggests that the ECB will steer clear of over emphasizing forward guidance.
- It will likely remain data dependent and possibly, look for consistent signs of easing inflation, which still remains well above its 2% target, before it can make such a commitment.
- Notwithstanding, **the internal debate with the ECB Governing Council is always interesting.** Hawks, including the Robert Holzmann of the Austrian central bank suggested that 4 hikes of 50bp would be warranted given the significant overshoot in inflation above its target.
- **While other have pointed to heightened uncertainty in markets and continued data dependence before finalising the path of rate hikes beyond the March meeting.**
- **The wind down in the APP by end-Q2 remains on track**; PEPP re-investment is scheduled to stay in place until end-2024 although some members may prefer to bring this timeline forward to expedite the unwinding of the balance sheet.

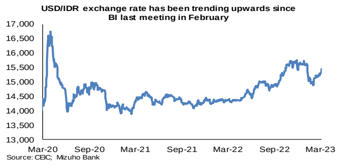
Korea Unemployment: Compositional Shifts



- While Korea's unemployment rate is not expected to tick up in a significant manner, the underlying **composition shifts from goods producing sectors to services sector** will continue.
- The services sector such as **hotel accommodation and restaurants continue to exhibit further room for recovery towards pre-pandemic levels** amid the on-going tourism recovery.
- Meanwhile, given the faltering export revenue arising from lower semiconductor demand, **employment in the manufacturing sector is expected to decline.**
- That said, given the **higher value added nature of the manufacturing sector**, employment decline is expected to be mild and therefore able to be **partially offset by services sector hiring.**
- **Construction sector hiring is also likely to fall further** with the property sector stabilisation not in sight as both prices and transaction volumes continued declining.
- All in, Korea's unemployment rate may inch up though some contribution may stem from higher participation rates as households come under increasing strains on debt servicing.

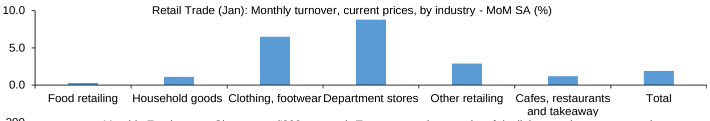
Bank Indonesia: Biased to Hold

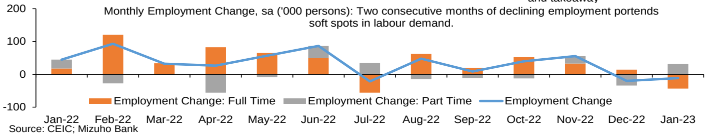




- **Prior communication to market participants from central bank officials has emphasized BI's bias to keep rate unchanged at the March meeting and possibly through 2023.** Indeed, BI Governor Perry Warjiyo stated that the need for additional rate hikes has diminished.
- **Unfortunately, given the high degree of uncertainty in global markets, this guidance (as with most forward guidance to be fair) may be, in the best case, premature and in the worst case, misplaced.**
- **The volaliity of FX markets has been the biggest change since BI's February meeting.**
- USD/IDR has showed a clear upward bias mainly based on USD strength on account of sticker-than-expected inflation in the US and the likelihood of the US Fed being more aggressive.
- **BI's focus on IDR stability as key input into its reaction function implies that it may need to be more nimble in its readiness to change policy**, especially if USD/IDR is disproportionately biased upwards compared to regional peers.
- Admittedly, the inflation-growth picture remains steady. Although headline inflation picked up in February, it was expected ahead of the Eid/Ramadan festivities while core inflation eased more noticeably giving BI some breathing room.
- Meanwhile, **activity data has continued to be resilient**. January trade data, both on the export and import fronts, showed improvement versus December. Even consumer confidence, car sales and government spending held up well in January.
- **Even on the external front, a trade surplus sustained into January** and may continue through Q1, providing additional buffers to the current account surplus; the latter will also benefit from increased tourism inflows.
- That said**, external pressures from a slower global growth picture, tense geo-political relationships (US-China, Ukraine-Russia) increase downward pressure on exports.**
- As such, **BI's bias to hold may sustain through March but will be increasingly put to the test in Q2 especially if USD strength persists and/or amplifies.**

