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MIZUHO

# WEEK AHEAD

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06-Feb-2023

## Economic Calendar

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

**G3**

| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 06 Feb | **EZ** | **Retail Sales YoY** | **Dec** | **-2.7%** | **-2.8%** |
| | EZ | Sentix Investor Confidence | Feb | -13.5 | -17.5 |
| | | | | | |
| 07 Feb | US | Trade Balance | Dec | -$68.6b | -$61.5b |
| | **JP** | **Coincident Index/Leading Index CI** | **Dec P** | **97.1/98.9** | **99.3/97.4** |
| | JP | Labor/Real Cash Earnings YoY | Dec | 2.5%/-1.5% | 1.9%/-2.5% |
| | | | | | |
| 08 Feb | US | Wholesale Inventories MoM | Dec F | 0.2% | 0.1% |
| | **JP** | **BoP Current Account Balance** | **Dec** | **¥112.0b** | **¥1803.6b** |
| | JP | Eco Watchers Survey Current/Outlook SA | Jan | 48.2/47.6 | 47.9/47.0 |
| | | | | | |
| 09 Feb | **US** | **Initial Jobless Claims** | | **190k** | **183k** |
| | JP | Machine Tool Orders YoY | Jan P | -- | 0.9% |
| | | | | | |
| 10 Feb | US | U. of Mich. Current Conditions/Sentiment | Feb P | 68.0/65.0 | 68.4/64.9 |
| | US | U. of Mich. Expectations | Feb P | 63.0 | 62.7 |
| | **US** | **U. of Mich. 1 Yr/5-10Yr Inflation** | **Feb P** | **4.0%/2.9%** | **3.9%/2.9%** |
| | JP | PPI YoY | Jan | 9.7% | 10.2% |

**Asia** *Actual data release instead of survey

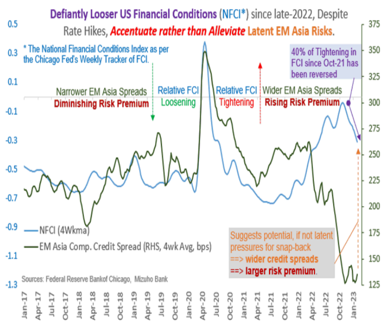
| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 06 Feb | **ID** | **GDP YoY** | **4Q** | **4.9%** | **5.7%** |
| | **TH** | **CPI/Core YoY** | **Jan** | **5.1%/3.1%** | **5.9%/3.2%** |
| | | | | | |
| 07 Feb | AU | Trade Balance | Dec | A$12450m | A$13201m |
| | **AU** | **RBA Cash Rate Target** | | **3.35%** | **3.10%** |
| | MY | Industrial Production YoY | Dec | 4.5% | 4.8% |
| | **PH** | **CPI YoY** | **Jan** | **7.6%** | **8.1%** |
| | | | | | |
| 08 Feb | **IN** | **RBI Repurchase Rate** | | **6.50%** | **6.25%** |
| | KR | BoP Current Account Balance | Dec | -- | -$621.7m |
| | **PH** | **Unemployment Rate** | **Dec** | **--** | **4.2%** |
| | | | | | |
| 09-15 Feb | CH | New Yuan Loans/Aggregate Financing CNY | Jan | 4200b/5200b | 1398.3b/1305.8b |
| | | | | | |
| 10 Feb | **CH** | **CPI/PPI YoY** | **Jan** | **2.2%/-0.4%** | **1.8%/-0.7%** |
| | AU | RBA-Statement on Monetary Policy | | | |
| | IN | Industrial Production YoY | Dec | 5.8% | 7.1% |
| | MY | BoP Current Account Balance MYR | 4Q | 13.3b | 14.1b |
| | **MY** | **GDP YoY/Annual 2022** | **4Q** | **7.0%/8.6%** | **14.2%/3.1%** |

