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MIZUHO

WEEK AHEAD

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Building the future with you

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09-Jan-2023

Economic Calendar

•Survey results from Bloomberg, as of 6 Jan 2023; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
09 Jan	EZ	Unemployment Rate	Nov	6.5%	6.5%
	EZ	Sentix Investor Confidence	Jan	-18	-21.0
10 Jan	**US**	**NFIB Small Business Optimism**	**Dec**	**91.5**	**91.9**
	US	Wholesale Inventories MoM	Nov F	--	1.0%
	JP	Tokyo CPI YoY/Ex Fresh Food Yoy	Dec	4.0%/3.8%	3.7%/3.6%
11 Jan	JP	Coincident Index/Leading CI	Nov P	--	99.6/98.6
12 Jan	US	Initial Jobless Claims	7-Jan	215k	204k
	US	**CPI YoY/ Ex-Food & Energy YoY**	**Dec**	**6.7%/5.7%**	**7.1%/6.0%**
	US	**CPI MoM/ Ex-Food & Energy MoM**	**Dec**	**0.0%/0.3%**	**0.1%/0.2%**
	JP	BoP Current Account Balance	Nov	¥476.1b	-¥64.1b
13 Jan	**US**	**U. of Mich. Sentiment/1 Yr Inflation**	**Jan P**	**60.5/4.4%**	**59.7/4.4%**
	EZ	Industrial Production WDA YoY/SA MoM	Nov	0.5%/0.5%	3.4%/-2.0%

Asia

*Actual data release instead of survey

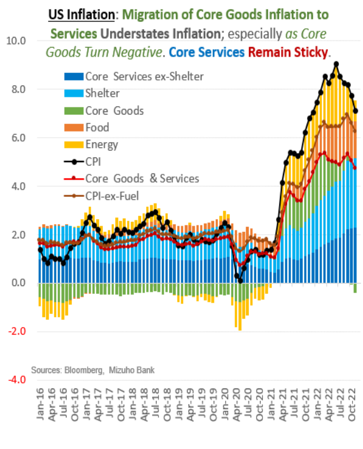
Date	Country	Event	Period	Survey*	Prior
09-15 Jan	CH	New Yuan Loans CNY	Dec	1200.0b	1210.0b
09-16 Jan	**CH**	**CPI YoY/PPI YoY**	**Dec**	**1.8%/-0.1%**	**1.6%/-1.3%**
09 Jan	AU	Building Approvals MoM	Nov	0.0%	-6.0%
10 Jan	KR	BoP Current Account Balance	Nov	--	$883.4m
	PH	Trade Balance	Nov	-$4328m	-$3310m
11 Jan	**AU**	**CPI YoY**	**Nov**	**7.3%**	**6.9%**
	KR	Unemployment rate SA	Dec	--	2.9%
	MY	Industrial Production YoY	Nov	3.0%	4.6%
12 Jan	AU	Trade Balance	Nov	A$11300m	A$12217m
	IN	**CPI YoY**	**Dec**	**5.8%**	**5.9%**
	IN	Industrial Production YoY	Nov	3.3%	-4.0%
13 Jan	CH	Exports YoY/Imports YoY	Dec	-12.0%/-9.8%	-8.9%/-10.6%
	KR	**BoK 7-Day Repo Rate**	**Jan-13**	**3.50%**	**3.25%**

