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MIZUHO

WEEK AHEAD

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13-Feb-2023

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Economic Calendar

•Survey results from Bloomberg, as of 10 Feb 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 Feb	**US**	**CPI/Core YoY**	**Jan**	**6.2%/5.5%**	**6.5%/5.7%**
	EZ	**GDP SA YoY**	**4Q P**	**1.9%**	**1.9%**
	EZ	Employment YoY	4Q P	--	1.8%
	JP	GDP Deflator YoY	4Q P	1.1%	-0.3%
	JP	**GDP Annualized SA QoQ**	**4Q P**	**2.0%**	**-0.8%**
	JP	Industrial Production YoY	Dec F	--	-2.8%
15 Feb	US	Industrial Production MoM	Jan	0.5%	-0.7%
	US	**Retail Sales Adv./Ex Auto & Gas MoM**	**Jan**	**1.9%/0.7%**	**-1.1%/-0.7%**
	US	**Empire Manufacturing**	**Feb**	**-18.0**	**-32.9**
	EZ	Industrial Production WDA YoY	Dec	-0.7%	2.0%
	JP	Tertiary Industry Index MoM	Dec	0.1%	-0.2%
16 Feb	US	Housing Starts/Building Permits	Jan	1350k/1350k	1382k/1337k
	US	Initial Jobless Claims		200k	196k
	US	PPI Final/Ex Food Energy, Trade YoY	Jan	5.4%/3.9%	6.2%/4.6%
	US	**Philadelphia Fed Business Outlook**	**Feb**	**-7.4**	**-8.9**
	JP	Trade Balance	Jan	-¥3978.4b	-¥1451.8b
	JP	Core Machine Orders YoY	Dec	-6.1%	-3.7%
17 Feb	US	Leading Index	Jan	-0.3%	-0.8%

Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
13-18 Feb	**CH**	**FDI YTD YoY CNY**	**Jan**	**--**	**6.3%**
13-19 Feb	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.75%**	**2.75%**
13 Feb	**SG**	**GDP YoY/Annual 2022**	**4Q/2022**	**2.1%/3.6%**	**2.2%/3.8%**
	IN	**CPI YoY**	**Jan**	**6.1%**	**5.7%**
14 Feb	**SG**	**Singapore 2023 Budget Release**			
	IN	**Wholesale Prices YoY**	**Jan**	**4.5%**	**5.0%**
	PH	Overseas Cash Remittances YoY	Dec	3.8%	5.7%
15 Feb	**ID**	**Trade Balance**	**Jan**	**$3250m**	**$3890m**
	KR	Unemployment rate SA	Jan	3.5%	3.3%
16 Feb	**CH**	**New Home Prices MoM**	**Jan**	**--**	**-0.3%**
	AU	**Employment Change/Unemp. Rate**	**Jan**	**20.0k/3.5%**	**-14.6k/3.5%**
	AU	Consumer Inflation Expectation	Feb	--	5.6%
	ID	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
	PH	**BSP Overnight Borrowing Rate**		**5.75%**	**5.50%**
17 Feb	SG	Non-oil Domestic/Electronics Exports YoY	Jan	-22.0%/--	-20.6%/-17.9%
	TH	**GDP YoY**	**4Q**	**3.6%**	**4.5%**

