Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095

MIZUHO

WEEK AHEAD

Vishnu Varathan | Lavanya Venkateswaran | Tan Boon Heng

20-Feb-2023

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 17 Feb 2023; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
20 Feb	**EZ**	**Consumer Confidence**	**Feb P**	**-19.0**	**-20.9**
21 Feb	EZ	Mfg/Services PMI	Feb P	49.3/51.0	48.8/50.8
	JP	Mfg/Services PMI	Feb P	--	48.9/52.3
	JP	Machine Tool Orders YoY	Jan F	--	-9.7%
	GE	ZEW Survey Expectations/Current Situation	Feb	23.0/-50.0	16.9/-58.6
22 Feb	JP	PPI Services YoY	Jan	1.5%	1.5%
	GE	IFO Current Assessment/Business Climate	Feb	94.8/91.1	94.1/90.2
	GE	IFO Expectations	Feb	88.2	86.4
	US	**FOMC Meeting Minutes**			
23 Feb	US	Initial Jobless Claims	18-Feb	199k	194k
	US	**GDP Annualized QoQ**	**4Q S**	**2.9%**	**2.9%**
	US	**Chicago Fed Nat Activity Index**	**Jan**	**--**	**-0.5**
	EZ	**CPI/Core YoY**	**Jan F**	**8.6%/5.2%**	**8.5%/5.2%**
24 Feb	US	New Home Sales	Jan	620k	616k
	US	U. of Mich. Sentiment/Expectations	Feb F	66.4/--	66.4/62.3
	US	U. of Mich. 1 Yr/5-10Yr Inflation	Feb F	--	4.2%/2.9%
	US	**PCE/Core Deflator YoY**	**Jan**	**5.0%/4.3%**	**5.0%/4.4%**
	US	Kansas City Fed Manf. Activity	Feb	--	-1.0
	JP	**CPI/Ex Fresh Food & Energy YoY**	**Jan**	**4.3%/3.3%**	**4.0%/3.0%**

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
20 Feb	**CH**	**1/5-Year Loan Prime Rate**	**43862**	**3.65%/4.30%**	**3.65%/4.30%**
	ID	**BoP Current Account Balance**	**4Q**	**$4200m**	**$4400m**
	MY	**Trade Balance MYR**	**Jan**	**21.0b**	**27.8b**
	PH	BoP Overall	Jan	--	$612m
21 Feb	**AU**	**RBA Minutes of Feb. Policy Meeting**			
	KR	Consumer Confidence	Feb	--	90.7
22 Feb	AU	Wage Price Index YoY	4Q	3.5%	3.1%
23 Feb	**SG**	**CPI/Core YoY**	**Jan**	**7.0%/5.7%**	**6.5%/5.1%**
	AU	Private Capital Expenditure	4Q	1.1%	-0.6%
	KR	PPI YoY	Jan	--	6.0%
	KR	**BoK 7-Day Repo Rate**		**3.50%**	**3.50%**
24 Feb	**SG**	**Industrial Production YoY**	**Jan**	**2.9%**	**-3.1%**
	MY	**CPI YoY**	**Jan**	**3.7%**	**3.8%**
	MY	**Budget 2023**			

