MIZUHO

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WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 27 Jan 2023; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
30 Jan	**US**	**Dallas Fed Manf. Activity**	**Jan**	**-15.0**	**-18.8**
31 Jan	**US**	**Conf. Board Consumer Confidence**	**Jan**	**109.3**	**108.3**
	US	**MNI Chicago PMI**	Jan	46.7	45.1
	EZ	**GDP SA YoY**	**4Q A**	**1.7%**	**2.3%**
	JP	Job-To-Applicant Ratio/Jobless Rate	Dec	1.36/2.5%	1.35/2.5%
	JP	Retail Sales YoY	Dec	3.2%	2.5%
	JP	Industrial Production YoY	Dec P	-3.9%	-0.9%
01 Feb	US	JOLTS Job Openings	Dec	10293k	10458k
	US	**ISM Manufacturing/Prices Paid**	**Jan**	**48.5**	**48.4/39.4**
	EZ	**CPI/Core YoY**	**Jan**	**9.0%/5.1%**	**9.2%/5.2%**
	EZ	Unemployment Rate	Dec	6.5%	6.5%
	US	**FOMC Rate (Lower-Upper Bound)**		**4.50%-4.75%**	**4.25%-4.50%**
02 Feb	US	Durable Goods Orders/Non-def Ex Air	Dec F	5.6%/--	5.6%/-0.2%
	EZ	**ECB Main Refinancing Rate**		**3.00%**	**2.50%**
	UK	**BoE Rate**		**4.00%**	**3.50%**
03 Feb	**US**	**Change in Nonfarm Payrolls**	**Jan**	**185k**	**223k**
	US	**ISM Services Index**	**Jan**	**50.5**	**49.6**
	US	**Unemployment Rate**	**Jan**	**3.6%**	**3.5%**
	EZ	**PPI YoY**	**Dec**	**22.4%**	**27.1%**

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
29 Jan	**VN**	**Trade Balance**	**Jan**	**$3600m**	**$500m**
	VN	**CPI YoY**	**Jan**	**4.9%**	**4.6%**
	VN	**Industrial Production YoY**	**Jan**	**-8.0%**	**0.2%**
31 Jan	**CH**	**Mfg/Non-Mfg PMI**	**Jan**	**50.0/52.0**	**47.0/41.6**
	CH	Industrial Profits YoY	Dec	--	0.8%
	SG	Unemployment rate SA	Dec	--	2.1%
	AU	Retail Sales MoM	Dec	-0.2%	1.4%
	KR	Industrial Production YoY	Dec	-6.1%	-3.7%
	TH	**BoP Current Account Balance**	**Dec**	**$500m**	**-$445m**
01 Feb	CH	Caixin Mfg PMI	Jan	49.5	49.0
	ID	**CPI/Core YoY**	**Jan**	**5.4%/3.3%**	**5.5%/3.4%**
	IN	**Budget 2023-24**			
	KR	Trade Balance	Jan	--	-$4692m
02 Feb	SG	Purchasing Managers/ Electronics Index	Jan	--	49.7/48.9
	AU	Building Approvals MoM	Dec	--	-9.0%
	KR	**CPI/Core YoY**	**Jan**	**5.1%/--**	**5.0%/4.8%**
	KR	Retail Sales YoY	Dec	--	8.4%
03 Feb	**CH**	**Caixin Services PMI**	**Jan**	**51.1**	**48.0**
	SG	**Retail Sales/Ex Auto YoY**	**Dec**	**--**	**6.2%/8.7%**

Week-in-brief: Clash of the Central Banks?