Week-in-brief: Love is in the Air ... or Not

- It may be **Valentine's Day** week, **but love may or may not be in the air**.
- Crucially though, **love wasn't the only thing** that was (fleetingly) **in the air** as the **US (not Cupid) shot down more "high-altitude object(s)"**, *after the alleged Chinese spy balloon a weekend ago*.
- And with the **US having placed six Chinese groups on the "entity list" in connection with the alleged spy balloon**, the **air is thickening with geo-political risks** (replete with potentially significant economic spillover) **rather than love**.
- **Trepidation about US inflation** is also **in the air**; with CPI data release on Valentine's Day, no less.
- Specifically, markets are coming round to the *threat that the Fed will maintain a "higher for longer" stance* **if sequential pick-up in prices**, despite the continued moderation in YoY inflation, **is pronounced**.
- Specifically, **for markets that had been smitten with the idea of "Powell Pivot"**, **the reality of not being able to land a date with Fed doves** has been hammered in by fairly brutal Fed speakers building on the hot jobs data (for Jan) to in the foreseeable futrure must be gutting.
- And this could **underpin the run-up in UST yields**, alonside a **Greenback** that is discernibly **more buoyant** (than it has been late-Jan into start-Feb); whilst continuing to **dampen, if not drag, equities**.
- **Singapore's 2023 Budget** will also be announced on **Valentine's Day**. And **what's not to love** about;
- a **budget that is back into surplus** on the back of demand-recovery driven revenue overshoot;
- **yet not forsaking fiscal cushion** to mitigate **GST hike** and **gathering external headwinds**.
- Especially given the obvious signs of slowing growth momentum in Q4 GDP revisions that was led by manufacturing drag. This resonates with a slowdown in regional growth momentum (Malasia last Fri).
- **Thai (Q4) GDP** release later this week will also **likely show a slowdown from 4.5% to around mid-3% with manufacturing/exports sector drag accounting for most of the braking friction** although services ough to mitigate; with *tourism recovery remaining the silver lining* for the road ahead.
- Whilst global markets worry about how hawkish the Fed may remain and whether US-China geo-political may flare, EM Asia central banks are set to **de-couple**. **Bank Indonesia may play it cool and hold**, while the **BSP may have to up it game with a 50bp hike**; as Philippines' inflation heats up.
- The RBI is not up for a decision this week, but **if India's inflation remains uncomfortably sticky**, there **could be judgment being passed at an inconvenient time** if headline risks.
- Upshot: This Valentine Day's week is **less about seduction of "Goldilocks" data/sweet nothings about economic prospects**; and **more about heart-breaks on Fed pivot bets and geo-political snubs**.

US CPI: Dis-inflation, Not Disengagement

- Both headline and core inflation may not reject Fed Powell's characterization of welcome dis-inflationary dynamics underway; as headline inflation is expected to ease to low-6% and core below 5.5%.
- Nonetheless, **neither the levels of inflation nor the pace of decline will derail the Fed from "further rate hikes"** and its **intent to maintain restrictive rate setting "for some time"**.
- In other words, US CPI data are expected to underpin views of *dis-inflation* but are *nowhere in the vicinity of justifying disengagement* from the Fed's continued (albeit more calibrated) tightening path.
- Three key reasons why. First, the **absolute levels of inflation remain too high**; both in the headline and core
- vis-a-vis 2% target **for the Fed to dis-engage without risking a resurgence** of inflation. Worse, **credibility may be harder to re-establish** requiring far more rate hikes further down the road.
- Second, whilst fuel dis-inflation and core goods deflation have helped with encouraging turnaround, core services (ex-rentals) remaining stubbornly sticky means **wage-price spiral risks remain too uncomfortable for the Fed to even pause**; much less reverse.
- Finally, the **hot jobs** read for January with details **suggesting re-acceleration in wages** (and hours worked) **further raises the bar** for CPI dis-inflation to trigger a shift in the Fed's currently hawkish stance.
- And so, **near-term dis-inflation is a long way off moving the dial on Fed policy** in the coming months.

