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MIZUHO

WEEK AHEAD

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06-Mar-2023

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Economic Calendar

•Survey results from Bloomberg, as of 3 Mar 2023; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
06 Mar	**US**	**Factory Orders**	**Jan**	**-1.8%**	**1.8%**
	US	Durable Goods Orders/Nondef Ex Air	Jan F	-4.5%/--	-4.5%/0.8%
	EZ	Retail Sales MoM	Jan	0.6%	-2.7%
08 Mar	**US**	**ADP Employment Change**	**Feb**	**200k**	**106k**
	US	**Trade Balance**	**Jan**	**-$69.0b**	**-$67.4b**
	EZ	**GDP SA YoY/SA QoQ**	**4Q F**	**1.9%/0.2%**	**1.9%/0.1%**
	JP	BoP Current Account Adjusted	Jan	¥853.4b	¥1182.1b
	JP	Coincident Index/Leading Index CI	Jan P	96.4/96.9	99.1/97.2
	JP	**Eco Watchers Current/Outlook SA**	**Feb**	**49.0/49.7**	**48.5/49.3**
09 Mar	**US**	**Initial Jobless Claims**	**1-Mar**	**195k**	**190k**
	JP	GDP Annualized SA QoQ	4Q F	0.8%	0.6%
	JP	Machine Tool Orders YoY	Feb P	--	-9.7%
10 Mar	**US**	**Change in Nonfarm Payrolls**	**Feb**	**215k**	**517k**
	US	Unemployment Rate	Feb	3.4%	3.4%
	JP	**BOJ Policy Rate/10-Yr Yield Target**	**1-Mar**	**-0.10%/0.00%**	**-0.10%/0.00%**

Asia   *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
06 Mar	**KR**	**CPI YoY**	**Feb**	**4.8%**	**5.2%**
07 Mar	CH	Imports YTD YoY/Exports YTD YoY	Feb	-5.5%/-8.8%	--/16.1%
	AU	Trade Balance	Jan	A$12250m	A$12237m
	AU	**RBA Cash Rate Target**	**7-Mar**	**3.60%**	**3.35%**
	KR	**GDP YoY/SA QoQ**	**4Q P**	**1.4%/-0.4%**	**1.4%/-0.4%**
	TH	CPI YoY	Feb	4.2%	5.0%
	PH	**CPI YoY**	**Feb**	**8.9%**	**8.7%**
08 Mar	AU	RBA's Lowe-Speech			
09-15 Mar	CH	New Yuan Loans CNY	Feb	--	4900.0b
09 Mar	CH	CPI YoY/PPI YoY	Feb	1.9%/-1.3%	2.1%/0.8%
	MY	**BNM Overnight Policy Rate**	**1-Mar**	**2.75%**	**2.75%**
10 Mar	**IN**	**Industrial Production YoY**	**Jan**	**5.6%**	**4.3%**
	KR	BoP Current Account Balance	Jan	--	$2677.2m