- It is admittedly an **oversimplification, but not an exaggeration**, to suggest that markets will be obsessing over the "**clash of the central banks**" this week.
- **Point being**, the symbolism of **a Fed dialing back to a 25bp** hike **while ECB maintains a 50bp hike** is just **too much for the markets to resist**. Especially if the BoE delivers a 50bp too.
- Arguably, the *imagery of the hare being overtaken by the tortoise* **in the Year of the Rabbit** may be deemed **an excuse to double down on 'Fed pivot' bets**; specifically, from **a policy convergence** angle. In turn, **catalyzing an extension of short USD bets** against EUR and GBP.
- And **so long as the ECB does not strike a dour note** on the economic outlook, and instead alludes to relief from sharply lower gas prices**, "risk on" reflex may accompany the Fed pivot-ECB leapfrog trades**. In which case, higher beta and commodity currencies may out-perform.
- *But before champagne bottles are popped the optimists and escapists alike* revelling in the Fed's slower pace of hikes, *warnings about a Fed that may not quite roll over to play a docile dove* is due.
- Not that the Fed is intending to be a damp squib, but Dec FOMC Minutes begrudging "unwarranted" loosening in financial conditions suggests that unabated "risk on" extending into early-2023 is not without policy consequence. At the very least Fed rhetoric will lean against excessive exuberance.
- And **if such hawkish Fed push-back comes across more emphatically** than markets had anticipated this week, *resultant capitulation in "risk on" trades* and *attendant squeeze in the Greenback post-FOMC* are certainly set up to be *threats that are under-accounted for.*
- That's to say, **a hawkish Fed jolt mid-week** is certainly **a growing risk** for stretched Fed pivot and "risk on" bets. But the Fed does not call all the shot on its owns. Instead, **perceived "clash of the central banks"**, with ECB hawks lining up just after the FOMC warn of volatility, if not whiplash.
- The **ECB's** (and BoE's) **more aggressive 50bp hike** and **details of its QT** (reduction of balance sheet holding of bonds acquired under its APP program) may fire up USD bears (EUR bulls). And a "Goldilocks" policy tone highlighting upbeat economic outlook may inspire broader-based "risk on".
- Attention turns from G4 central banks to (India's) Budget (on Wed) in EM Asia. We expect a "safe" hand consisting of measured, but optically significant reduction in deficit (from 6.4%) to sub-6%.
- Tax revenue constraints amid economic headwinds will require expenditure stream-lining and non-tax revenue supplements. Growing credit and "crowing out" risks demand the trade-off; even as a slowing pace of Fed rate hikes alleviate incremental macro-stability risks.
- Hopeful, but not quite light at the end of the tunnel. **As Titans clash** (Fed-ECB convergence), there may be **more heat (and noise) than light**; at least initially. *Watch volatility!*

FOMC: Pacing, Not (Yet) Pausing

- For the **upcoming FOMC on 1st Feb**, the **Fed looks poised to step down the amplitude of rate hike to 25bp** (from 50bp in Dec) amid slowing inflation; to lift the Fed Funds rate to 4.50-4.75%.
- Admittedly, **this will make for a second dial-back in a row** (given the reduction in rate hike amplitude from 75bp in Nov to 50bp in Dec). But this **moderation in the size of of rate hikes should not be mistaken for a linear deceleration leading to an imminent pause by March**.
- Point being, the **Fed is merely pacing, not urgently pausing**, its **on-going tightening cycle**;
- Especially as inflation remains sticky despite softening and the jobs market remains tight.
- As Fed Chair Powell elucidated, **moderation to "more normal" 25bp-sized calibrations is to be expected after dramatically outsized, front-loaded hikes in 2022** (425bp over; four rounds of 75bp hikes in Jun, Juy, Sep, and Nov; two 50bp hikes in May and Dec; a 25bp starter hike in Mar).
- That's to say, the **pace of rate hikes is less relevant as a gauge of how restrictive policy will be**. Instead, what's **more important to assess policy are**;
  i) the *yet-to-be-determined peak rate* that the Fed arrives a
  ii) and (*persistence*) how long the Fed maintain elevated rates.
- In other words, **how high rates go**; and **for how long**.
- On the former (how high),if recent remarks are anything to go by, **many Fed members estimate that the Fed Fund rate will have to be lifted above 5%** to be sufficiently restrictive.
- So **a baseline of a cumulative 75-100bp of hikes**, *most likely delivered in 25bp instalments, over a majority of FOMC meetings through H1 2023,* is **a reasonable expectation.**
- **But markets are betting on fewer hikes**, presumably assuming that the Fed gets cold feet sooner.
- And on the question of "how long", the **Fed suggests holding rates above 5% at least through end-2023**. Whereas **markets predict cuts in H2,** *with sizable reversal of 2023 hikes by early- 2024.*
- Arguably, this reveals the greatest **policy expectations dissonance between plateau and pivot**.
- This **gap in policy expectations** appears to stem from an under-estimation of inflation risks (stickiness as well as expectations pass-through) and/or a miscalculation of the Fed's appetite to stomach an economic slowdown imposed by tightening to tame inflation.
- To be sure, it is premature to conclude who is right. Meanwhile, the policy expectations gap imposes potential volatility in yields and FX. At this week's FOMC, **a widely expected 25bp rate hike will not cause too much of a stir on its own**. Instead, the Fed's rhetoric (especially at the press conference), on unwarranted loosening of financial conditions and any allusions to correcting market misconceptions on how soon it will reverse cuts may be potential sources of hawkish jolts.

