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MIZUHO

WEEK AHEAD

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16-Jan-2023

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Economic Calendar

•Survey results from Bloomberg, as of 13 Jan 2023; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
16 Jan	JP	PPI YoY	Dec	10.2%	9.3%
	JP	Machine Tool Orders YoY	Dec P	--	-7.7%
17 Jan	**US**	**Empire Manufacturing**	**Jan**	**-8.6**	**-11.2**
	GE	ZEW Survey Expectations/Current	Jan	--	-23.3/-61.4
18 Jan	US	PPI/Ex Food and Energy YoY	Dec	6.8%/5.5%	7.4%/6.2%
	US	**Retail Sales Adv./ Ex Auto & Gas MoM**	**Dec**	**-0.9%/-0.2%**	**-0.6%/-0.2%**
	US	Industrial Production MoM	Dec	-0.1%	-0.2%
	EZ	**CPI/Core YoY**	**Dec F**	**9.2%/5.2%**	**9.2%/5.2%**
	JP	Core Machine Orders YoY	Nov	--	0.4%
	JP	**BOJ Policy Rate/10Y Yield Target**		**-0.10%/0.00%**	**-0.10%/0.00%**
19 Jan	US	Housing Starts	Dec	1357k	1427k
	US	**Philadelphia Fed Business Outlook**	**Jan**	**-11.0**	**-13.8**
	EZ	ECB Account of Dec 22 Policy Meeting			
20 Jan	**JP**	**CPI/Ex Fresh Food, Energy YoY**	**Dec**	**4.0%/3.1%**	**3.8%/2.8%**
26 Jan	**US**	**Durable Good/Nondef Ex-Air**	**Dec P**	**1.0%/--**	**2.1%/0.1%**
27 Jan	**US**	**PCE/Core Deflator YoY**	**Dec**	**--/--**	**5.5%/4.7%**

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
16-17 Jan	PH	Overseas Cash Remittances YoY	Nov	4.2%	3.5%
16 Jan	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.75%**	**2.75%**
	IN	Wholesale Prices YoY	Dec	5.5%	5.9%
17 Jan	CH	Fixed Assets Ex Rural YTD YoY	Dec	5.0%	5.3%
	CH	**GDP YoY**	**4Q**	**1.6%**	**3.9%**
	CH	Industrial Production YoY	Dec	0.1%	2.2%
	CH	Retail Sales YoY	Dec	-9.0%	-5.9%
	SG	**NODX/Electronics YoY**	**Dec**	**-16.0%/--**	**-14.6%/-20.2%**
18 Jan	**ID**	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.50%**
19 Jan	**AU**	**Emp Chg/Unemp. Rate**	**Dec**	**25.0k/3.4%**	**64.0k/3.4%**
	MY	**BNM Overnight Policy Rate**		**3.00%**	**2.75%**
20 Jan	**CH**	**1Yr/5-Year Loan Prime Rate**		**3.65%/4.30%**	**3.65%/4.30%**
	MY	**CPI YoY**	**Dec**	**3.9%**	**4.0%**
25 Jan	**AU**	**CPI/Trimmed Mean YoY**	**4Q**	**--/--**	**7.3%/5.6%**
	TH	**BoT Monetary Policy Decision**		**--**	**1.25%**
26 Jan	**KR**	**GDP YoY**	**4Q P**	**--**	**3.1%**
	PH	**GDP YoY**	**4Q**	**--**	**7.6%**