Week-in-brief: Unwarranted

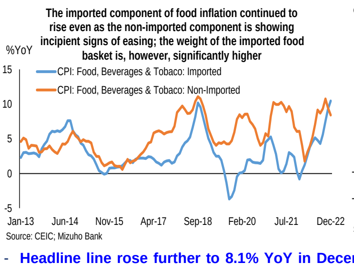
- Last week, Fed minutes had warned **of unwarranted easing of financial conditions driven by misperception of rate cuts complicating policy.** We had alluded to the glaring 100bp gap for end-2023 policy rates between the Dot Plot/Fed speakers and market pricing.
- Markets (US equities and Treasuries) **attempted an end of week recovery**, hanging on to the non-farm payrolls. Specifically, given that better than expected job gains on non-farm payrolls pointed to a resilient labor market, **hopes were pinned on a slower momentum of average hourly earnings growth**.
- Did the wage data warrant a risk sentiment recovery? Undoubtedly, focus will be on the US inflation print this week for backing up these sentiments as well as Friday's inflation expectations survey from the Uni of Michigan. Wobbly risk sentiments are par for the course. Even if a softer inflation print presents itself to skew odds in favour for 25bps Fed hikes, **the situation for rate cuts is still a very long way off**.
- Aside from the US, China's December CPI is already expected to tick up this week. Amid China current reopening impart **demand impulse** and **imposing supply side snarls** (from increases in Covid cases), global inflationary pressures look far from abating. That was the case in Philippines and Thailand last week, as inflationary pressures were unrelenting and this week's India inflation print also expected to remain sticky.
- Against this backdrop, it **warrants that the BoK proceeds with another 25bp hike** despite growing increasingly wary of financial stability risks alongside a rising need for another window of assessment.

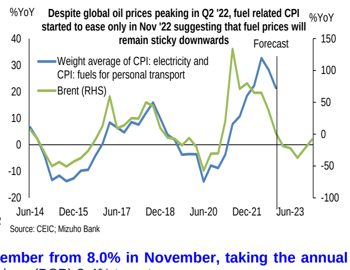
US CPI: Peak, Not Panacea

- There is **little debate** that **US inflation trajectory has quite convincingly peaked**.
- ***But*** that **does not equate to a panacea** for **underlying inflation risks** that **continue to harras the Fed as tke key economic risk**;
- and hence, effectively **dictate policy posturing**.
- For one, **headline dis-inflation is exaggerated by the sharp drop-off in energy**, and *in particular pump, prices*. Whereas the **decline in** non-energy and **core inflation** are **more recent and crucially, far more measured**.
- What's more, the **drop off in core inflation** is mainly driven by **core goods disinflation-turned-deflation**; and expected transition as COVID re-opening pans out.
- Whereas **core services remain far stickier**. , suggesting "second-round" risks.
- Finally, even as the Fed expects the **rental component of core services to dissipate** by mid-2023, the "core-core" **of core-services ex-rentals is expected to be elevated amid an exceptionally tight labour market**.
- This reflects **wage-price spiral risks**, **threatening to feedback** as *persistently high and volatile inflation amid unmoored expectations.*
- The upshot is that **despite peak inflation**, the **light at the end of the inflation tunnel is not yet around the corner**. *Peak is not panacea.*



Philippines CPI: Inflation Introspection





- **Headline line rose further to 8.1% YoY in December from 8.0% in November, taking the annual average to 5.8%**, well above Bangko Sentral ng Pilipinas (BSP) 2-4% target range.
- A **closer look at the drivers of inflation suggests that price pressures are still broad-based** and **unlike regional peers, headline inflation has shown limited signs of peaking:**
- **Food inflation: has been inflicted by importation costs woes**. PHP lost ~8.5% of its value to USD in 2022 raising the costs of imports significantly. Looking into 2023, PHP depreciation pressures are likely to be sustained given the economy's 'twin deficit' position.
- **Fuel inflation: Unlike previously, the moderation in global Brent prices is taking more time to pass-through onto domestic retail fuel prices.** We suspect this is because of *steady increases in petroleum excise duties since 2018-2020 slowing the pass-through of lower global oil prices.*
- **Core inflation:** will be lifted by **robust domestic demand** while **sharply higher inflation expectations**. This **coupled with strong labour market dynamics,** reflected in strong minimum wage increases and sharply declining unemployment, **will keep core inflation elevated in H1 2023.**
- Importantly, **the transmission from the policy rate hikes onto lending rates has been weak.** Lending rates have barely moved 14bp compared with a 350bp hike in policy rates. By contrast, deposit rates have risen in tandem with policy rate increases.
- **All these point to still aggressive rate hikes by BSP in Q1 2023; we expect another 75bp in hikes taking the policy rate to 6.25%.** Beyond Q1, we expect headline inflation will start to ease taking the pressure off BSP. Even so, the balance of risks is titled towards more, rather than less, hikes from BSP.