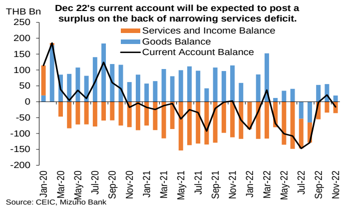
ECB Hawks in-Charge

- **ECB officials have made it clear that the ECB will not capitulate on its hawkish stance.**
- The most important of recent sound bytes from ECB officials have included **not ruling out rate hikes beyond March** after **incremental 50bp rate hikes at meetings in February and March**.
- Importantly, **the discourse has been harmonious across the German, Irish and Slovak central bank governors** suggesting that the Govering Council is clearly inclined to err on the hawkish side.
- **No doubt it helps that some downside risks to GDP growth have been negated** following a warmer than usual winter, resilience household consumption and nimbleness from the energy sector.
- From a liquidity policy standpoint, **we expect ECB will stick to the plan it laid out at its December meeting, i.e. to unwind its Asset Purchase Programe (APP) starting March** when ECB will not reinvest all of its principal payments from maturing securities.
- According to ECB, **the liquidity decline will amount to €15 billion per month on average until the end of Q2 2023; the subsequent pace will be determined over time.**
- **Unequivocal hawkish signals have buoy EUR above 1.09**. On its own, **hawkish ECB talk to back a 50bp hike ought to lift EUR**; perhaps challenging 1.10. **But with the FOMC as a swing factor for the USD**, **volatility could obfuscate, possibly offset, bias for a stronger EUR .**

India Budget 2023-24: Measured Consolidation & Material Constraints

- At India's Budget announcement on 1st Feb, **measured fiscal consolidation of 0.4-0.6%-pt of GDP in favour of a sub-6% deficit target** is likely to be the **"sweet spot" for FY23-24**; walking the **tight-rope between urgency for macro-stability and support for consumption** by cost shocks.
- **Material constraints** though **sharpen trade-offs**. For the record, FY22-23 deficit target of 6.4% was likely achieved as nominal boost to revenues and a higher nominal GDP base offset higher subsidies burden. But in stark contrast, **economic headwinds in FY23/24** limit, if not **crimp, revenue space**; **forcing harsher trade-offs** *amid growing credit ratings and "crowding out" risks.*
- Hence, **consolidation must be mostly driven by rationalization of expenditures**,with some valiant attempts at non-tax (asset disposal and dividends) revenues **as tax revenues moderate**.
- That said, **outright and abrupt revocation of subsidies are unlikely** hence **lower capex allocations to phase rationalization may feature**, although not upending infrastructure ambitions.
- Upshot: **A softer fiscal impulse and with it, limited support to growth, appear inevitable.**
- But this is a **necessary trade-off in the interest of macro-stability** as *a widening current account deficit that amplifies "twin deficit" risks*. What's more, *some degree of re-balancing to ensure that the private sector is not crowded out* is an integral part of boosting private sector growth multipliers.
- From a monetary policy perspective, **we expect no major policy sway on the Reserve Bank of India** (RBI). At this stage, the RBI neither needs to lean against a strong fiscal boost nor does it need to augment its own tightening for fiscal tightening.
- As such, **Budget 2023-24 is** (at least in and off itself) **likely to be mostly INR neutral**; as the expected boost from consolidation may be restrained on greater debt issuance/financing burden.