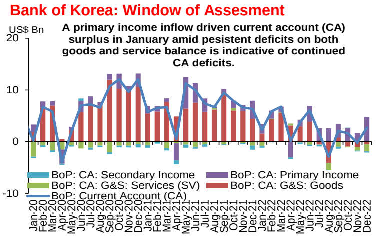
Week-in-brief: (Not) Feeling Good

- "Birds flying high; You know how I feel; Sun in the sky; You know how I feel; Breeze drifting on by; You know how I feel; It's a new dawn; It's a new day; It's a new life; For me; And I'm feeling; I'm feeling good" - Nina Simone
- **Unfortunately, markets are not feeling particularly good**; nowhere in the vicinity suggested by Nina Simone's uplifting song. Nor do they have the conditions to given **colliding geo-political and policy risks**.
- Geo-politics: North Korea's *ballistic missiles flying high* (not birds), and *alleged spy balloons in the sky* **turn up the geo-political heat heading into the 1-year mark of Russia-Ukraine war this week**.
- **North Korea's multiple ICBMs** (inter-continental ballistic missile) supposedly equipped with solid fuel and *hitting altitudes of 5000km* (before landing off Japan's exclusive economic zone) were **meant as a threat to US presence**. But elicited defiant US-Japan-South Korea drills; underscoring elevated tensions.
- The backdrop of US-China geo-political friction inter-woven with Russian reliance on China and North Korea makes for **more complex, and volatile geo-political backdrop** that **may impose risk re-pricing**.
- Policy: What's more, **inflation that is "too high"** according to a rash of hawkish speakers, alluding to not only more hikes being needed, but requiring rates to be elevated for a more prolonged period, means that a **hawkish Fed is not a** "*breeze drifting on by*". Accordingly, UST yields have risen materially since early-Feb; with 2Y yields now over 4.6% (up some 50bp) and 10Y yields over 3.8% (up ~40bp).
- Consequently, **scope for hawkish surprises from FOMC Minutes** (from 1st Feb) may be **dulled**; as *markets have already priced "hotter" data and hawkish Fed speak;* and are *not feeling good* to begin with.
- Nevertheless, there could be some **market interest in whether the Minutes retain or escalate allusions to "unwarranted" loosening of financial conditions**. *If so,* **risk assets may not be feeling good** in response; with a stronger USD, backstopped/buoyant yields and further slippage in equities likely.
- In Asia, the test of the pudding for front-loaded rate hikes providing space will be **BoK**, which arguably has **a case to hold, rather than hike**, as it assesses the impact of cumulative rate hikes thus far. But that would be at the mercy of a stronger USD and general risk sentiments.
- **Malaysia's Budget** (Fri) will be **watched for the ability to raise revenues** as scope for additional windfall from oil dissipates, thereby pressuring **fiscal ability to buffer economic headwinds**.
- It's a New Year ... but a *new dawn from tighter global policies and geo-political risks remains elusive.*

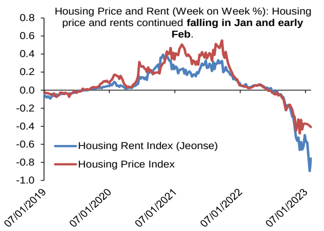
FOMC Minutes - Hijacked Not Buried

- **Any expectation for a hawkish surprise from the FOMC Minutes** have been **hijacked** *by the run of hot-hawkish data;* which have prompted *hawkish market reactions ahead of the Minutes.*
- From *January jobs data* that was piping hot both in terms of employment and wage indicators to the *sequential pick-up in inflation* suggestive of wage-price spiral risks to *exuberant retail sales;* hawkish data surprises have materially priced in more hawkish Fed outcomes, including more hikes through Q2 to lift the Fed Funds (FF) rates above 5% by mid-2023, and along with that, revived upside in UST yields.
- And so, any **scope for more hawkish details in the FOMC Minutes to push back on earlier market expectations for fewer hikes** than the Dec 'Dot Plot' had signalled has **been materially diminished by the "catch up" in FF futures and UST yields**.
- ***Nonetheless***, while **scope for more pronounced hawkish reflexes to the Minutes** have been hijacked, it's **not completely buried** either.
- The **stubborn Fed-market gap in the persistence of elevated FF** remains; as **markets still bet on late-2023 cuts** while the **Fed has cautioned against "premature" reversals**.
- The **bar though is high to convey that the Fed will not blink in 2023**.
- So **UST yields and FF futures may not climb substantially from Minutes trigger** per se.
- But *further allusions to "unwarranted" loosening in financial conditions* being *backed by signals that this loosening in financial conditions is excessive* may prompt some stifling of equities.
- For now though, **Minutes still need to be treated as a potentially mild hawkish trigger risk**, *even if data have hijacked larger and more emphatic hawker surprises.*