Australia Employment: Softening Bias





- Australia's employment has declined for 2 consecutive months with Dec's drop due to lower part time employment and Jan's decrease resulting from a fall in full time employment.
- The **upcoming February jobs report in Australia** looks **likely** to continue a **display of softening bias even if overall employment ticks up.**
- **Retail trade continued their sequential expansion** in January across a broad swathe of sectors ranging from **cafes and restaurants, clothing and footwear retail to department stores**. Even if much of the turnover increase is due to higher prices, **services related employment will be expected to hold up in February.**
- Impetuous for **gains** in services employment looks likely stem from **anticipation of tourist inflows** from China alongside a revived education sector and associated spillovers with greater foreign student intakes.
- On the other hand, **manufacturing sector headwinds** may see the sector retain caution around their hiring needs while **lower housing approvals point to weakening construction sector employment**.
- **Employment** by firms may also get **a boost from higher labour force participation rates** as households return to the workforce amid eroded savings from high inflation and an uptick of workers holding multiple jobs.
- In the same vein, a slight uptick in ease of filling vacancies has been observed though structural skill shortages persist.
- On balance, the **labour market tightness is likely to have peaked** amid offsetting sectoral needs.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	135.03	-0.840	-0.62%	133.50	~	138.00
EUR/USD	1.0643	0.0008	0.08%	1.050	~	1.070
USD/SGD	1.35	0.005	0.37%	1.3400	~	1.3600
USD/THB	35.065	0.365	1.05%	34.00	~	35.50
USD/MYR	4.52	0.043	0.95%	4.350	~	4.550
USD/IDR	15450	150	0.98%	15,300	~	15,550
JPY/SGD	1.0007	0.011	1.12%	0.971	~	1.019
AUD/USD	0.658	-0.019	-2.81%	0.645	~	0.690
USD/INR	82.05	0.080	0.10%	81.7	~	82.4
USD/PHP	55.143	0.313	0.57%	54.6	~	55.5

^Weekly change.

FX Outlook: Caution Dominates

- The SBV bank run and a re-pricing towards a 25bp hike by the Fed drove USD lower towards the end of last week.
- While some reprieve from persistent USD strength is welcome, the reasons may be far from ideal. For one, the SBV foreclosure brings with it contagion risks, which for the moment the US authorities are clear the will manage with the utmost care.
- However, banking stocks in Europe and Asia are already staring to weaken making contagion management crucial for this coming week.
- A sense of extreme caution/risk aversion will push USD demand right up, reflected by the left hand of the USD smile analogy.
- The mixed employment picture does not help. Although job gains were higher-than-expected in February, the pick up in the unemployment rate and slower m-o-m wage gains point to some cooling in the labour market.
- To that end, the US CPI release this week will be a big determinant of USD direction. However, the release is not until Tuesday night (asia time).
- This suggests that the USD direction will be a tale of two halves for this week; strong at the start tending towards volatile by the end of the week.
- Notwithstanding, EUR/USD is likely to sustain upward momentum as ECB's hawkish bias will dominate.
- Recent gains in USD/JPY may be tested by skittish sentiment but for now this implies a wider range of trading for the week.
- Similarly, for other G10 currencies, a wider band of trading may be the recourse for this week as caution and volatile remain the bywords for traders.
- For EM Asia, BI's preset course of staying on hold may hurt IDR prospects more than regional peers while BNM's decision last week to keep rates on hold will led to MYR underperformance especially if Fed rat hike pricing reverts to 50bp by the end of this week.

Bond Yield (%)

10-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.586	-27.0	3.699	-25.3	Steepening
GER	3.066	-12.2	2.501	-20.6	Flattening
JPY	-0.037	0.8	0.387	-10.8	Flattening
SGD	3.500	-12.0	3.204	-16.4	Flattening
AUD	3.358	-23.5	3.578	0.1	Steepening
GBP	3.615	-4.9	3.633	-21.1	Flattening

Stock Market

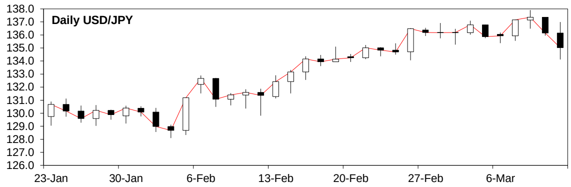
	Close	% Chg
S&P 500 (US)	3,861.59	-4.55
Nikkei (JP)	28,143.97	0.78
EuroStoxx (EU)	4,229.53	-1.52
FTSE STI (SG)	3,177.43	-1.69
JKSE (ID)	6,765.30	-0.71
PSEI (PH)	6,589.88	-0.98
KLCI (MY)	1,433.08	-1.41
SET (TH)	1,599.65	-0.45
SENSEX (IN)	59,135.13	-1.13
ASX (AU)	7,144.69	-1.91