## Week-in-brief: Bursting Balloons & Bubbles

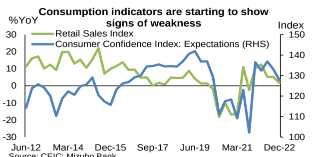
- **Sobering soul-searching amid bursting balloon and bubbles** appears to be warranted;
- as **the US shot down an alleged *Chinese spy balloon*** (which China claims was a civilian blimp blown off-course) setting off more serious worries of a sharp rise in US-China tensions and;
- ***"hot" US jobs numbers*** at 517K (vs. market expectations of 188K), further **bolstered by a strong rebound in US Services ISM** look set to inevitably **burst the bubble on Fed pivot bets**.
- The bigger picture being, whether the reality of rising US-China tensions and a increasing evidence of a Fed that may indeed enforce "higher for longer" may still be supplanted by stubborn **Fed pivot** and **China re-opening cheer**, narrative; which have effectively dominated since late-2022, with "risk on" rallies.
- We are not so sure. Admittedly, a **re-assessment of geo-political and policy risks will almost certainly** be forced upon markets, **taking some air out of stretched "pivot" and China cheer**.
- And true enough, markets have incrementally priced in a further 25bp hike in Q2 after a 25bp hike in March, whereas Fed Funds Futures pricing post-Feb FOMC only ascribed a March hike and a hold in Q2.
- ***But*** that does not distract from the persistent gap between the Fed's assertion of no rate cuts in 2023, with year-end rate at, or above 5%; in sharp contrast to market bets still pricing in cuts in H2 2023.
- And so, this **may turn out to be more of position adjustment rather than a wholesale pullout**.
- **Bursting balloons** afterall, is **much more straight-forward than is bursting bubbles**.
- While there are no major trajectory-changing US data due out this week, **the inflation expectations components of Feb U. of Michigan** survey (Fri) may be **worth a watch**. Especially as *the details of hot US jobs data suggest a re-acceleration in wage pressures amid strong jobs and longer hours worked*.
- In EM Asia, the hawkish Fed inferences from blowout jobs data (alongside broad-based ISM Services surge) ought to underscore caution against premature termination of hiking cycles.
- And so, after hotter-than-expected, and more broad-based Q4 inflation for Australia is highly likely to see a 25bp rate response from the RBA (lifting the cash rate from 3.10% to 3.35%). Moreover, the case for this to be the final hike is far from cast in stone; with a more measured 15bp hike to 3.50% later on the table.
- Likewise the **RBI is also set to hike policy rate by 25bp to 6.50%**. Point being, despite softening CPI and fiscal consolidation (-0.5%-pt to 5.9%), both **inflation and fiscal deficit remain uncomfortably high**. - *Especially as "twin deficits" accentuate potential vulnerabilities to "higher for longer" US rates.*
- And so getting to 6.50%, consistent with real rates in the 0.50-1.00% ballpark is bare minimum. Room for further hikes remains; depending on inflation's undulations and macro-stability risks.
- **Malaysia** (Fri) and **Indonesia** (Mon) meanwhile will be releasing **Q4 GDP**, which is **likely to show marked, but not overly-worrying, slowdown**. This may tempt speculation of the end of tightening cycle. But persistent macro-stability risks rule out a "clean", imminent policy inflection at this point.

## Understated EM Asia Risks

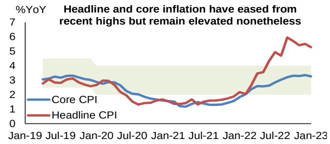
- Even after accounting for recent loosening in US financial conditions, EM Asia risks appear significantly underpriced.
- Upshot: *EM Asia sovereign credit spreads suggest exceptionally suppressed risk premium.*
- In fact, recent looser financial conditions, accentuate, rather than alleviate, latent EM Asia risks;
- as sustaining loosening financial conditions is at odds with “higher for longer” Fed rates.
- And so, the *threat of Fed hawks compensating for overly-exuberant markets may set off painful, abrupt correction in EM Asia risks (mis-)pricing* down the road.
- **More so with fading “China cheer”** and dissipating real yield advantages.




## Indonesia Q4 GDP: Some Resilience With Incoming Signs of Weakness



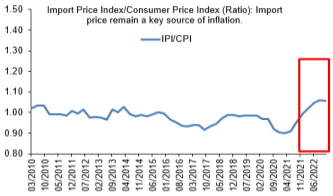

Source: CEIC; Mizuho Bank

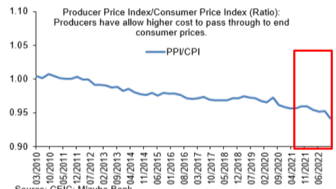



Source: CEIC; Mizuho Bank

- **Tracking estimates suggest that Q4 GDP growth slowed only modestly to 5.6% YoY from 5.7% in Q3 underscored by resilient private consumption and still strong export growth.**
- But this maybe as good as it gets. Incipient signs of a growth slowdown into 2023 are becoming more evident including from the collpase in December import growth, weakening consumer confidence and still elevated core inflation.
-This gives **Bank Indonesia (BI) motive to end its rate hiking cycle, especially with headline inflation coming off from recent highs.** We still, however, one final 25bp hike from BI this quarter.
- Although headline inflation eased to 5.3% YoY in January from 5.5% in December, the details show that much of the easing was from transportation and utilities inflation.
- **Food inflation remained stable while services inflation in certain categories rose in January, necesitating BI to remain hawkish and vigilant of inflationary risks**.
- **IDR, in the near-term, is supported by a weak USD sentiment. But with risk sentiment still flippant, IDR depreciation risks persist.**

