Mizuho Global Weekly

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Weekly Highlights

- **CPI surge gives USD a short-lived boost**
- **Fed vs inflation: a fight the Fed looks set to win**

- **Japan in a world of its own as CPI set to fall**
- **Low inflation boosts yen's real rate attraction**

- **Flash PMI data to reflect vaccination boost to activity across Europe**
- **Heavy data week in UK to show a spending surge and price jump**

- **CNH retested the 6.40 level as the PBoC refrained from softening RMB**
- **Pre-holiday consumption to boost retail sales**

- **Q1 GDP growth in Indonesia, Malaysia and the Philippines was weak**
- **Thai Q1 GDP was also likely weak**

- **PEN rebounds on prospect of a tightening presidential election**
- **Chile and Peru Q1 GDP data are the highlights of the week ahead**

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US – A quieter week on the data front, housing sector to remain strong

Major Events and Data Releases

Date	Event	Survey	Prior
17-May	Empire m'fact index (DI, May)	23.9	26.3
	NAHB housing index (DI, May)	83	83
18-May	Housing starts (%MoM, Apr)	-2.0	19.4
19-May	FOMC minutes	--	--
20-May	Philly Fed index (DI, May)	43.2	50.2
	Weekly jobless claims (k)	--	473
	Leading index (%MoM, Apr)	1.2	1.3
21-May	Existing home sales (%MoM, Apr)	0.8	-3.7
	Flash composite PMI (DI, May)	--	63.5

Source: Bloomberg

It has been a very busy week for data. The currency market impact of last week's very soft payrolls report was reversed as inflation soared pushing up UST yields and the US dollar, with the CPI coming in far above expectations. The PPI was also a little firmer than expected. Looking at the CPI data a lot of the gains seem to stem from re-opening pressures and thus, as the Fed has indicated, are likely the result of short-term bottlenecks, such as used auto prices. Auto rentals, food away from home, air fares and lodging also made contributions to the MoM gain. Increases in all these categories will likely fade as re-opening continues. Labour supply is also a potential factor pushing prices higher but the extended unemployment benefits expire on 6 Sep and thus it too is only a short-term factor. 10yr breakeven inflation rates hit a multi-year high this week. Despite the jump in price pressures the gains in yields failed to stick and by the end of the week 10yr and 30yr yields were lower on the week, despite supply in the sectors that usually might push yields higher. Friday's weak retail sales and consumer confidence data saw the DXY index pare more of the post-CPI gains.

Outlook

The bulk of this week's hard data are in the housing sector, where activity has been strong, as indicated by the NAHB index remaining over 80. We also have a first peak at data for May in the form of sentiment surveys and here investors will be watching for signs that peak activity is near and is starting to ease back from very elevated levels. It seems likely that it is a little early to see seeing much easing of the re-opening rush.

The Fed is the key player in calming the media panic about inflation. To date, fed speakers with the exception of Kaplan have been resolutely dovish and we expect them to remain so despite the high CPI print. Short-term inflation pressures have been driven by base effects and bottlenecks and we expect the Fed to continue to push this line and focus on labour market slack. Clarida and Bostic speak on Monday, Kaplan on Tuesday, Bullard on Wednesday and Barkin on Friday. The key Fed event this week will be the minutes of the April FOMC meeting, with investors looking for tapering hints that to date only Kapan has talked about. The US patchwork lifting of Covid restrictions continues with the New York area biding good bye to capacity restrictions in many areas of life.