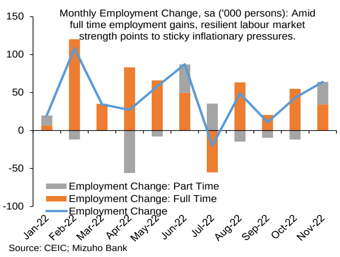
China Outlook: Landing, Not Launching

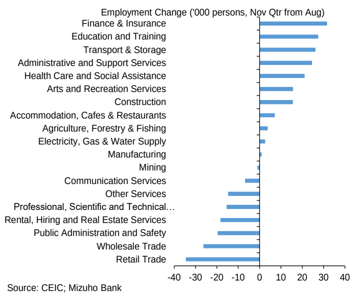
- Admittedly, the **top-down pivot to economic revival** appears to be **pulling all stops**.
- From hand-brake *U-turn on property sector clamp-down*, entailing an unleashing of liquidity life-lines; to *revival of tech/platform* animal spirits and; *emphatic dismantling of Zero-COVID* policies.
- *Nonetheless,* an **overhang of confidence deficit** impairing growth multipliers, gathering global headwinds and unwelcome geo-political hurdles mean that for all its efforts, China is **merely positioning for a soft-ish landing**, **not priming for a solid launch** (growth lift-off).
- Allusion to *"quality"* and *"quantity"* at the CEWC* suggests **"official" growth target of 5% for 2023** (after a dismal 2022 barely clearing 3%.)
- But the **risk is tilted to a mild miss** *as kitchen sink stimulus run into structural impediments.*
- *Perversely,* **hastier re-opening** than imagined may actually trigger a **greater degree of activity disruption** in the early days (at least into Q1 2023); *amid outbreaks amongst China's "COVID naïve" population* into winter and Lunar New Year travel.
- But to be sure, **industrial headwinds pre-date re-opening outbreak**. Whereas, what it suggests is that **slack from the property sector spilling over** more widely to drag already industrial growth.
- Exacerbation of pre-existing credit strains pose further headwinds while *"infrastructure" stimulus fall short of* compensating for property sector travails or reviving "animal spirits".
- Policy desire to revive growth is fraught with inherent conflicts, binding constraints and contradiction of intent; undermining confidence, policy efficacy and ; growth outcomes/realized policy boost.
- First, the **conflict** between "*housing for living*" dampener and **frantic efforts to backstop** the sector suggest that **liquidity life-lines will buy time, but fall short of fully restoring confidence/sales**;
- depriving self-sustaining "organic" cash-flows.
- As such the need for financing in the meantime begs the *question of who underwrites the risks* given the **constraint of excessive leverage**, and **attendant financial stability risks**.
- Finally, the *inability to square "Common Prosperity" with reversion to being business friendly* for platform/tech firms reveals risks of investment hesitation amid uncertainty.
- The upshot is that *stimulus this time may be structurally muted.*

Bank of Korea: Inflation Fight

- The BoK will be expected to **increase policy rates by another 25bps** at their upcoming Friday (13th Jan) meeting which takes their **base rate to 3.5%**. Rates higher than 3.5% was last seen in 2008.
- December's headline inflation was stuck at 5.0% similar to November's print while core inflation softened to 4.1% from 4.3%. The inflationary picture remains broad based.
- Looking ahead, **the increase in electricity tariffs** (starting 1 Jan) by 9.5% from end-2022 will add to cost pressures for business and worsen households' utilities burden.
- While the tax reduction on fuels has been extended till end-April, the **amount of tax reduction on gasoline has been adjusted downwards** from 37% to 25%.
- These **administrative increases will also indirectly add to second round pass through effects**.
- Critically, this pass through looks to be **enabled by healthy wage growth** ranging 3-5% over Aug-Oct 2022 alongside sector specific (such as shipping and oil) bonus buoyancy.
- Unrelenting industrial action (strikes) also tells of wage expectations being driven higher by inflation expectations.
- Beyond their meeting this week, we expect the BoK to grow increasingly cautious of slipping housing prices. Barring sharp core inflation spikes, the likelihood of a pause on hikes next month is rising as the BoK may begin to opt for a short period of observation to assess the balance of risks.