Singapore Budget 2023 - Support With A Surplus

- Technically, judging from the Budget's bottom-line dynamics, turning a **surplus** in FY2022-23 (despite the forecast for a deficit), a contractionary fiscal impulse would have been the default. ***But*** the details will probably still provide much **support** for the economy; for households and smaller businesses alike.
- First, for the surplus. The main reason for FY22 surplus instead of the budgeted deficit is **revenue overshoot from upside surprise in demand**;
- from *better-than-expected demand rebound from re-opening*, tourism resumption and a *hot property market* all conspiring for boost the top-line far more than could have been reasonably projected.
- Whereas the **spending to boost support for the economy was not materially crimped**.
- A **similar dynamic is expected to play put in FY23**, leveraging on a *higher revenue base*, but likely with a *more targeted support scheme* that results in more effective support where it is most needed.
- And crucially, **yields the highest growth multipliers**.
- For example, a higher rate of GST providing additional boost to revenue although diluted by prudently means-augmented GST offsets, underscores distinct surplus.
- The upshot is that the most vulnerable households will receive crucial fiscal buffers amid cutting cost of living;
- while SMEs most exposed to gathering global headwinds (amid geopolitical headwinds and aggressive global monetary policy tightening) will also be given critical relief to avert avoidable job losses from liquidity-turned-solvency crisis.
- The big picture for the **Budget can flaunt a more distinct surplus, yet not stint on targeted support** *amid growing economic and geopolitical uncertainties.*

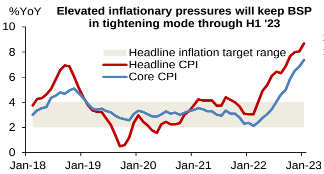
S$bn	Actual		Budget	Mizuho Est.	
	FY 2020	FY 2021	FY 2022	FY 2022	FY 2023
Operating Revenues	67.4	80.4	81.8	87.864	93.1
% of GDP	13%	17%	15%	15%	15%
Income (I/C) Tax*	33.0	35.9	36.0	41	42.6
Asset Taxes^	3.1	4.6	4.6	4.6	4.8
Tax on MV	2.1	2.4	2.5	2.7	2.8
Customs & Excise	3.6	3.6	3.7	3.7	3.8
Betting Taxes	1.7	2.3	2.7	3.1	3.2
Stamp Duties	3.9	6.5	5.2	5.5	5.8
GST	10.3	12.0	12.8	13.1	15.4
COE	2.3	3.2	3.9	4.0	4.0
Others**	7.3	9.8	10.2	10.2	10.6
Total Expenditure	86.4	98.4	102.4	102.8	106.1
% of GDP	17%	21%	19%	18%	18%
Operating Expenses	72.9	81.5	85.1	85.3	87.8
Development Expenses	13.4	16.9	17.3	17.5	18.2
Primary Balance	-19.0	-18.0	-20.7	-14.9	-13.0
% of GDP	-3.7%	-3.8%	-3.9%	-2.6%	-2.2%
Less Special Transfers	50.8	7.9	6.2	7.1	7.5
Add: NIRC***	18.2	20.3	21.6	21.6	22
Overall Balance	-51.6	-5.6	-5.3	-0.4	2.0
% of GDP	-10.1%	-1.2%	-1.0%	-0.1%	0.3%
Add: Capitalisation of Significant Infrastructure		0.66	2.4	2.4	2.4
Overall Fiscal Position	-51.6	-4.9	-2.9	2.0	4.4
% of GDP	-10.1%	-1.0%	-0.5%	0.3%	0.7%

*includes Corporate Tax, Personal Income Tax, Witholding Tax and Statutory Board Contribution
^ Predominantly Property Tax
** includes Other Tax, Fee & Charges and Other Receipts
*** Net Investment Returns Contribution