Week-in-brief: Marching On Beyond March

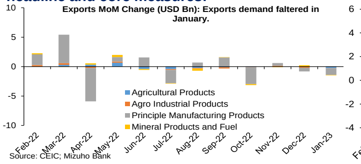
- Towards the end of last week, UST yields remain elevated while the USD moderated slightly and equities staged recovery. As we alluded to Fed holding feet to fire on pivot bets last week, the situation this week is turning towards an assessment whether **the Fed can march on to tackle inflation** and at **a pace congruent with market expectations.**
- Specifically, markets are already pricing in peak rates of 5.45% and 5.30% by end 2023. As such, given that **markets have already (partially) conceded to hawkish Fed speakers** who highlighted the need for elevated rates for a longer period, it **remains to be seen if the expected pace of hikes are in sync.**
- Meanwhile, a softer USD is by no means a retreat given that yields look to remain elevated. US equities had laser focus on a buoyant services index last Friday to inflate their hopes of soft landing, though ignoring the consequent demand pull inflation pass-through **may see their recovery march come to halt.**
- **This week's US jobs report on Friday** will be the key focus with the usual **mid-week ADP employment change** data serving as a prelude. While the jobless claims are expected to remain low, not marching to the lines for unemployment benefits is certainly not mutually exclusive with lower job gains. **Volatility** and **asymmetric** reactions look to be impending risks.
- Given elevated UST yields, signs of job market slowdown could incite significant haven demand amid adjustments of expectations surrounding the pace of rate hikes. The USD could suffer similar gyrations.
- Across the Atlantic, ECB's Lagarde has continued to signal the threat of sticky inflation as **she alluded to inflation being a monster which need to be knocked on the head**. A single knock of 50bps hike in March does not look sufficient to knock out monsters.
- Also on this **coming Friday**, the BoJ will be **unlikely to exit their monetary policy** in March as they will look to keep policy rates on hold. Though with incoming Governor Ueda looking to face his tough and difficult situation in April, signals of first steps (beyond March) from Governor Kuroda's last press conference while not the base case is not improbable risks.
- Meanwhile, in China, the National Party Congress setting **a goal of around 5% for economic growth** is telling of their stated aim of economic stability. A **steady march** rather that reckless fast pace with out of sync members (property sector and income inequality) which warrant subsequent halts to allow catch-up or self-inflicted rescue with higher costs.
- In EM-Asia, the **smaller growth spillovers from the softer China growth target** will be well noted.
- Downunder, the **RBA facing prospects of slower growth** amid persistent inflation is set to raise rates by 25 though their narrowing lending strip **makes 2 hikes a given while 4 hikes a doubt**.
- In Malaysia, it is a tight call as we expect the **Bank Negara Malaysia to tilt towards one last hike of 25bp hike** as the need to mitigate against MYR weakness rises. While Thailand is not set to see policy action this week, an expected step down in inflation rate will not halt their steady march of policy normalisation in late March.

BOJ: Gracious Signals

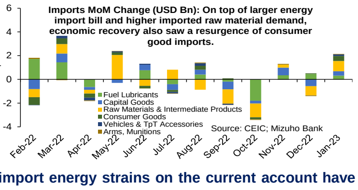
- Since the previous BoJ meeting (18 Jan), the **JPY is down over 5.6% as the worst performer among G10 FX due to a much wider UST-JGB yield differentials**.
- While these USD/JPY levels are not as dire compared to the 150 peak in Oct 2022, the **inconvenient pass through to imported inflation** is still an unwelcomed one for the BoJ.
- The magnitude of **challenge facing a policy pivot has only grown with an expanding balance sheet** facing the threat of higher JGB yields alongside BoJ dominated financial markets.
- Given that this is Governor Kuroda's last meeting and the tumultuous reaction from the previous widening of the yield cap for 10Y JGBs, we **expect a policy hold for now though gracious signaling a willingness for his successor to examine the case for a YCC exit will not surprise us.**
- Incoming Governor Ueda will certainly be geared up for the task as he espoused the difficulty of his role as "**difficult and tough situation**" but "**exactly why I want to take on this challenge**".
- That said**, substantial consultation with fellow board members would be required** before such a momentous decision. All in, the JPY will be expected to retain weakness though volatility is expected given the **various reads of potential exit timelines**.

Thailand CPI: Easing Energy Prices

- Given a **lowering of diesel prices from 15 Feb** and an extension of excise tax rebate for diesel, **headline inflation will be expected to have eased in February**.
- Furthermore, high base effects from a year also imply that **dis-inflation is par for the course for both headline and core measures.**



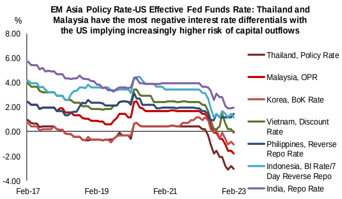
Source: CEIC; Mizuho Bank



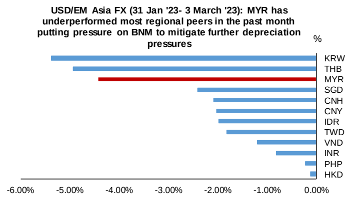
Source: CEIC; Mizuho Bank

- While lower energy prices is a relief for the CPI, **import energy strains on the current account have not abated.**
- A slide back into a **current account deficit of US$2 billion in January** despite **services balance returning to a surplus** is telling of the heavy burden which the tourism recovery has to shoulder.
- Admittedly, this was a result of an **unfortunate conspiracy** of **faltering exports revenue** and **surging import expenditure** which led to record US$2.6 billion deficit for the goods balance.
- The burgeoning import bill was driven by **rising fuel and raw material import expenditure** coupled with **resurgence in consumer goods imports amid the economic recovery**.
- The last time the goods balance had a deeper deficit was in January 2013.
- While a return to a **surplus position is still expected** as **tourism arrivals and revenues continue to have more upside**, sticky oil prices and slower external demand will continue to weigh on the current account and pave a bumpy THB recovery.
- All in, the **BoT will not be distracted by this easing CPI print** as they proceed with their well-communicated gradual and measured normalisation at the end of this month.