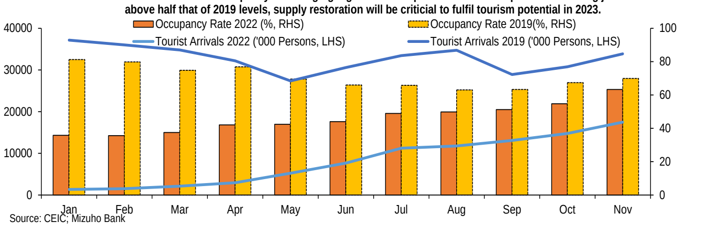
Week-in-brief: Of Claws & Carrots

- Ahead of the Lunar New Year, **markets** appear to be **fervently looking past the brutal mauling at the claws of the (Year of the) Tiger**, **anticipating the sweet carrots in the Year of the Rabbit**.
- **Feverish Fed pivot bets** at every turn of data that ***conveniently looks past Fed warnings of further to go on peak*** and perhaps ***longer percolation of persistently higher rates*** *speaks to this.*
- What's more, **China's re-opening cheer and rebound optimism** pinned on property market liquidity life-lines and tech sector revival policies **stop short of inconvenient introspection**; about a bumpy, "worse-before-better" process of "herd immunity" and crucially, the confidence deficit from the long shadow of "Common Prosperity"-linked policies de-emphasized, but not decommissioned.
- In that vein, **an abysmal sub-2% read of Q4 GDP data for China**, which could possibly send 2022 GDP growth slipping below 3%, will perhaps **not be a cause for markets to brood**. And instead, **markets may cheer cause for Beijing to double-down on policy stimulus**.
- The **Tiger-to-Rabbit transition may be tricky for the BoJ**; as it resists market pressures for a hawkish pivot amid elevated inflation; at pain of **unwelcome bond market and currency volatility**.
- And so, while a **BoJ hold and carefully balanced rhetoric is the base case**, a **calibrated tweak to YCC and/or negative rates will not shock**. *Whether* this will be *sufficient carrot for markets to back off from BoJ's accommodation* or turn out to be *like catching a tiger by its tail is debatable.*
- Less so for ASEAN central banks banks (BI, BNM this week and BoT next), at least for now, which will probably stick with graduated rate hikes to reinforce stability and inflation anchor.
- **Diminished brutality of policy- and supply-shocks** may indeed be appearing in the horizon; and that's **welcome relief**. **But the warning** is that with **markets already devouring carrots in anticipation, sustaining bullish conviction will require more bunnies to be pulled out of an exhausted hat**. And in that regard, markets may be riding a Tiger in the Year of the Rabbit.

BoJ: Between a Rock & a Hard Place

- The **BoJ is in a bind**. Since the **surprise widening of the YCC target band** (from +/-0.25% to +/-0.50%) in December, which *effectively* acted as *a hike in YCC target,* **markets have been testing the upper bound in anticipation of further tightening** (defacto or explicit).
- **Whereas Governor Kuroda** has not only **pushed back against perceptions of hawkish a shift,** but **doubled down on dovish stance**; with *significantly increased purchases of JGBs* to defend the YCC target. And has **record daily JGB purchases** in recent sessions to back the rhetoric.
- This however **leaves the BoJ with two challenges** at hand. First, the burden of having to lean against bets on materially higher JGB yields; requiring **enlarged JGB purchases**, *which entail more pronounced balance sheet risks* as well as *market liquidity issues.*
- Second, is the **inherent elevation in JPY volatility**. **Since the last BoJ meeting, JPY is up over 7%** (leading G10 FX) and **could swing even more (either way) depending on policy triggers**.
- While **JPY backstop from the worst of Q3 2023 sell-off is welcome**, the *BoJ would not want excessive JPY gains* either. And so policy cues and action need to be finely-tuned.
- We **expect a hold for now, with a more data-dependent calibration of accommodation being signalled** ahead of Governor Kuroda's end of term in April. *But a surprise move to tweak YCC or end negative rates will not shock* us. These may be a **matter of time and/or execution**.

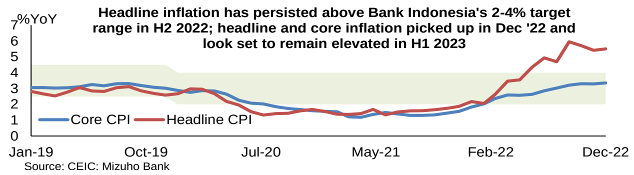
Tourism Boost Underpins BoT Hike



Source: CEIC, Mizuho Bank

- **Thai Authorities reneging on proof of vaccination for in-bound tourists** reflects a desire to sustain, if not boost, tourism recovery. In turn, this should **offset growth headwinds from a calibrated 25bp** by the BoT (25 Jan); in *a finely balanced move to ground inflation and THB stability.*
- For the record, *arrivals from Europe, Americas, ASEAN and the Middle East have reached at least 75% of pre-Covid 2019 levels as of November 2022*. But Japan, Taiwan and Korea, which roughly account for another 10%, have only just recovered past 40% (of pre-COVID).
- Crucially, **China**, *30% of pre-Covid tourist share,* was barely at a trickle (~4% of pre-COVID) as at November. And as such is the **lowest-hanging fruit and the single biggest fillip to be exploited**.
- Upshot being, **China's emphatic border re-opening** presents **both an economic opportunity and policy relief**. The long-awaited tourism revival (and subsequent economic boost) helps provide sufficient cover for calibrated tightening to anchor inflation and backstop THB-/macro-stability.
- Admittedly, the bearish USD wave since late-Nov has reversed THB depreciation pressures. But *tourism recovery remains fundamental to entrenching THB support, and blunting policy trade-offs.*