## RBA: A Finely Calibrated 25bps



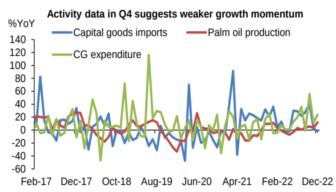

Source: CEIC; Mizuho Bank

- Amid a backdrop of slowing rate increases by the central bank peers, a 25bp hike by the RBA is from straightforward.
- Accelerating from Q3's 7.3%, **headline inflation exceeded market expectations** to hit 7.8% in Q4. Trimmed mean CPI YoY reached 6.9%.
- A decline in employment (-14.6k) for Dec dragged down by reduction in part time (-32.2k) does not change the **picture of a tight labour market** supported by strong full time employment (+17.6k)
- **Declining housing prices continue to contrast against rising rents** posing a stark dilemma for the RBA balancing the risks from lower consumption hit by lower property wealth and real incomes against their inflation mandate.
- Inflow of foreign workers and students will also support rental prices in the months ahead.
- Imported inflationary pressures also remain stubborn as import prices continued to climb in Q4.
- While a strong AUD tempers these pressures, they are by no mean quelled.
- On balance, the **RBA is warranted to take a 25bp hike doused with plentiful allusion to the possibility of pausing in March amid emphasis on mortgage related risks.**

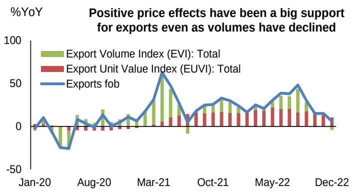
## RBI: Tempering, Not Terminating, Tightening Bias

- As of now, **fiscal consolidation alongside easing headline inflation only allow the RBI to temper, not terminate, its tightening bias**. Admittedly, in our Budget analysis, we stated that there will be no impact on monetary policy for the RBI.
- To be sure, with **0.5%-pt of fiscal consolidation, the RBI will arguably not need to tighten more aggressively** to compensate for a larger fiscal impulse.
- **But equally, 5.9% Budget deficit is significantly large**; and significantly increased capex/public spending may still threaten to inflame remaining inflation embers. Especially given that d**espite subsiding, inflation is uncomfortably close to the top end of the 4%+/-2%-pt range**.
- Crucially, pronounced twin deficit vulnerabilities (wider Current Account deficit and sustained, significant fiscal deficit) tilt optimal policy towards more tightening in the interest of macro-stability.
- And that necessarily means that the **RBI cannot forsake its tightening bias just yet**.
- But that said, with easing price pressures, the **RBI has room to moderate the amplitude of rate hike; from 35bps in the last meeting in December, to 25bp this time**, thereby lifting the Repo rate to 6.50%. Beyond this, the RBI may have some space to pause and assess, with real rates projected to be +0.5-1.0% in coming months.

## Malaysia Q4 GDP: Weakness Expected




Source: CEIC; Mizuho Bank




Source: CEIC; Mizuho Bank

- **We expect GDP growth to slow to 7.7% YoY in Q4 from 14.2% YoY in Q3, taking full year 2022 growth to 8.9% from 3.1% in 2021.**
- **Weaker external demand, lower commodity prices, easing retail spending and moderating government spending pushed Q4 growth weaker;**
- On the supply-side, weaker growth across manufacturing, construction and the services sectors will offset better agriculture output, which is benefiting from a normalisation of employment levels.
- This will translate into a **sequential contraction in GDP growth in Q4 versus Q3.**
- **The same factors that brought Q4 growth weaker will intensify into this year as global growth worsens and commodity prices normalise even further.**
- It is **for this reason that Bank Negara Malaysia (BNM) paused its rate hiking cycle at its 19** Jan meeting. **Weaker Q4 GDP will no doubt corner BNM into staying on a prolonged hold.**
- But upside surprises in domestic and US inflation data, pushing the Fed to stay hawkish, can shift the balance of risks for BNM. Hence, for now, we see BNM keeping the door open on a 25p hike.
- **This may put some depreciation.pressure on MYR in the term but it will be backstopped by weaker USD sentiment.**