Bank Negara Malaysia: Tilting towards a 25bp hike



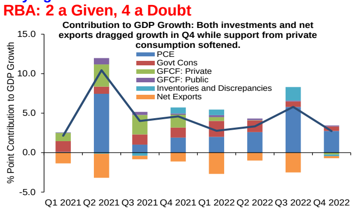
Source: CEIC; Mizuho Bank



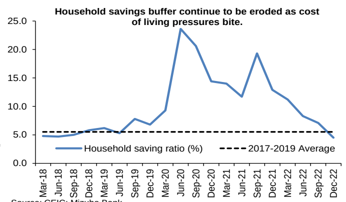
Source: Bloomberg; Mizuho Bank

- **We expect BNM to hike by 25bp at its 9 March meeting, in what is likely to be its last rate hike in this hiking cycle.**
- **Admittedly, this is a close call and mainly premised on BNM taking into account a more hawkish bias from the US Fed and with its risks of further currency (MYR) depreciation.**
- **Off the bat, we acknowledge that fundamental growth-inflation signs have been slowing.**
- On the growth front, **export volumes fell by -5.6% YoY in January from -4.1% in December while import volumes by -2.6% YoY in January from +5.3% in December.**
- Some part of the weakness can be attributed to the Lunar New Year holiday effect **but two consecutive months of export volume contraction (Dec '22 and Jan '23) does suggest a more pronounced slowdown, beyond seasonal factors.**
- **Domestic activity data is increasingly becoming more mixed**; palm oil production, passenger car sales and government expenditures held up well in January compared to December but worsening business sentiment and capital goods imports point to subdued investment sentiment.
- Furthermore, **with more fiscal consolidation pencilled in for 2023, fiscal support to growth is likely to be minimal** despite the pick-up in government spending in January.
- **Meanwhile, inflationary pressures continued to ease. Headline inflation eased from its recent peak of 4.7% YoY in Aug '22 to 3.7% in January.**
- **While core inflation eased by lesser extent to 3.9% YoY in January from a peak of 4.2%** in November. PPI inflation was lower at 1.3% YoY in January from 3.5% in December.
- **Home price growth slowed** to 0.7% YoY in Q3 '22 from 2.6% in Q2 (latest data point) as did **banking lending growth** to 5% YoY in January from 5.8% in December.
- **Stickier labour market data is a cautionary sign for BNM to keep vigilant of wage pressures.** Manufacturing payroll growth picked up to 5.4% YoY in January from 4.7% in December while the unemployment rate eased further to 3.6% in Q4 from 3.7% in Q3.
- **However, off greater consequence is the USD/MYR underperformance compared to regional peers since the start of February.**
- With the US Fed likely to deliver more hikes than previous expected, **the Fed-BNM interest rate differentials are set to widen even further exacerbating portfolio outflow risks. In fact, the Fed-BNM differentials are one of the widest in the EM Asia region.**
- **This implies that BNM will have to be decisively hawkish to mitigate against further MYR depreciation risks; to that end, we see a higher likelihood of BNM delivering a 25bp hike than staying on hold.**