Australia CPI: Uncomfortable Elevation





- For Australia's monthly inflation print which remains an imperfect proxy to the critical quarterly measure, expectations are for both headline and trimmed mean to remain uncomfortably elevated.
- Labour market gains point to substantial underlying support in terms of wage growth and purchasing power. Specifically, **full time employment continues to increase** and even an **uptick in participation rates did not manage to lead to an increase in unemployment rates.**
- A closer look reveals a largely services led employment gains driven by sectors such as finance and education. The latter assisted by resumption of foreign student inflows.
- On the other hand, wholesale and retail trade shedded workers with inflationary pressures eroding discretionary **real** goods purchase.
- The upshot is that the RBA cannot take their foot of their 25bp pedal yet, even as housing prices slip.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	132.08	0.960	0.73%	130.00	~	135.00
EUR/USD	1.0644	-0.0061	-0.57%	1.040	~	1.075
USD/SGD	1.3395	0.000	0.00%	1.3300	~	1.3600
USD/THB	34.045	-0.560	-1.62%	33.50	~	34.80
USD/MYR	4.4032	-0.001	-0.02%	4.320	~	4.410
USD/IDR	15633	65	0.42%	15,300	~	15,650
JPY/SGD	1.0138	-0.008	-0.83%	0.985	~	1.046
AUD/USD	0.6877	0.006	0.94%	0.665	~	0.700
USD/INR	82.73	-0.009	-0.01%	82.0	~	83.0
USD/PHP	55.637	-0.092	-0.17%	55.0	~	56.0

^Weekly change.

FX Outlook: Shaken Not Stirred

- The strong USD reaction to Friday's payroll begs the question off whether markets have been permanently shaken into a state of believing that the Fed will back down on the intensity of rate hikes;
- or just stirred, with the dust soon to settle and nothing fundamentally changed on the Fed's course.
- Although 007 intended it for his martini, "shaken not stirred" may well be the defining state of FX markets this week.
- The biggest release for the week is the US CPI, to be released on Thursday. Market expectations are for a clear slowdown in Dec CPI versus Nov in terms of both headline and core inflation.
- While easing headline inflation may not be in doubt given lower fuel and food prices, the stickiness of core inflation will be more closely watched as a key input to determine the intensity and duration of the Fed's hiking cycle. Ironically marginally slower inflation will intensify the challenge for the Fed.
- The Fed's frustrations around the gap between its 'dot plot' and market pricing of rate moves may intensify as the latter prices down rate hikes (and earlier possible earlier rate cuts) to a greater extent than the Fed intents exacerbating the communication challenge for the Fed.
- Notwithstanding, the USD is likely to have a mixed week. The hangover from last weeks' payroll data implies USD weakness will punctuate the first half of the week with the second half being dependent on the US CPI release.
- Notwithstanding, EUR may be set to hold onto gains this week as the expected energy crisis did not materialise with signs of headline inflation peaking.
- AUD's goldilocks situation of positive momentum from China's re-opening, rising commodity prices and USD weakness may set it up for a strong rally through to the US CPI release.
- By contrast, JPY will remain on unsteady footing despite some claw back in losses on Friday as BoJ's stance is unlikely to change dramatically.
- For EM Asia, tailwinds from China's reopening (without the presence of a more dangerous COVID strain) will give THB, PHP, SGD and KRW a leg up versus USD.
- Meanwhile, PHP and IDR gains maybe stopped by persistent inflation and signs of a less hawkish central bank, respectively.

USD/JPY: Unable To Capitalise?