Thailand Current Account: Tourism Backed



- **Thailand's current account in December looks likely to post a small surplus** on account of improving services revenues. **Even with minimal Chinese arrivals, tourist arrivals staged its seasonal surge on the back of ASEAN and European tourists.**
- While the BoT's decision to hike rates by 25bps to 1.50% was widely expected, the **allusion to otential tourism-driven inflation upside surprise in their policy statement was notable**.
- In fact, the statement skews towards **upside bias** for **both** growth and inflation. Specifically, tourism recovery generates employment and income growth which **may enable business which had been absorbing rising costs** in the doldrums to allow for greater amount of cost passthrough in 2023.
- Admittedly, a further rate hike is required (soon) to restrain core inflationary pressures. Beyond that, the balance of risks may increasingly lean towards household and corporate debt stress.

Philippines Q4 GDP: Powering Ahead Despite All Odds

- **Q4 GDP growth slowed marginally to 7.2%YoY from 7.6% in Q3, taking annual 2022 GDP growth to 7.6%** beating the topside of the government's official forecast of 6.5-7.5%.
- **More impressive is that the sequential slowdown (QoQ SA) to 2.6% from 2.9% in Q3 was relatively modest suggesting that economic growth is indeed holding up well.**
- From the supply side, **higher growth in the manufacturing and services sectors was more than offset by weaker growth in agriculture and construction sectors.**
- The demand-side picture suggests that domestic demand is slowing led by invetsments; **mirrored in slower import growth has led to a bigger contribution of net exports in Q4 versus Q3.**
- As such, **BSP cumulative 350bp hike in its policy rate since May '22 engineered to contain inflationary pressures through slower economic growth is working, but at snail's pace.**
- This reflects the lagged impact of monetary policy action onto the real economy implying that BSP still has its work cut out. **We expect another cumulative 50bp in rate hikes in Q1 2023.**
- Unlike for the rest of the region, headline and core inflation in the Philippines have been stubbornly high and rising. **Worryingly, it is still difficult to tell if inflation will peak in the coming months given sticky food prices from associated supply shortages.**
- This is to say that the supply-side, i.e. cost push, part of the inflation equation may remain elevated in the coming months, leaving demand pull to exert disproportionately higher downward pressures.
- **This leaves BSP exposed to higher rather lower rate hikes.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	129.88	0.280	0.22%	125.80	~	133.80
EUR/USD	1.0868	0.0012	0.11%	1.068	~	1.100
USD/SGD	1.3136	-0.006	-0.43%	1.3020	~	1.3400
USD/THB	32.87	0.057	0.17%	32.60	~	33.50
USD/MYR	4.244	-0.041	-0.96%	4.200	~	4.300
USD/IDR	14985	-90	-0.60%	14,900	~	15,200
JPY/SGD	1.0109	-0.007	-0.66%	0.973	~	1.065
AUD/USD	0.71	0.014	1.97%	0.690	~	0.722
USD/INR	81.52	0.396	0.49%	80.8	~	83.0
USD/PHP	54.475	-0.055	-0.10%	54.3	~	55.3

^Weekly change.

FX Outlook: Fed-ECB Duel or Double-Down?