Bank of Korea: Window of Assesment



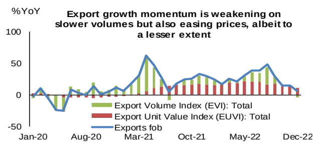
Source: CEIC, Mizuho Bank



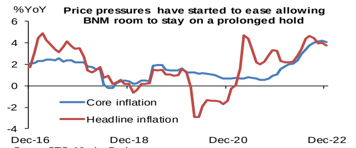
Source: CEIC; Mizuho Bank

- The Bank of Korea will be expected to keep policy rates on hold at their upcoming policy meeting (23 Feb) which allows a **window of assessment of the impact of Base rate increases** thus far.
- While some moderation of headline inflation is expected, the key thing is **whether this moderation is significant enough for the BoK to take comfort** and not proceed with a further 25bps hike in Q2.
- Given the resilient labour market marked with substantial job gains in high value added sectors, we expect attendant wage pressures to underpin core inflation pressures.
- That said, structural issues of insufficient job creation and increasing migrant workers will dampen extent of wage growth. (See Mizuho Chart Speak (17 Jan) - Korea: Tightened (Policy), Tight (Labour Market), Growth Slowdown.
- The range of **reported price increase from electricity tariffs to taxi fares precipitate risks of second round inflationary effects clouding the inflation outlook**.
- Given the persistent declines in housing prices, it is well worth a policy pause to observe if the speed of decline will stabilise to prevent exacerbating unnecessary risks.

Malaysia: Trade-Inflation Mix Underscores Weakening Growth Momentum



Source: CEIC; Mizuho Bank



Source:CEIC; Mizuho Bank.

- **Trade data for January is likely to be subdued**: export growth, which already slowed significantly to 6% YoY in December from 15.1% in November, will likely weaken further.
- **Moderating prices of global commodities and weaker external demand**, witnessed in a significant drop in export volumes to -1.3% YoY in Q4 from +12.3% in Q3, will be the main culprits for the export drag.
- Normally, *the Lunar New Year holidays would be a drag on Malaysia's exports but this year, there is a modest offset from the re-opening of the Chinese economy.*
- Similarly, **import growth is also set to slow mirroring domestic demand conditions**. The Q4 GDP print showed that the contribution of domestic final demand almost halved to 6.3pp from 12.3pp in Q3.
- Heading into 2023, spillovers from slower external demand, reduced ability of consumers to tap EPF savings and limited government support from a tighter fiscal policy stance will curtail domestic demand.
- **This will reflect onto core inflation, which slowed to 4.1% YoY in December from 4.2% in November, and is likely to ease further in January.**
- **Headline inflation will be brought down by easing fuel and utility costs**; *weakening growth momentum and slowing inflation give BNM room to hold off further rate hikes this year.*