Bank Indonesia: Still In Need of Hawkish Conviction



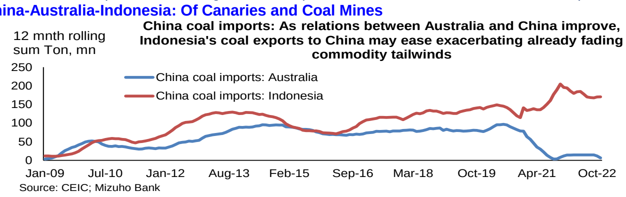
Source: CEIC; Mizuho Bank

- BI needs to convince market participants of a firmly hawkish stance at its 18 January meeting.
- **While BI is on course for a 25bp hike, the tone it strikes will be equally important.**
- **At the last meeting on 22 December, BI's hawkish tone was unconvincing leading to some IDR performance to end 2022.** Mainly as BI was more sanguine around inflation risks than expected while on the external risks, its tone was also more muted.
- Since then, the December headline and core inflation print rose to 5.5% YoY and 3.4% YoY from 5.4% and 3.3% in November; 6-month forward income expectations picked up in December from November and activity data has remained firm. Credit growth has also sustained at double digits.
- **These data imply that BI cannot afford to put a break on rate hikes, just yet, or even signal that to be the case as it risks undermining BI's inflation fighting efforts thus far.**
- As such, we **continue to expect BI to hike its policy rate by a cumulative 50bp in H1 2023, before pausing for the rest of 2023.**

Bank Negara Malaysia: Picking Up Where it Left Off

- **BNM will likely pick up in, terms of rate hikes, where it left off in 2022, with another measured 25bp hike at its 19 January meeting.**
- **Inflationary pressures have continued to build through Q4**, albeit with incipient signs that price pressures may have peaked, and remain significantly above historical levels and BNM's comfort level.
- Moreover, **the interest rate differentials to the US remain deeply negative** (i.e, the Fed-BNM rate), more so compared to regional peers, **exacerbating capital outflow risks.**
- **BNM has so far refrained from large magnitude rate hikes given that neither headline nor core inflation have risen as sharply compared to regional peers.**
- **This is primarily because fiscal subsidies on fuel and food absorb price shocks** transferring the burden to government balance-sheets instead of households.
- Despite this, **growth momentum has been slowing giving BNM additional motivation to adopt a more calibrated rate adjustment process.**
- Beyond this current 25bp hike, we expect BNM to keep its policy rate on hold for the rest of 2023.
- This is that BNM is pushed into doing another 25bp hike if the US Fed delivers a hawkish surprise.

China-Australia-Indonesia: Of Canaries and Coal Mines



Source: CEIC; Mizuho Bank

- **China resuming coal imports from Australia will have the biggest impact (outside the direct partners) for Indonesia.**
- China turned to Indonesian coal as a substitute for Australian coal after geo-political tensions between the countries peaked around the origin of the COVID-19 virus in 2020.
- **China's coal imports for Australia dropped to 6.5 mn MT from Jan-Nov 22 versus 78.5mnMT for the same period in 2019 and 2020. Indonesia plugged some of the gap as coal imports rose to 170.6mnMT in 2022 from 114.8mn MT in 2020.**
- The resumption of the coal trade between the two countries is likely to be **phased in,** consistent with official guidance for a limited number of China's SOEs to lead the way.
- Nonetheless, Indonesia's coal exports will be in for some setback in the coming months.
- **This will exacerbate already flailing price effects given that oil, gas, coal and palm oil prices have fallen significantly in Q4 2022 compared to the earlier part of the year.**
- While prices seem to have stabilized recently, base effects from elevated prices last year will be a drag on Indonesia's commodity exports leading to a diminishing of the trade surplus.
- **We expect the current account surplus to narrow to 0.5% of GDP in 2023 from ~1% in 2022.**
- **The upshot is that Bank Indonesia will need to be vigilant of rising external and associated IDR depreciation pressures, in a year when the political calendar is set to heat up in H2.**
- **We expect BI to hike its policy rate by another 50bp in Q1 2023 to defend against these pressures as well as sticky inflation, starting with 25bp this week.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	127.87	-4.210	-3.19%	125.80	~	133.80
EUR/USD	1.083	0.0186	1.75%	1.068	~	1.100
USD/SGD	1.3188	-0.021	-1.55%	1.3020	~	1.3400
USD/THB	32.972	-1.073	-3.15%	32.60	~	34.00
USD/MYR	4.3348	-0.068	-1.55%	4.310	~	4.380
USD/IDR	15150	-483	-3.09%	15,000	~	15,500
JPY/SGD	1.0319	0.018	1.79%	0.973	~	1.065
AUD/USD	0.6968	0.009	1.32%	0.690	~	0.716
USD/INR	81.34	-1.387	-1.68%	80.8	~	83.0
USD/PHP	54.91	-0.727	-1.31%	54.5	~	55.8