- Our outlook commentary warns against discounting the Fed's dial-back to a 25bp hike as a (relatively) dovish concession vis-a-vis the ECB's (and possibly BoE's) more aggressive 50bp lift in polucty rates. Simply put, the **warning is that USD shorts may be overdone pre-FOMC**.
- And so, we are **introducing the risk of USD snap-back** *if the Fed's rhetoric* accompanying the step down to a 25bp hike (to 4.50-4.75%) vigorously compensates for risks of dovish interpretation.
- In particular, if accompanying **FOMC references to "unwarranted" loosening in financial conditions** are **coupled with caveats of more compensatory rate hikes**, if need be (financial conditions loosen excessively). This **could simultaneously boost the Greenback** from both *Fed (mis-)calculation* and *"risk off"* reflex (for USD haven demand) perspectives.
- ***If so,*** then the **Fed-ECB duel will be the likely scenario to analyze**, to **assess whether a surprise hawkish jolt from the Fed can durably offset ECB hawks** usurping the mantle of the more aggressively hawkish Major central bank.
- In which case, **heightened volatility heading into FOMC** and **coming out of the ECB meeting** must be anticipated. Which is to say, short USD bets are best kept trim and nimble.
- Especially against EM Asia FX betting on the combination of Fed pivot and ECB growth upgrades to pile into higher beta short USD-long risk plays.
- But the bigger picture is one of uncertainty rather than just volatility. Uncertainty around how markets will interpret FOMC and the ECB with respect to the more nuanced positions in reality.
- Specifically, **die-hard bets on the Fed pivot**, *in spite, not because, of FOMC communique* could quite easily use ***ECB as an excuse to double down***. And therein lies the rub.
- The enormity of the force of such a move would make it untenable to resist the bearish USD wave.
- Yet the precarity of overdone Fed pivot and excessive exuberance will eventually force a correction.
- For this week, eyes on the prize. Fed speak, ECB assertions and market conclusions/delusions.

Bond Yield (%)

27-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.199	2.9	3.503	2.4	Flattening
GER	2.563	1.2	2.235	6.8	Steepening
JPY	-0.020	1.8	0.475	10.8	Steepening
SGD	2.968	-10.9	2.838	2.5	Steepening
AUD	3.143	21.8	3.555	0.1	Flattening
GBP	3.410	-2.6	3.319	-5.1	Flattening

Stock Market

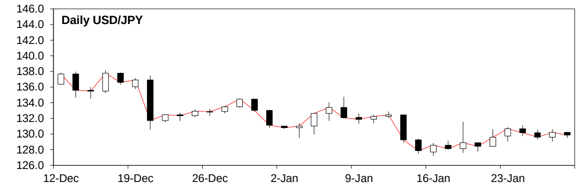
	Close	% Chg
S&P 500 (US)	4,070.56	2.47
Nikkei (JP)	27,382.56	3.12
EuroStoxx (EU)	4,178.01	1.41
FTSE STI (SG)	3,394.21	3.05
JKSE (ID)	6,898.98	0.35
PSEI (PH)	7,052.16	-0.06
KLCI (MY)	1,497.55	-0.19
SET (TH)	1,681.30	0.24
SENSEX (IN)	59,330.90	-2.13
ASX (AU)	7,493.83	0.56

US Treasuries: Inversion Entrenching Deeper

- Last week, UST 2Y and 10Y yields edged up 2.9bp and 2.4bp respectively.
- With PCE deflator still too high above the Fed's target, the **impetuous to enhance Fed pivot bets was lacking.**
- Admittedly, this week's 25bp decision looks like water under the bridge.
- That said, a hawkish Powell sticking to his message for higher rates for longer may send 2Y yields higher.
- Tail risks include **signalling of higher peak rates** via the 'slower' 25bp hikes could also jolt yields higher.
- Given how unrelenting inflationary pressures are, any signs of dovishness may instead **signal heightened weakness on growth** and seed caution.
- All in, we expect 2Y UST yields to buoy above 4.1% while 10Y yields remain **subject to risk aversion** tendencies and trade in the 3.4%-3.65% range.
- The 10Y-2Y yield curve inversion **may entrench even deeper**.