- It is telling that despite the lower UST yields and low oil prices, the **JPY could not capitalise** as the pair stayed above 130. In part, this was due to the **BoJ standing up to challenges** to their YCC with unscheduled bond buying toning down sentiments of a BoJ policy pivot as well as reports of BoJ officials seeing little need for further tweaks to YCC.
- That said, these YCC challenges are unlikely to abate given rising inflationary pressures and the looming change in Governor from April.
- This week, the USD/JPY may consolidate in the 130-134 range with **downside bias by allowing some of last week's tailwinds to be realised.**

EUR: On the Up (For Now)

- The energy crisis expected in December in Europe did not materialise as the winter was warmer than expected.
- Global warming concerns aside, this sets up for additional gad reserves to start 2023 quelling near-term energy market concerns and giving EUR a boost.
- More fundamentally, as markets price in a potential claw back in US Fed rate hikes at its February meeting, the path for ECB to follow through on a 50bp is clearer leaving room for a ECB-Fed divergence trade to play out in the near-term.
- The ECB's hawkish path will be justified by the uptick in December core inflation to 5.2% YoY from 5.0% in November despite lower headline inflation of 9.2% from 10.1%.
- This will also support ECB's plans to run-off EUR15bn/month off its balance sheet from March to June after the expiration of longer-term loans removes EUR670bn from the financial system in H1.
- As such, EUR/USD could see a high of mid-0.7 with the low capped at 0.6.

SGD: Consolidating Strength

- The SGD consolidated their position of strength around 1.34 on the back of wider EM-Asia/CNY strengthening from lower UST yields.
- This position will be tested this week with the US inflation data.
- Global recession worries may also begin to spillover to assist long USD positions.
- Increasingly, room for the USD/SGD look to be limited. We expect the pair to stay in the mid-1.33 to high-1.36 range.

AUD: Labourious Climb

- Last week, the **AUD rode the wave of CNH strength to test 0.69**. The importance of the Chinese market is certainly not to be underestimated.
- Nonetheless, the wave of Covid cases and on-going reopening snarls means that the tendency to over-rate the demand impulse at this juncture will mean that breaking out of 0.70 is labourious one.
- US inflation print barring sharp declines will also stand in the way of the AUD's rise.
- This week's Australia inflation print will not be a game changer for the RBA when measured against their labour market resilience and falling housing prices.
- The AUD is projected to trade in the 0.67-0.705 range this week.

Bond Yield (%)

6-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.247	-17.9	3.558	-31.7	Flattening
GER	2.564	-14.8	2.204	-35.4	Flattening
JPY	0.013	-1.1	0.493	8.9	Steepening
SGD	2.990	-1.8	2.915	-14.4	Flattening
AUD	3.398	1.8	3.815	0.1	Flattening
GBP	3.349	-14.4	3.466	-19.1	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	3,895.08	1.45
Nikkei (JP)	25,973.85	-0.46
EuroStoxx (EU)	4,017.83	5.91
FTSE STI (SG)	3,276.72	0.78
JKSE (ID)	6,684.56	-2.42
PSEI (PH)	6,667.97	1.55
KLCI (MY)	1,480.55	-1.00
SET (TH)	1,673.86	0.31
SENSEX (IN)	59,900.37	-1.55
ASX (AU)	7,109.59	1.01

US Treasuries: Stretched Hopes

- **Softer wage growth data** for December and a downward revision of November's print led to a rally of USTs.
- The obvious **implication which markets hope for is that slowing wage growth momentum translates to a softer CPI print and lower peak rates**.
- Yet again, their extension towards rate cuts is really very much still a stretch.
- That said, it is far from a stretch to remind that USTs are in demand from a recession worry perspective.
- In fact, the **Fed's recession indicator, near term forward spread (18M-3M), deepened their inversion to nearly 70bp** to **catch up with the entrenched inversion of the 10Y-2Y spread.**
- With **much hopes already hanging on this week's inflation print, it looks tough for 2Y yields to land below 4.1%.** On the contrary, room for upside surprise is certainly available for yields to head above 4.4% as services inflation may remind markets of their sticky nature.
- Longer end 10Y UST yields may continue to see haven demand and trade in the 3.4%-3.65% range