^Weekly change.

FX Outlook: Why the USD is Not a Toothless Tiger

- Looking back at the **post-CPI sell-off in the Greenback** (leaving the DXY near 8-month lows), it is **hard to make a case that the USD has not lost its mojo amid 'Fed pivot' bets** that are decimating yields and the USD's policy advantage. Admittedly, it has truly peaked and correcting for altitude.
- **But that does not mean that in the USD is written off as a Toothless Tiger**; even as the Year of the Tiger is ushered out as the Rabbit is welcomed.
- After all, the **USD shows signs of continuing to traffic heavily in the Fed and "fear"**.
- And **while markets are happy to twist any data point as a "Fed pivot", thereby rendering the 'Fed triggers' with a distinct bearish bias, vulnerabilities to more generalized "risk off"** (the so-called 'Fear' triggers) **cannot be dismissed lightly**.
- And make no mistake, such **'Fear' triggers will catch short-USD** (and long risk) positions like rabbits in the headlight. In which case, the **potential for sharp USD squeeze will result**.
- While for now, we expect China triggers to be framed as "half-full" even on disappointing economic/COVID news, the **risk of stretched optimism being clawed back is undeniable**.
- What's more, with the **upcoming Feb FOMC**, there is a **non-negligible chance of the Fed pushing back against overly-sanguine market views, resulting in some rebound in yields and USD.**
- *Especially if the Fed raises warning against "unwarranted ... loosening of financial conditions"*, flagged in the Dec Minutes, and which has since loosened substantially further.
- Finally, **US-China tensions continue to simmer and pose material risks** to not just the chips sector, but also to the broader stability of global commerce and geopolitics.
- In any case, resultant headwinds to trade and demand recovery will also pose yet another layer of C/A headwinds to EM Asia FX gains over the Greenback.
- And so **as gains against the USD get extended**, the **real risk is one of reversing overdone positioning in long risk/EM Asia FX positions**.
- In which case, **complacency about toothless tigers is precisely what markets cannot afford**.

Bond Yield (%)

13-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.232	-1.5	3.504	-5.4	Flattening
GER	2.562	-0.2	2.162	-4.2	Flattening
JPY	0.025	1.2	0.496	0.3	Flattening
SGD	3.058	6.8	2.772	-14.3	Flattening
AUD	3.148	-25.0	3.588	0.1	Steepening
GBP	3.420	7.1	3.361	-10.5	Flattening

Stock Market

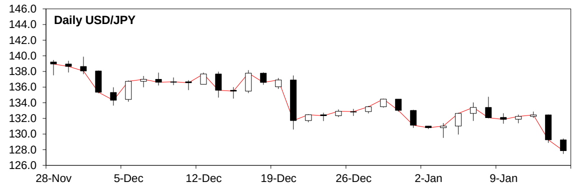
	Close	% Chg
S&P 500 (US)	3,999.09	2.67
Nikkei (JP)	26,119.52	0.56
EuroStoxx (EU)	4,150.80	3.31
FTSE STI (SG)	3,293.75	0.52
JKSE (ID)	6,641.83	-0.64
PSEI (PH)	6,951.54	4.25
KLCI (MY)	1,495.03	0.98
SET (TH)	1,681.73	0.47
SENSEX (IN)	60,261.18	0.60
ASX (AU)	7,328.10	3.07