***Forex Rate***

| | Close* | Chg^ | % Chg^ | Week Forecast | | |
|---|---|---|---|---|---|---|
| USD/JPY | 131.19 | 1.310 | 1.01% | 125.80 | ~ | 133.80 |
| EUR/USD | 1.0795 | -0.0073 | -0.67% | 1.068 | ~ | 1.100 |
| USD/SGD | 1.3235 | 0.010 | 0.75% | 1.3020 | ~ | 1.3400 |
| USD/THB | 32.955 | 0.085 | 0.26% | 32.60 | ~ | 33.50 |
| USD/MYR | 4.2587 | 0.015 | 0.35% | 4.200 | ~ | 4.300 |
| USD/IDR | 14893 | -92 | -0.61% | 14,850 | ~ | 15,200 |
| JPY/SGD | 1.0089 | -0.002 | -0.20% | 0.973 | ~ | 1.065 |
| AUD/USD | 0.6923 | -0.018 | -2.49% | 0.685 | ~ | 0.710 |
| USD/INR | 81.84 | 0.320 | 0.39% | 80.8 | ~ | 83.0 |
| USD/PHP | 53.675 | -0.800 | -1.47% | 53.0 | ~ | 54.5 |

^Weekly change.

***Bond Yield (%)***

| 3-Feb | 2-yr | Chg (bp)^ | 10-yr | Chg (bp)^ | Curve |
|---|---|---|---|---|---|
| USD | 4.289 | 9.0 | 3.525 | 2.2 | Flattening |
| GER | 2.529 | -3.4 | 2.185 | -5.0 | Flattening |
| JPY | -0.040 | -2.0 | 0.475 | 0.0 | Steepening |
| SGD | 2.920 | -4.8 | 2.887 | 4.9 | Steepening |
| AUD | 2.983 | -16.0 | 3.380 | 0.1 | Steepening |
| GBP | 3.146 | -26.4 | 3.049 | -27.0 | Flattening |

***Stock Market***

| | Close | % Chg |
|---|---|---|
| S&P 500 (US) | 4,136.48 | 1.62 |
| Nikkei (JP) | 27,509.46 | 0.46 |
| EuroStoxx (EU) | 4,257.98 | 1.91 |
| FTSE STI (SG) | 3,384.29 | -0.29 |
| JKSE (ID) | 6,911.73 | 0.18 |
| PSEI (PH) | 7,027.38 | -0.35 |
| KLCI (MY) | 1,490.47 | -0.47 |
| SET (TH) | 1,688.36 | 0.42 |
| SENSEX (IN) | 60,841.88 | 2.55 |
| ASX (AU) | 7,558.11 | 0.86 |

## FX Outlook: Re-pricing Risks, Not Relishing Relief

- **Hot US jobs report**, and **heated US-China exchanges**, underpinning escalation of US-China tensions, on the alleged China spy balloon shot down by the US, risk-pricing is a dominant theme.
- One that was arguably responsible for some 1.6% surge in the USD Index (to above 103 from around mid-101) . This is not a new development, but a decided change in direction of risk drivers.
- As we have stressed for some time now, the **Greenback is not on an unchallenged bearish path** despite having decisively peaked as an end to the Fed's hiking cycle appears in the horizon.
- Not just because **markets are** *systematically under-accounting for how high* rates will go and *how long* rates may remain elevated. Rather, it is due to the compounding implied risk factor.
- Specifically, **FX markets** have been **trafficking in both "Fed and fear"**; and both these factors have fed into one another since Nov 2022, **amplifying USD pullback from Fed pivot bets**.
- But with US jobs (and ISM Services) casting doubt on how quickly the Fed may abandon its hawkish bias and flip, and consequent souring of risk sentiments being exacerbated by US-China geo-political brushes, **one-way short-USD bets may not be great in terms of "risk-reward" assessment**.

-And so, **at least until some of the ai**r around;

i) *heightened geo-political uncertainty* (especially with regards to whether China will retaliate) and;

ii) the *extent of policy risks*;

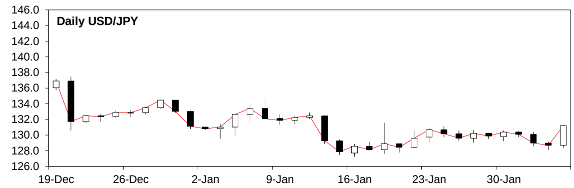
- **is cleared**, the sense is that **foreign exchange** (and **wider asset**) markets may be re-pricing risks, and not quite resuming an extension of "risk on" from relishing relief (Fed pivot and China re-opening).
- In which case, the USD could remain backstopped and bouncy on declines.
- EM Asia FX may in particular be cautious of spillover risks from China.
- KRW looks under the weather from risks of further tech fallout from US-China, while Antipodeans and THB, having gained on account of China earlier, are likely to remain on the backfoot;
- underscoring our earlier warnings of understated EM Asia risks in any case.