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Japan – inflation outlier

Major Releases

Date	Event	Survey	Prior
17-May	PPI (%YoY, Apr)	3.1	1.0
18-May	Real GDP (%QoQ, Q1)	-1.2	2.8
	Nominal GDP (%QoQ, Q1)	-1.3	2.3
	GDP deflator (%YoY, Q1)	-0.1	0.3
20-May	Trade balance, sa (¥bn, Apr)	70.4	297.8
	Exports (%YoY, Apr)	31.4	16.1
	Imports (%YoY, Apr)	9.1	5.8
	Machine orders (%MoM, Apr)	5.5	-8.5
21-May	CPI (%YoY, Apr)	-0.5	-0.2
	Ex ff&e CPI (%YoY, Apr)	-0.1	0.3
	Flash composite PMI (DI, May)	--	51.0

Source: Bloomberg

The surprise on the week was the much stronger than expected household spending data, hinting that consumption in Q1 was a little firmer than expected. However, the extension of the state of emergency to another 3 prefectures at the tail end of the week will only add to the weakness of the Q2 rebound. Other data on the week included the current account for March and the monthly portfolio flows data for April and the first weekly flows release for May. The FDI data showed a recovery in outbound FDI in Q1, which requires careful watching to see how durable the rebound is. On the portfolio flows side, the recent trend continues – foreign bond buying mostly offset by heavy foreign equity selling. The yen lost ground against the US dollar in the wake of the inflation surge and failed to gain much ground on other currencies, despite the plunge in equity markets mid week. The Topix endured its biggest 3-day sell off since last June. The yen was at the low end of the G10 rankings this week, as the Topix ended down ~2%.

Outlook

Next week's main focus is the Q1 GDP report. The consensus is for a 4.6% saar drop in Q1 GDP leaving FY20 GDP down 4.8%. Japanese GDP forecasts have been quite stable in recent months as better overseas growth and signs that most economies are learning to cope better with Covid is offset by the worsening Covid backdrop in Japan and a sluggish vaccination roll out. BoJ Governor Kuroda is right when he says there is no need to fear a surge in inflation in Japan! Indeed, just as the CPI surges elsewhere, Japan's CPI prints are set to be kept low by the impact of falling mobile phone charges. This should be evident in the national CPI data for April, which should see headline CPI push deeper into negative territory. Other data next week include machinery orders for April, the flash PMI reports for May and trade data for April. Japan's flash PMI data are likely to improve, albeit modestly and being only slightly above 50 indicate that Japan's recovery is tepid. The trade data for the first 20 days of the month indicate that the trade surplus will decline in April relative to March.

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Europe – macro acceleration underway

Major Events and Data Releases

Date	Event	Survey	Prior
18-May	EZ – Trade balance, sa (€bn, Mar)	--	18.4
	UK – Unemployment (3m%, Mar)	4.9	4.9
	UK – Wages (3m%YoY, Mar)	4.5	4.5
19-May	EZ – New car registrations (%YoY, Apr)	--	87.3
	UK – CPI (%YoY, Apr)	1.4	0.7
	UK – core CPI (%YoY, Apr)	1.3	1.1
20-May	EZ – Current account, sa (€bn, Mar)	--	25.9
	EZ- Construction output (%MoM, Mar)	--	-2.1
	UK – CBI industrial trends (DI, May)	--	-8
21-May	EZ – Flash composite PMI (DI, May)	54.9	53.8
	EZ – Consumer confidence (DI, May)	-7.0	-8.1
	UK – Consumer confidence (DI, May)	-12	-15
	UK – Retail sales (%MoM, Apr)	4.5	5.4
	UK – Flash composite PMI (DI, May)	62.0	60.7

Source: Bloomberg

Despite weak industrial production data for March, the more forward looking indices in the Eurozone look better with both the Sentix and ZEW surveys looking very upbeat and Eurozone equity markets outperforming too – all against the backdrop of an increasingly successful vaccine roll out. In the UK too there was good data in the form of better-than-expected March GDP data and a surge in the RICS house price balance amid a dearth of supply. GBP was solid early in the week but both EUR and GBP lost ground in the wake of the US CPI report. Both subsequently edged higher again leaving GBP top of the G10 tree this week and EUR little changed against the US dollar.