US Treasuries: Meeting Expectations

- Last week, as **US CPI print met market expectations, UST yields edged down mildly** as 2Y yields ended up 1.5bp lower while 10Y yields slipped 5.4bps.
- Following the inflation printing, Fed **speakers** (Atlanta Fed's Bostic and Philadelphia Fed's Harker) also leaned **towards a smaller rate hike of 25bp** in their upcoming meeting (2 Feb).
- Uni of Michigan **survey** also showed improving sentiments while 1Yr ahead inflation expectations dropped.
- Given these outturns last week, the **situation this week remains unchanged that UST bulls have limited headroom and as such further downside on yields look restrained.**
- This though applies more to the shorter end 2Y yields where **sub-4.1% slips are expected to be shallow at best.**
- Given the **persistence of yield curve inversions**, we retain our caution to project 10Y UST yields to enjoy haven demand and trade in the 3.4%-3.65% range.

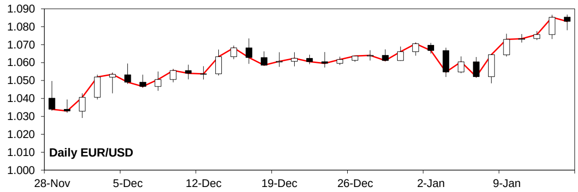
USD/JPY: Volatility Ensues

- Last week, **YCC challenges continued** amid media reports of BoJ assessing side effects of easy monetary policy. The USD/JPY **slipped 3.2% to go below 128 to close the week.**
- Leading up to the mid-week BoJ decision this week, the upper limit of 10Y JGB yields looks to be facing relentless challenges.
- While a policy hold is expected, signals for policy tweaks will set off JPY volatility to test 126. **Even if these signals are finely calibrated, over-reaction tends to be the base case.**
- As such, down side bias look to support the pair to trade between 126-131.



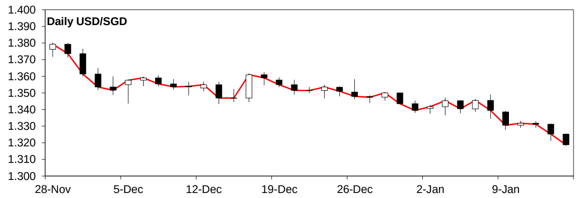
EUR: Still Resilient

- Last week was strong for EUR, rallying 1.75% versus USD last week. This week admittedly started off on a weaker note despite EZ GDP growth signalling that the bigger countries in the region may just escape a recession.
- Notwithstanding, on a more fundamental note EUR' resilience to shocks has increased over the past month as the winter was warmer than expected, averting an energy crisis. Simultaneously, ECB not letting up on its hawkish stance given that Euro Area inflation has not eased as much as US inflation.
- This will bring into a play a near-term ECB-Fed interest hike differential weighing in favour of the former. As such, mid-1.09 levels are still on the cards for EUR/USD this week, with the downside likely capped at sub-1.07 levels.



SGD: Pushing Limits

- The recent sell-off in the Greenback, with corresponding SGD strength is setting the stage for SGD to challenge the highest levels since April 2018 (as USD/SGD pressures mid-1.31 levels); and the 1.30-figure then becomes the next target.
- At face value, SGD testing multi-year highs may be attributed to the MAS' record bout of tightening last year; comprising three rounds each of slope steepening and mid-recentring (materially higher each time).
- Nevertheless, itis highly dependent on two other factors. One is outright USD sell-off, which has been acute since late-November. And the other is the corresponding strength in CNY.
- We expect stability into the Lunar New Year period for the CNY may be preferred; thereby capping SGD gains ahead of 1.30-figure on sub-1.31 tests.



AUD: Of Bulls & Barriers

- China re-opening story has undoubtedly been one of the kay factors driving AUD higher;
- and admittedly, this is not a spent force just yet, despite being stretched.
- With the Antipodean above 70 cents, a test on 0.71 is not out of the realms of long commodity flows leveraging on the China story.
- What's more, ahead of Aussie CPI the week after, long AUD could also pile if markets decide that the job market remains resilient enough for te RBA to leave option to tighten on the table.
- To be sure, our sense is that upside has been on a "too much, too soon" type of ride.
- But that said, we are acutely cognisant of all the trades lining up for more Greenback downside; at least until the Fed manages to take some confidence out of markets bent on believing the Fed will blink.