## US Treasuries: Underlying Support

- The UST yield curve entrenched deeper as we had expected as 2Y yields rose 9.0bp while 10Y yields was up 2.2bp.
- The upside surprise from an **utterly strong end of week jobs report sent 2Y UST yields soaring** and reversed the mid-week decline from FOMC decision.
- In other words, **odds for another 25bps rate hike beyond March** rose as the jobs report forced a **re-think of the strength of underlying inflation pressures**.
- Consequently, we expect 2Y yields to remain buoyed above 4.15%
- While one may pine for a soft landing, **persistent entrenchment of yield curve inversions remains a bug bear for markets**.
- We remain steadfast in our view that 10Y yields continue to see haven demand even amid incipient signs of risk on sentiments.
- For this week, 10Y UST yields are projected to stay in the 3.4%-3.6% range.

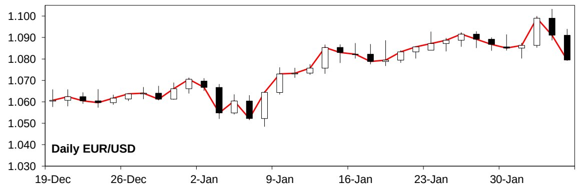
## USD/JPY: Buoyed by US Yields

- Last week, **attendant with the higher US yield surge**, the JPY weakened towards the end of the week as the USD/JPY closed above 131.
- The strong jobs report is forcing a **re-evaluation of market views of the Fed's peak rates**.
- This week, **further awakening to the Fed's higher for longer perspective** may send UST yields higher and keep the USD/JPY buoyed above 130.
- That said, with Brent crude prices closing below US$80/barrel, further surge in the pair may be restrained below mid-132 if energy prices soften further.



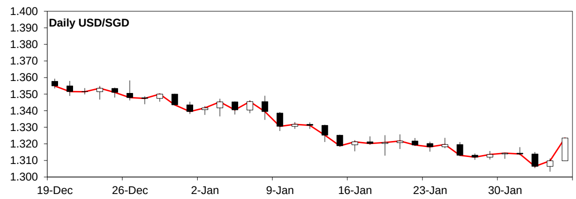

## EUR: Losses Limited

- In a volatile week for EUR/USD, EUR weakness was backstopped by the ECB's clear hawkish bias and its affirmation that it will follow through with further rate hikes to bring inflation back to its 2% target.
- But this does not insulate EUR from global episodes of risk oscillations, especially given the volatility around US data and associated Fed expectations.
- A light data week this week will mean that EUR/USD moves will be brought on by various central bank speakers including Fed Chair Powell and ECB's Holzmann, Schnabel, Villeroy and Knot.
- We expect EUR/USD downside to be 1.07 levels with an upside of 1.09.




## SGD: Setback or Reset?

- To be fair the sharp squeeze in USD/SGD from sub-1.31 tests to mid-1.32 traction is a reflection of the Greenback broad-based squeeze following hot US jobs and heated US-China exchanges highlighting elevated geo-political uncertainties.
- With downside CNH risks likely to be reflected via trade, financial and proxy channels, SGD couild remain cautious, if not slippery, as markets navigate both hawkish Fed and geo-political US hawks confronting a disgruntled Beijing.
- For now, markets may be inclined to remain cautious, rather than hurriedly coverihng back for SGD selling on Friday. that means there mau be limited rallies to get sub-1.31, whereas consolidation arond mid-1.31 to 1.33+ may well be par for the course.
- The wider question though is whether this is a temporary SGD setback or a reset.




## AUD: RBA's Higher Bar

- AUD bulls, not unlike the RBA have a higher bar to clear this week.
- For one, a 25bp hike was pretty much baked in after hotter- and broader-than-expected Q4 inflation set the wheels in motioon for more follow-up tightening; albeit measured.
- But with Fed pivot bets now knocked back by hot US jobs data, a 25bp hike by the RBA may look like a bare minimum rather than a convicning "convergence" play.
- And that may remain the case even if further tightening by the RBA is priced in.
- Unless of course the accompanying rhetoric is far more hawkish than merely leaving the door open to data-dependent responses.
- In which case, the RBA's bar for inciting AUD bulls is higher.
- Especially as escalation in US-China tensions takes some air out of the "China re-opening" boost for AUD (although not as much air as the US took out of the alleged spy balloon).
- And so we expect 0.68 to mid-0.71 to be a wider and possibly volatile consolidation range; that is more exposed to headlines risks.