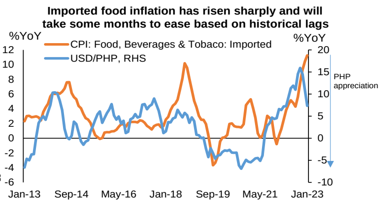
Bank Indonesia: Switching Gears

- **BI staying on hold at its 16 February meeting is justified by a compendium of factors starting with weakening growth and easing price pressures.**
- **Q4 GDP growth slowed to 5.0% YoY from 5.7% in Q3** led by easing domestic demand, a clear signal that the growth slowdown engineered by the cumulative 225bp hike in the policy rate from August '22 until January '23 is starting to show impact.
- Importantly, **inflationary pressures have started to abate as underscored by headline and core inflation easing in January.**
- While on the external front, **IDR has gained versus USD affording BI some room to manoeuvre**.
- That said, **BI is not out of the woods.** Inflation expectations remain sticky and could be exacerbated ahead of the Ramdan/Eid festivities in March/April, when food price increases risk translating onto broader price increases.
- **'Twin deficit' concerns persist on the fiscal deficit and current account deficit front.** With commodity prices easing from 2022 levels, wider deficits threaten unwinding recent IDR gains.
- As such, **BI has the room to remain on a prolonged pause but maybe backed into a corner of further rate hikes if inflation persistence or IDR stability are off concern.**

Bangko Sentral ng Pilipinas: 50bp Hike On The Cards



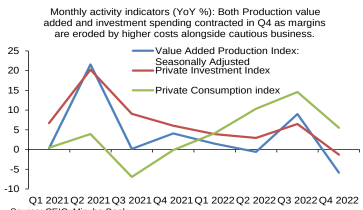
Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- **The jump in headline CPI to 8.7% YoY in Jan** (Dec: 8.1%) **suggests the Philippines is dealing with far stickier inflation than its regional peers**, where inflationary pressures are showing signs of abating.
- **This sets the stage for BSP to hike rates again by 50bp**, similar to its 15 December meeting. **This will emphasize BSP's focus on breaking the inflationary spiral that risks worsening.**
- **Rising food prices** worsened by PHP depreciation, **slower pass through from lower global oil prices onto retail fuel prices, tight labour market conditions** and **higher water bills have exacerbated the stickiness of inflation.**
- In turn, **an easing of domestic demand has had only a modest impact in lowering core inflation.** Core inflation rose to 7.4% in January from 6.9% in December.
- Admittedly, **monetary policy works with a lag of 6-9 months, implying that rubber is hitting the road on the cumulative 350bp in rate hikes only in Q1 2023.**
- Even so, **BSP is not afforded the luxury of taking a step back on rate hikes given elevated and more worryingly rising, price pressures** (*Mizuho Chart Speak: 6 Jan 2023: Philippines: Inflation Introspection*)

Thailand Q4 GDP: Asymmetric Growth



Source: CEIC; Mizuho Bank

Thailand Tourism Recovery (As of Dec 22)

	% of Dec 2019
Occupancy	92%
International Tourist Arrivals	57%
Room Rates	74%

- Despite strong tourist arrivals in Q4 2022, **GDP growth in Q4 is set to slow down from Q3's 4.5%.**
- The implication here is that **manufacturing value added look likely to have contracted in Q4** on a year ago basis as production levels adjust to prevent excess inventory build-up in the face of dwindling demand. Inevitably given the rising producer costs, **monthly indicators showed a sharp erosion of value added** in Q4.
- As such, attendant **reduction in investment spending is also on the cards** considering the higher borrowing costs which imposes a higher hurdle rate of return on investments.
- While monthly indicator for **private consumption** point to steady growth, its **consequent support may be milder for overall GDP** considering **the erosion from higher prices** and tendency for **stronger import demand** amid the tourism recovery.
- The bottom line being that the **key growth driver will be the services sector as growth turns asymmetric.** If manufacturing and trade activity worsens, the ability of the services sector to shoulder a greater burden will increasingly be questioned.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	131.36	0.170	0.13%	128.80	~	133.80
EUR/USD	1.0678	-0.0117	-1.08%	1.050	~	1.090
USD/SGD	1.3303	0.007	0.51%	1.3150	~	1.3400
USD/THB	33.787	0.832	2.52%	33.00	~	34.00
USD/MYR	4.3342	0.075	1.77%	4.200	~	4.370
USD/IDR	15134	241	1.62%	14,950	~	15,300
JPY/SGD	1.0117	0.003	0.28%	0.983	~	1.040
AUD/USD	0.6917	-0.001	-0.09%	0.680	~	0.710
USD/INR	82.50	0.663	0.80%	80.8	~	83.0
USD/PHP	54.425	0.750	1.40%	53.8	~	54.8

^Weekly change.