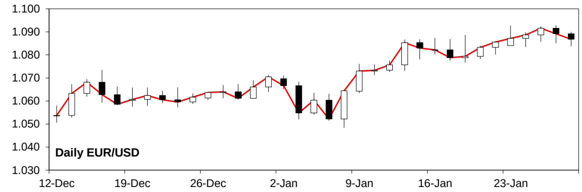
USD/JPY: Spots of Weakness

- The USD/JPY **edged higher towards 130 to close the week arising from multiple soft spots.** Amid a backdrop of a dovish BoJ, higher Tokyo inflation points to marginally **lower real returns.**
- Brent Crude prices remaining buoyed above US$86/barrel representing continued **strains on their energy import bill.**
- Certainly, **mildly higher UST yields** also lent a hand to support the pair.
- This week, with FOMC in focus, **volatility looks set to return** and the pair looks to trade between 127-132 with upside bias.



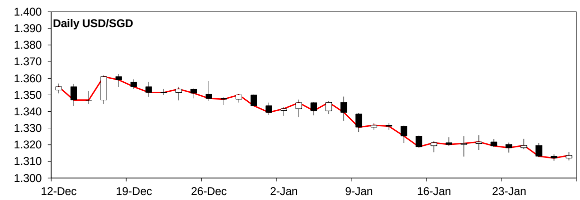
EUR: Judged by the Fed & ECB

- EUR gave up some gains versus USD last week, with the pair closing at 1.086 levels. The weakness may extend into early this week ahead of the crucial Fed and ECB meetings.
- If the Fed surprises with a hawkish jolt on the extent and duration of rate hikes, highly likely given the markets' sanguine expectations, EUR/USD may be in for another leg down.
- But the offset will be steadfast hawkishness from the ECB; ECB members across the board have sounded not just about its 2 Feb meeting but also for bringing down inflation down clearly to its 2% target.
- The bottom line is that there will be volatility across the week, before and after the central bank meetings, allowing for a wider range of trading between 1.080-1.092.



SGD: Testing 5-year Highs?

- Even as we understand the sheer for of Greenback capitulation on "peak USD" dynamics, the **idea of the SGD testing 5-year highs appear to be incongruent with;**
- the Fed's continued policy tightening that may lift rates by another 75-100bps (albeit likely at a more moderated pace of rate hikes) and;
- as risks to global demand grow, setting the stage for more weakness in exports.
- To some degree, exceptional policy tightening in 2022 explains the levels of USD/SGD;
- which are now testing the 1.31-support.
- But equally, even with bearish USD outcomes post-FOMC, sub-1.30 USD/SGD may be a stretch too far. So we expect dips towards mid-1.29 to be shallow (if not stalled), with hawkish Fed surprises likes to to re-ignite mid-1.32 rebounds.



AUD: Of Out-performance & Outliers

- Aussie out-performance last week had all the right ingredients.
- More **USD sell-off amid "risk on"**; and not just limited to "China cheer" either.
- Europe looking to avert a recession is also the type of stuff that gets the commodity channels fired up in the right direction; so to speak.
- Moreover**, higher than expected Aussie CPI** (for Q4) that was more braod-based than expected (showing up in a larger upside surprise in the trimmed mean) also provided the AUD with more fillip (taking out 71 cents more decisively).
- Especially as RBA-Fed relative convergence was assumed, and duly incorporated.
- Finally, warming China ties, and by extension, assumed commodity demand also set the AUD up to be a tad firmer. This brings 72 cents into view. More so if post-FOMC USD slips.
- That said, the outlier risks in Aussie housing/household debt alongside FOMC pushback on excessive market exuberance (about pivot) will likely rein in 73 aspirations.