RBA: 2 a Given, 4 a Doubt



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- The RBA looks set to **increase their cash rate by 25bps to 3.60%** on 7 March 2023.
- The RBA minutes for February clearly stated the **need for further increases** in policy rate and did not consider the option of pausing policy hikes as their discussed options was for 25bp or 50bp hikes.
- While we note the **plurality of 'increases'** needed for rate hikes, it is certainly not unrestrained raises ahead. In fact, **2 rate increases (including March) is a given** but **4 rate increases to take the cash rate above 4% remains a doubt.**
- First, despite still healthy labour markets, **dwindling savings buffer to below pre-pandemic levels is expected to persistently chip away at PCE's support to growth.** Second, slower external demand has weighed on net exports as manufacturing growth comes under pressure.
- Third, housing market concerns are far from fading despite slower property price declines. It is still premature to extrapolate slower property price declines to portend stable housing prices and abating property sector risks.
- **New lending towards first time home buyers falling to 5 year lows** continue to signal a lack of confidence and that high borrowing costs pose a significant hurdle.
- Amid cautious demand, falling building approvals indicate supply contraction adding to structural issues of insufficient housing supply, consequent escalating rents and inflationary pressure build-up.
- All in, given the unrelenting inflation prints down under, while **the RBA's reference to the need for rate hikes and their conviction to inflation spells is not questioned**, **sharper trade-offs on the growth and property risk front may restrict their available policy room in Q2 2023**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	135.87	-0.610	-0.45%	134.00	~	138.00
EUR/USD	1.0635	0.0087	0.82%	1.050	~	1.070
USD/SGD	1.345	-0.006	-0.41%	1.3400	~	1.3600
USD/THB	34.7	-0.105	-0.30%	34.00	~	35.00
USD/MYR	4.4773	0.042	0.95%	4.350	~	4.500
USD/IDR	15300	75	0.49%	15,200	~	15,400
JPY/SGD	0.9896	0.000	0.02%	0.971	~	1.015
AUD/USD	0.677	0.004	0.65%	0.666	~	0.690
USD/INR	81.97	-0.777	-0.94%	81.7	~	82.4
USD/PHP	54.83	-0.070	-0.13%	54.6	~	55.5

^Weekly change.

FX Outlook: Still a USD Story

- Ahead of the February employment data this Friday, the focus for the week will be on Fed Chair Powell's semi-annual testimony in Congress and the BoJ meeting.
- Neither of which are expected to create major waves. That said, Powell's testimony will be closely watched for Fed's take on the stickiness of domestic price pressures, particularly on core PCE which reversed the downtrend last month.
- Governor Kuroda's last meeting is not expected to set off fireworks, particularly following the YCC target adjustment in December.
- Incoming Governor Kazuo Ueda has already set the tone of a smooth transition but a bumpy road ahead in which exiting ultra-easy policy is still a matter of discussion rather than action.
- With this, JPY will likely continue to cede ground to USD. Although USD/JPY have been notoriously volatile so far this year, breaks below 134 seem hard to sustain.
- Similarly, for EUR strength to persist, the hawkishness of ECB will have to outweigh that of the Fed. Given oscillating expectations around the latter, EUR/USD may be range bound rather than outrightly strong, favouring the strong USD bias.
- Elsewhere in the G10 space, an absence of important data releases or policy changes, implies that deference to USD may still be the chosen course.
- Moreover, China's below expectations growth target for this year emphasizes a USD bias in that it plays to the 'fear' component of driving USD demand.
- In all, notwithstanding bouts of USD weakness, the broader story that continues to dominate is USD demand driven by either the Fed or fear.
- For the rest of EM Asia, the combination of weaker CNY/CNH and dollar deference implies weakness but differentiated by idiosyncratic domestic factors.
- For MYR, BNM's meeting this week will be crucial in determining if it can shake off regional underperformance; while BSP's continued hawkish could give PHP a boost despite unrelenting price pressures.

Bond Yield (%)

3-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.856	4.2	3.952	0.9	Flattening
GER	3.188	17.6	2.707	17.5	Flattening
JPY	-0.045	-0.5	0.495	-0.1	Steepening
SGD	3.620	15.4	3.368	12.6	Flattening
AUD	3.593	4.0	3.898	0.1	Flattening
GBP	3.664	-30.4	3.844	18.9	Steepening

Stock Market

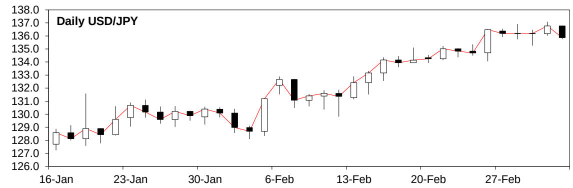
	Close	% Chg
S&P 500 (US)	4,045.64	1.90
Nikkei (JP)	27,927.47	1.73
EuroStoxx (EU)	4,294.80	2.78
FTSE STI (SG)	3,232.02	-1.53
JKSE (ID)	6,813.64	-0.63
PSEI (PH)	6,655.37	-0.46
KLCI (MY)	1,453.55	-0.22
SET (TH)	1,606.88	-1.66
SENSEX (IN)	59,808.97	0.58
ASX (AU)	7,283.57	-0.32