Outlook

The European data are likely to reflect the opening up of the economy. In the UK the next phase of reopening starts on Monday and in some European countries restrictions are easing a little too. The UK composite PMI is seen pushing further above the 60 level, as the service sector re-opens and the Eurozone composite PMI is expected to make a similar size gain, albeit from a lower level, as vaccination success helps the gradual return to normal. The UK is also set to see another large jump in retail sales – for a second consecutive month, while UK inflation is set to surge on energy base effects. The jump in the US CPI hints at upside surprises as the recovery builds but UK labour markets are functioning very differently from US labour markets. But even if the CPI gain is well above consensus, the BoE is unlikely to panic, despite Bailey saying he was watching inflation very closely this week. UK labour market statistics remain impacted by the coronavirus job retention scheme, which at the latest count had ~13% of workers using it as of mid-April.

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China – CNH re-tests 6.40 early in the week

Major Events and Data Releases

Date	Event	Survey	Prior
17 May	Retail Sales (%YoY, Apr)	25.0	34.2
	Industrial Production (%YoY, Apr)	10.0	14.1
	Fixed Assets Investment YTD (%YoY, Apr)	19.8	25.6
20 May	1Y LPR (%, May)	3.85	3.85
	5Y LPR (%, May)	4.65	4.65

Source: Bloomberg

CNH retested the 6.404 level following the USD sell-off driven by the weak US non-farm payrolls. Yet, the jump in US CPI reversed the course and CNH fell back towards the 6.46 level amid a USD rebound. While CNY rallied to a fresh 3-year high of 6.4103, the PBoC refrained from issuing a strong policy signal to contain RMB strength via the CNY fixing. China's PPI figure for April fuelled global inflation concerns while domestic CPI inflation remained benign at +0.9%YoY. The PBoC's window guidance also emerged to slow China's credit expansion, with M2 money supply growth moderating to +8.1%YoY. In its Q1 Monetary Policy Report, the PBoC noted that long-term inflation or deflation basis does not exist and pledged to maintain the guidance of maintaining policy continuity, stability and sustainability. The long-awaited 7th China census revealed the structural problems of an aging population and gender imbalance.

Onshore RMB liquidity conditions remained flush, with the 7-day interbank repo rate hovering around 2%. The PBoC's open market operations were in auto-pilot mode, keeping its daily CNY 10bn of reverse repo operations and net injecting CNY 20bn of liquidity over the week. CNH liquidity conditions eased, with Overnight CNH HIBOR staying below 2%. 3Y CNH-CCS gyrated around 2.5%.

Outlook

The jitters caused by US data surprises fuelled CNH volatility and we look for choppy trading against a backdrop of USD fluctuations and souring risk sentiment. On the data front, Chinese retail sales and fixed assets investment for April are expected to moderate but maintain high growth rates driven by base effects. The pre-holiday consumption alongside the relaxation of travel restrictions should boost retail sales, while industrial production will likely slow given waning base effects and increasing production costs fuelled by the surging PPI. With its policy guidance of no policy U-turn, the PBoC is also set to leave its Loan Prime Rates (LPRs) unchanged.

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EM Asia – Lacklustre Q1 GDP growth

Major Events and Data Releases

Date	Event	Survey	Prior
17-May	Singapore Non-oil Dom Export (%YoY, Apr)	12.3	12.1
	Thailand GDP (%YoY, Q1)	-4.1	-4.2
	Philippines O'seas Remittance (%YoY, Mar)	10.2	5.1
18-May	Australia RBA Minutes (May Meeting)	--	--
19-May	Singapore GDP (%YoY, Q1)	0.9	0.2
	Australia Consumer Conf (%MoM, May)	--	6.2
	Australia Wage Price Index (%QoQ, Q1)	-0.5	0.6
20-May	Australia Employment Change (k, Apr)	20.0	70.7
	Indonesia Trade Balance ($mn, Apr)	1427	1560
	Indonesia Exports (%YoY, Apr)	41.1	30.5
21-May	Australia Retail Sales (%MoM, Apr)	0.5	1.3
	Thailand Customs Exports (%YoY, Apr)	7.2	8.5

Source: Bloomberg

The releases of Q1 GDP growth data so far paint a weak picture. Although the general picture is one of improvement, the fact remains that it is only the pace of contraction that has narrowed relative to Q4 for Indonesia, Malaysia and the Philippines. Although these countries have started vaccinations, progress has been slow. Worryingly, renewed waves of infection continue to hit, forcing a tightening of social restrictions.