FX Outlook: Fed & BoJ Spicing Things Up

- The **Greenback and the JPY will spice things up this Valentine's Day**.
- Between the allure of a *JPY that seduces with the prospects of a new Governor who might have a hawkish streak* and a *smouldering USD that is exploiting the bad boy charm of a "higher for longer" Fed* that will could be triggered by less relenting details of sequential inflation.
- One way or another, it **may not be the best week for "risk assets"** and **higher beta currencies**.
- To be sure, it is *not inconceivable that a strong JPY and USD demand could be in bed together*.
- The narrative does in fact fit with **the broader backdrop of risk aversion** amid worries about policy (not heading into reverse gear, thereby upping the odds of a hard landing) and stiffening geo-political risks as US-China belligerence gets more heads on.
- EM Asia currencies are as such more likely than not to be on the back foot more than not.
- In particular, **BSP's communique and rate action** (50bp hike being presumed) **will determine the exposure of the PHP's risks** while **IDR may benefit more from a open, data-dependent Bank Indonesia** rather than closing off all avenues for further rate hikes.
- On the aside, two-way JPY volatility may remain on the table as the odds of hawkish turn from a new governor may continue to be tempered as soon as it is riled up.
- For the week, it appears that **EM Asia currencies are likely to be compromised**;
- as US CPI, US-China geo-political rough waters and caution on the whole are likely to trigger fears of a capitulation of capital out of EM Asia on geo-political uncertainty and prospects of higher US rates.

Bond Yield (%)

10-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.517	22.8	3.732	20.7	Flattening
GER	2.744	21.5	2.360	17.5	Flattening
JPY	-0.051	-1.1	0.490	1.5	Steepening
SGD	3.046	12.6	3.088	20.1	Steepening
AUD	3.390	40.8	3.703	0.1	Flattening
GBP	3.549	40.3	3.393	34.4	Flattening

Stock Market

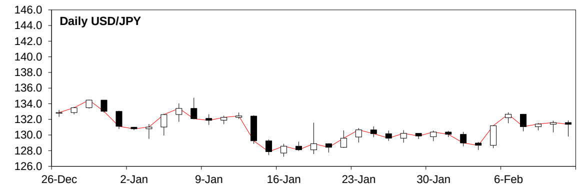
	Close	% Chg
S&P 500 (US)	4,090.46	-1.11
Nikkei (JP)	27,670.98	0.59
EuroStoxx (EU)	4,197.94	-1.41
FTSE STI (SG)	3,360.69	-0.70
JKSE (ID)	6,880.33	-0.45
PSEI (PH)	6,876.79	-2.14
KLCI (MY)	1,474.59	-1.07
SET (TH)	1,664.57	-1.41
SENSEX (IN)	60,682.70	-0.26
ASX (AU)	7,433.66	-1.65

US Treasuries: Floating Up

- Chorus of Fed speakers managed to nudge and re-align market expectations as UST yield curve bear flattened with 2Y and 10Y rising 22.8bp and 20.7bp.
- Specifically, **markets have readjusted peak rates to align to the Dot plot (5.00%-5.25%** and also **reduce their expectations to one 25bps rate cut in H2 2023**.
- Prior to the US CPI this week, last Friday's Uni of Michigan survey showed improved sentiments alongside higher 1Y ahead annual inflation expectations.
- While surveyed longer term inflation expectations (5-10Y) remain anchored, we continue to remind on the near term trade-off that uplift in economic outlook will in part flow through towards highe near inflation expectations.
- Afterall, **higher vantage points and better views often come together.**
- This week, US CPI print will inevitably dominate the narrative.
- **A hotter than expected decline in headline inflation print will raise the temperature to send yields floating up again.**
- Even a sticky print may allow elevated yields.
- All in, we expect 2Y yields to remain buoyant above 4.4% while 10Y yields consolidate in the range of 3.60-3.90% with upside bias.