US Treasuries: Caution and Opportunity

- As we had expected **10Y UST yield was tempted to venture above 4%** though **staged a quick retreat to below 4.0%** (to close just 0.9bp higher for last week). In fact, 10Y UST yields nearly reached 4.09% last Thurday.
- **Opportunistic buying** and **haven demand** for longer end USTs ought to be expected given the attractive yields.
- On the shorter end, a mild 4.2bp rise while within our expectations is still remarkable given how far yields have risen in the past two weeks.
- While we note that the Fed's recession indicator (18M-3M spread) has shown **signs of reverting back** from inversion, it **epitomises the higher for longer stance of the Fed rather than all clear signals for soft landing**.
- As such, the **not so immediate risk** is **a return to inversion** in the months ahead.
- This week, while we hold on to the view for UST yields to remain elevated, 2Y yields yields will look to trade in the 4.7%-4.95%. **Asymmetric reactions** to a slower than expected job gains at the end of the week may **soften UST yields** while **stronger than expected job market incited demand faces caution to restrain** below 5%.
- Meanwhile, 10Y USTs testing above **4% is par for the course though durability remains suspect.**

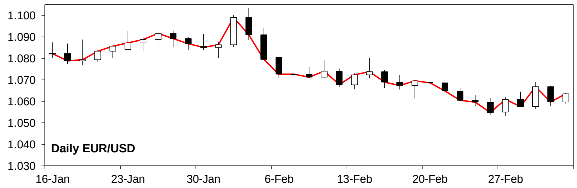
USD/JPY: Real Changes?

- USD/JPY slipping to below 136 inspite of higher nominal UST yields is far from a turnaround.
- First, the higher UST yields **is by recent context rather mild** and from the real yields prespective, higher 10Y breakevens proxying higher inflation expectations imply that **real UST yields are in fact lower last week.**
- With the end of the week BoJ policy meeting in focus, JPY volatility will be notched up.
- While a **policy hold is expected**, we watch for risks of Governor Kuroda **providing willingess for a review of monetary easing** and YCC to incite plunges toward 133.
- Though these may fade back into 134 buoyancy as fundamental weakness on energy imports are retained in the background and policy timelines remain vague.



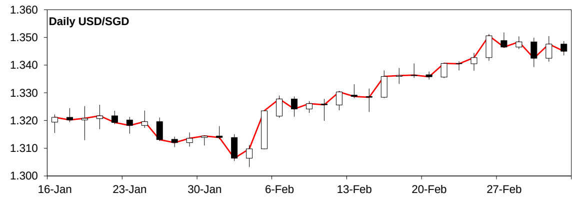
EUR: Gains Limited

- ECB hawks pushed EUR to gain ~0.25% versus USD in the last week but for gains to be durable, sustained if not amped up ECB hawkishness is required.
- This it beat the fear and Fed factors that drive USD demand. With the key market moving events US centric this week, USD moves set to play a bigger role for EUR/USD determination.
- To that end, we expect EUR/USD to trade between 1.055-1.07 levels for the week.



SGD: Sailing Up

- Last week, the USD/SGD continued hovering above 1.35.
- Notably, it **had not capitalise on the CNH strength last week.**
- As such given the softer economic growth target from China's NPC, the boat may have sailed for sub-1.34 slips.
- Given that deference to the USD remains the base case, we expect the pair to trade in the 1.34-1.36 with upside bias.



AUD: Narrowing Space

- The AUD edged up above mid-0.67 to close last week as it **hitched a ride on stronger CNH/CNY complex.**
- This week, while the RBA is set for a 25bp hike, their **inclination to signal further hikes will tempt the AUD to test mid-0.68.**
- Nonethess, an acknowledgement of **the RBA's limited policy space** vis-a-vis the Fed will keep attempted rallies in check and allow retreat toward 0.68 consolidation.
- AUD buoyancy above 0.67 is a recognition of the sticky commodity prices which remains a backstop.