Malaysia Budget 2023 v2.0: Old Wine In A New Bottle

Budget at a glance

	2019	2020	2021	2022BE		2022 RE		2023 BE (proposed in October '22)	
	MYRmn	MYRmn	MYRmn	MYRmn	%YoY	MYRmn	%YoY	MYRmn	%YoY
Revenues	**264415**	**225076**	**233752**	**234,011**	**0.1**	**285217**	**22.0**	**272570**	**-4.4**
Tax	**180010**	**154398**	**154398**	**171374**	**11.0**	**198227**	**28.4**	**205583**	**3.7**
Direct	135639	112511	112511	127334	13.2	147206	30.8	152392	3.5
Indirect	44371	41887	41887	44040	5.1	51021	21.8	53191	4.3
Non-tax	**83290**	**70678**	**70678**	**62637**	**-11.4**	**86990**	**23.1**	**66987**	**-23.0**
Petronas dividend	54000	54000	18000	25000	38.9	50000	177.8	35000	-30.0
Expenditures	**315,913**	**312,720**	**322,540**	**331500**	**2.8**	**384700**	**19.3**	**371640**	**-3.4**
Current expenditures	**263343**	**224600**	**231516**	**233500**	**0.9**	**284700**	**23.0**	**272340**	**-4.3**
Emoulments	80534	82611	85854	86510	0.8	86510	0.8	90765	4.9
Subsidies	***23901***	***24186***	***23041***	***17,352***	***-24.7***	***58900***	***155.6***	***42016***	***-28.7***
Debt service charges	32933	34945	38069	43100	13.2	43100	13.2	46100	7.0
Others *	45557	9019	8517	5,203	-38.9	11804	38.6	7781	-34.1
Net development expenditures	**52570**	**50101**	**63267**	**75000**	**18.5**	**71200**	**12.5**	**94300**	**32.4**
Gross development expenditures	54173	51360	64257	75600	21.9	71800	11.7	95000	32.3
Less Loan recoveries	1603	1259	990	600	-25.0	600	-39.4	700	16.7
COVID-19 Fund	**n.a.**	**38019**	**37711**	**23000**	**-41.0**	**28800**	**-23.6**	**5000**	**-82.6**
Central government fiscal balance	-51498	-87644	-98757	-97,489		-99483		-99070	
%GDP	**-3.4**	**-6.2**	**-6.4**	**-6.0**		**-5.8**		**-5.5**	

Source: Ministry of Finance (MOF); Mizuho Bank.

- **Budget 2023, to be tabled on 24 February, is touted to be different from the budget issued under the previous government in October.**
- **This is in particular reference to the government introducing a targeted subsidy program on fuel and electricity to scale back a ballooning subsidy bill**; subsidies are expected to account for 3.3% of GDP in 2022 from an average of 1.6% in 2019-21.
- *But for all intense and purposes, the fiscal math may not be very different from the October budget.*
- **The October budget had accounted for subsidies to narrow to 2.1% of GDP in 2023**, which requires cuts beyond assumptions of lower global oil prices (US$90-97/bbl 2022); with the introduction of a targeted subsidy mechanism. *Admittedly, few details on implementation were provided in October.*
- **A normalisation of revenue collections** (from ~+22% YoY in 2022) on account of lower global commodity prices and dividend payouts from Petronas (MYR35bn from MYR50bn in 2022) **could undermine the government's effort to boost capex.**
- **PM (and FM) Anwar has indicated a preference towards expenditure rationalisation over implementing new sources of revenue**; diminishing prospects of imminent GST restoration.
- **Fiscal consolidation beholden to expenditure rationalisation imposes a fiscal tightrope.**
- Expenditures (apart from subsidies) are hard to rationalise: **emoluments tend to be sticky while debt servicing costs have increased significantly following the pandemic.**
- As such, **headline fiscal consolidation may not be very different from the October budget; the 2023 deficit was pegged at 5.5% of GDP from an expected 5.8% of GDP in 2022**.
- **The silver lining is that even modest fiscal consolidation**, while signalling a willingness to maintain tight fiscal policy despite a weakening growth backdrop, **will set in motion more sustainable debt dynamics.** Government debt rose sharply to 60.4% of GDP from 52.4% in 2019 on pandemic support.
- **BNM,** notwithstanding a complete removal of fuel subsidies which shock inflation higher, and an outcome to which we assign a low probability**, will likely look through one-off fuel price adjustments (from an adjustment of the subsidy mechanism) as temporary.**
- Moreover, **with a clear growth slowdown underway** (GDP contracted on a sequential QoQ SA basis in Q4**), and fiscal policy remaining tight, BNM is likely stay on a prolonged hold rather than effect tighter monetary policy conditions.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	134.15	2.790	2.12%	131.75	~	136.00
EUR/USD	1.0695	0.0017	0.16%	1.050	~	1.090
USD/SGD	1.3364	0.006	0.46%	1.3250	~	1.3500
USD/THB	34.595	0.808	2.39%	34.00	~	35.00
USD/MYR	4.435	0.101	2.33%	4.350	~	4.500
USD/IDR	15203	69	0.46%	15,100	~	15,300
JPY/SGD	0.9961	-0.016	-1.54%	0.974	~	1.025
AUD/USD	0.6879	-0.004	-0.55%	0.670	~	0.705
USD/INR	82.83	0.328	0.40%	82.4	~	83.2
USD/PHP	55.247	0.822	1.51%	55.0	~	55.5