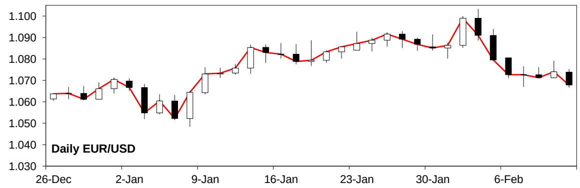
USD/JPY: Nominated, Not Dominated

- The marginal 0.1% appreciation JPY for last week masked JPY volatility amid revelation of a 'surprise' **nominee for BoJ next governor** - Kazuo Ueda.
- Amid an "outsider" background albeit with 7 years BoJ board member experience, his academic credentials had been **initially interpreted by markets with a hawkish tilt** relative to Amamiya who is the BoJ's deputy governor signifying continuity.
- On the other hand, some **have interpreted his stint as dovish BoJ board member in support of expansionary monetary policy**. On balance, it is worth nothing that given the deflationary situation during those years, his support should not be surprising.
- This week, nomination incites volatility though not allow JPY domination as US CPI remains the key 14 Feb focus espcially after Ueda's short media remarks that "**For now, I think it is necessary to continue easing measures**". USD/JPY to remain buoyed above 130.



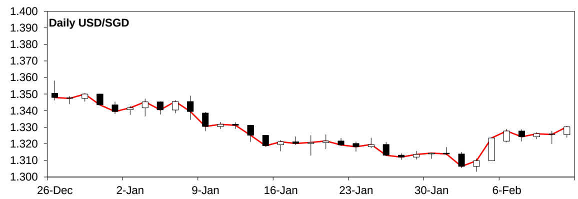
EUR: Weakened Despite Hawks

- Despite hawkish ECB interjections through on the need for further rate hikes, EUR was dampened by clear risk aversion.
- Market re-pricing of Fed rate hikes with the peak rate of above 5% bode ill for risk assets and proved to be a drag on EUR, which underperformed regional peers.
- Although US-China tensions showed limited spill-overs onto Europe, Russia's decision to cut oil supply from March upset a delicate energy balance for EUR.
- This week EUR's resilience will continue to be put to the test; much depends on US CPI inflation allowing for a wider range of trading.
- We expect trading to range between 1.055-1.08 levels.



SGD: Shake Down

- From testing 1.30 from less than two weeks ago, USD/SGD is being buoyed above 1.33.
- A stronger USD has had a lot to do with these moves.
- But equally, so has the pullback in the CNH amid rising US-China tensions.
- What's more, signs of exports/manufacturing downturn also dampen SGD.
- As does the MAS reiterating that policy remains "appropriate" for the time being.
- And so, the potential for SGD upside from policy is stifled.
- For now, on a tough week for risk assets, USD/SGD could be in the mid-1.32 to 1.34 range.
- The shake down in risk will not spare SGD; even if it is seen as a quasi safe haven.



AUD: Flag

- **Softer commodities** from projected downturn risks associated with a "*higher for longer*" **Fed** are **likely to see the AUD more subdued** this week.
- Especially if the RBA boost from plural further "rate hikes" starts to wane on the calculus of the RBA blinking given mortgage risks.
- Although two-way volatility remains a huge AUD risk;
- especially as for now, the RBA getting more concerned about wage inflation getting more heated than it had earlier asssessed.
- The **inherent tension between RBA inclinations and blinking risks** amid global downturn tremors reverberating via commodities may see AUD in the sub-0.68 to mid-0.70 range.