US Treasuries: Hopes and Caution

- It was certainly a week of caution as safety seeking investors sent safe haven demand soaring and UST 2Y yields and 10Y yields plunged 27.0 and 25.3 bp respectively.
- While **markets are clinging to dovish hopes** by alluding to a higher jobless claims and higher unemployment rate as a case for Fed to dampen their case of for upsized hikes, we will brace for these hopes to be give way to the CPI print this week.
- This **CPI print will amplify an already volatile environment and enlarge the distribution of yield outcomes** this week.
- A 20bp yield surge on 2Y USTs will be expected if the CPI moderates less than expected or if core inflation momentum does not abate.
- Meanwhile, with **markets now firming on 25bp hikes**, a mild moderation of inflation would only take 2Y yield down 5-10bps independently.
- All said, considering the **still fragile backdrop** from the SVB fall-out which has been partially mitigated by the authorities' new facility, 2Y yields is projected to trade 4.45%-4.9%. Meanwhile, 10Y USTs may remain buoyed above 3.55%.

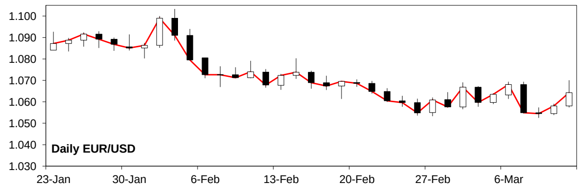
USD/JPY: Stand Pat, Not Stand Down

- While Governor Kuroda stood pat in his last BoJ policy meeting as Governor, the USD/JPY's initial rise quickly turn to sharp declines to 135 falling plunging UST yields.
- With the BoJ's policy decision done and dusted, this week's key lever is clearly the US CPI.
- Early week **slippage in USTs may allow the pair to float around mid-133 to 135.**
- That said, the **pair may remain buoyant around 134-137 as fundamentally divergent outlook remains unchanged**.



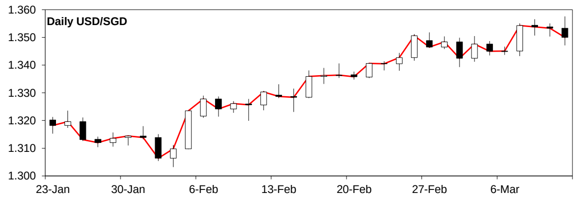
EUR: Advantage EUR

- ECB's decision to hike by 50bp this week is all but a done deal but the path ahead will be of greater interest to traders and in that regard, ECB may be more guarded.
- Nonetheless, staying a hawkish course for the ECB goes without saying given that headline inflation remains well above its 2% target.
- To that end, we expect EUR will benefit.
- We expect EUR/USD to trade between 1.06-1.07 levels.



SGD: Wavy, Not Submerged

- The USD/SGD slipped below 1.35 alongside the broader weaker USD in the second half of last week.
- This week's US CPI print may see the pair re-take 1.35 if US inflation moderates less than expected**.**
- That said, barring spectacular US dis-inflation, the broader USD backdrop of higher rates for longer will keep the pair buoyed above 1.34.
- The pair will inevitably be subject to buots of early (start of week) USD weakness as the SVB episode sees risk relief though relief may quickly give way to inflation realities.



AUD: Pausing Gives No Respite

- **Despite a softer USD backdrop**, the **AUD had little respite as it slipped below 0.66 to close last week**.
- This speaks to the revelation from the RBA's policy statement last week which **significantly raised the likelihood of the RBA pausing policy.**
- The stark RBA-Fed divergence weighed down the AUD.
- The softer AUD outlook look to persist as gains from weaker USD may be muted give the Fed's higher for longer outlook remain unchanged even if 50bps hike is taken off the table for March.
- As such, testing highs will remain limited to mid-0.67 while the pair seeks to buonce off 0.65 on re-ignited 50bps Fed bets.