^Weekly change.

FX Outlook: Trafficking in Fed & Fear ... indeed!

- The **Greenback is up** - not just for the week, but since the start of Feb - **as USD bear deniers traffick in Fed and fear** ... a point we alluded to in decomposing the USD dynamic construct.
- From 101 lows on 1st Feb, the USD Index is up above 104 (having tested mid-104) as a rash of hawkish Fed comments suggesting that inflation is uncomfortably high (despite peaking) amid hot jobs has been grudgingly factored into UST yields and the USD.
- Sure, it is a far cry from the 115 tests back in September 2022, but it has recouped the losses in 2023 so far; suggesting that USD peak is one thing, but unchallenged USD plunge quite another.
- Fact is, a **hawkish re-boot for the Fed has boosted the USD**, and this is likely to be a move that is backstopped amid FOMC Minutes and PCE drawing attention to stickiness rather than the peaking dynamics. Admittedly though, the durability of this USD upside is as peak rates come into view.
- Nonetheless, **"fear" dynamics** are **bolstering** the case for a **buoyant**, not beaten down, **USD**.
- **Geopolitics being** inflamed on multiple fronts; from *US-China trading barbs* over the balloon issues, North Korea firing off ICBMs in an escalation of geopolitical risks in the Korean Peninsula and Sea of Japan all converging uncomfortably with the *one-year anniversary of Russia-Ukraine war.*
- The latter may **dampen the case for fresh EUR rallies**; or at least make for an inconvenient backdrop against which for EUR to pull off sustained rallies.
- And US-China tensions escalating warn that **AXJ may not be primed for a rebound without unilateral USD capitulation**; driven by either a watering down on hawkish Fed or the fear factor.
- In other words, **Fed and fear reversal will be required for any meaningful AXJ gains**.
- Meanwhile, we expect the USD to retain tone and EM Asia FX to trade cautiously.

Bond Yield (%)

17-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.617	10.0	3.815	8.3	Flattening
GER	2.856	11.2	2.435	7.5	Flattening
JPY	-0.049	0.2	0.495	0.5	Steepening
SGD	3.213	16.7	3.242	15.4	Flattening
AUD	3.483	9.2	3.815	0.1	Flattening
GBP	3.735	18.6	3.508	11.5	Flattening

Stock Market

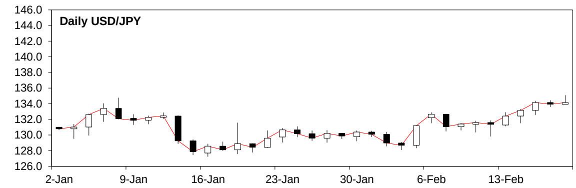
	Close	% Chg
S&P 500 (US)	4,079.09	-0.28
Nikkei (JP)	27,513.13	-0.57
EuroStoxx (EU)	4,274.92	1.83
FTSE STI (SG)	3,328.37	-0.96
JKSE (ID)	6,895.71	0.22
PSEI (PH)	6,779.02	-1.42
KLCI (MY)	1,476.90	0.16
SET (TH)	1,651.67	-0.77
SENSEX (IN)	61,002.57	0.53
ASX (AU)	7,346.77	-1.17

US Treasuries: Consolidation - Courage & Caution

- As expected, UST yields remains buoyant with 2Y and 10Y yields climbing 10.0bp and 8.3 bp respectively.
- The US CPI print moderation on a YoY basis was certainly not sufficient as it was above consensus expectations. **Sequential inflation momentum not slowing would likely have worried the Fed.**
- Consequently, markets are increasingly repricing their expectations of the Fed's policy path with the peak rates in 2023 now above 5% and end 2023 rates above 4.9%
- While upside bias for yields remain the base case this week, it looks to be a period of consolidation rather than significant upside adventure. **Venturing above the Fed's Dot plot guidance require courage and caution.**
- While FOMC minutes and PCE deflator release this week retain their importance to support UST yields, the tail end upside risk for UST yields instead may stem from spillovers from Japan's inflation print.
- On balance, 2Y UST yields are **expected to consolidate** in the 4.5% to 4.8% range with **skewness to the top half.** 10Y UST yields will follow in a lagged fashion in the 3.65%-3.95% range.

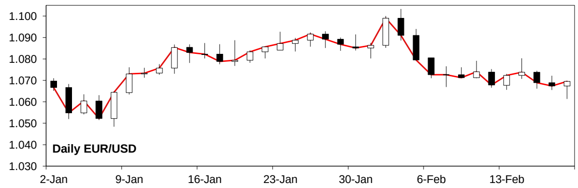
USD/JPY: Narrowing Room

- With the surge in UST yield, JPY weakness was certainly not surprising as the USD/JPY ended the week above 134.
- With the nomination of BoJ Governor now settled, attention will turn back to this week's domestic inflation print.
- While the policy change may not be immediate, this inflation outturn may inevitably imply a narrowing policy room for the new Governor Ueda when he assumes the post in April.
- Therefore, even as the USD/JPY is expected to remain buoyant, end of week volatility will be expected and ventures above 136 remain cautious.



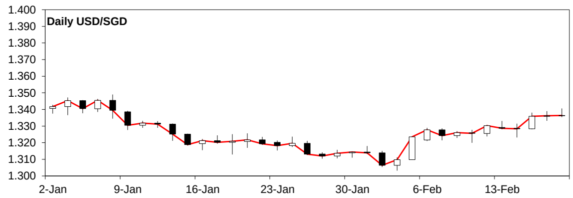
EUR: Weakened Despite Hawks

- 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: 4-in-2

- For perspective, as the USD/SGD is edging back up against 1.34 amid a USD squeeze, .it is worth noting that it is back to the same vicinity where it ended 2022.
- Which means that in a span of **less than two months**, the **USD/SGD has traversed 4-big figures and back**. That's huge two-way volatility.
- And to be sure, this is not prompted by staggering SGD-driven triggers.
- Rather broad-based USD rebound is behind the USD/SGD dynamics,.
-A ssuch, we expect that USD/SGD will be inclined to furtehr upside risks to mid-/high-1.34;
- especially f US-China risks spillover via softer CNH reactions.
- Meanwhile, consolidation amid sub-1.33 to sub-1.35 is par for the course.



AUD: RBA Hawkish bets to Take a Backseat

- To be fair, the balance of RBA risks coontinues to be tilted to the hawkish side.
- Apart from the reference to "rate hikes" in the plural, stronger than expected wage expectations being alluded to by the RBA also square with the RBA having to do more.
- And sooner rather than later given the urgency to tackle expectations as well as the view of lagged effects of monetary policy.
- But for now, the RBA will take a backseat to Fed hawks reiterating "higher for longer".
- What's more, China risks and the wider geo-political landscape instigating demand uncertainty could also weigh on the AUD.
- And NZ inflation slippage knocking back RBNZ hawks could also have a tangential impact.
- All said, AUD may be backstopped by the RBA on sub-0.68 slippage, but RBA hawks are taking a backseat; with the ability to inspire fresh 0.70+ rallies constrained.