With officials in these countries also downgrading their 2021 growth forecasts, any material improvements in growth momentum may have to be deferred to next year. Further, monetary policy is hitting its limiting in terms of delivering on additional rate cuts while mainly resorting to credit support measures.

This implies that fiscal policy will have to bear the greater burden of growth support. This puts into spotlight the fiscal deficit and debt situation in these countries, which have no doubt worsened since the start of the pandemic. While the justification for wider deficits and higher debt last year when pandemic hit across the globe at once was easy, increased differentiation among countries this year will lead to differentiated concerns, for example in Indonesia (with debt monetisation concerns) or Malaysia (with elevated debt level concerns). These concerns could start weighing on the currencies as the US Fed seeks to reduce its accommodative stance.

Outlook

Similar to its ASEAN peers, we estimate that GDP growth for Thailand barely improved to -3.7%YoY in Q1 from -4.2%YoY in Q4 20 based on monthly activity data. The lack of tourism and tourist-related activities continues to weigh on the Thai economy as any major improvements in the services sector remains elusive. From the authorities' perspective, this continued weakness in growth will be unsurprising seeing as the government and the Bank of Thailand have recently downgraded their 2021 GDP growth forecasts.

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Latin America – PEN rebounds on prospects of a tight presidential election

Major Events and Data Releases

Date	Event	Survey	Prior
17-May	Peru Unemployment Rate (%, Apr)	--	15.3
	Peru Economic Activity Index (%YoY, Mar)	--	-4.2
18-May	Chile GDP (% QoQ, 1Q)	3.7	6.8
20-May	Argentina Econ. Activity Index (%MoM, Mar)	--	-1.0
	Peru GDP (%YoY, 1Q)	--	-1.7
21-May	Mexico Retail Sales (%MoM, Mar)	--	1.6

Source: Bloomberg

Despite higher-than-expected inflation figures in the United States bringing volatility to the markets, most Latin American currencies managed to post weekly gains against the US dollar as Treasury yields declined from the increase seen early in the week. PEN was an outlier, gaining by the most in decades. An opinion poll released on Monday showed left-wing presidential candidate Pedro Castillo has significantly lost his lead over market-friendly candidate Keiko Fujimori ahead of June's second round runoff. A tighter race would prevent radical changes in economic policy. Datawise, the Brazilian central bank's IBC-Br economic activity index, a proxy for GDP growth, fell a less-than-expected 1.6%MoM in March, suggesting the economy was somewhat resilient to Covid-19 containment measures and is likely to post a positive growth rate in the first quarter. Meanwhile, consumer prices in Argentina rose 4.10%MoM in April, pushing annual inflation further upwards to 46.3% and reinforcing our view that the administration's strategy to curb inflation through price freezes and FX controls is doomed to fail.

Outlook

Chile and Peru's GDP figures for the first quarter are the highlights of the data calendar in Latin America in the week ahead. The Chilean economic activity index, a good proxy for GDP growth, indicated that the economy expanded 3.8%QoQ in the first three months of the year, slowing from a 6.8%QoQ gain in Q4. If so, the economy will have fully recovered from the coronavirus-induced recession. Importantly, the index fell by just 1.6%MoM in March, when the country was facing a sharp surge in new Covid-19 infections and strict containment policies were implemented, suggesting that the economy has learned to function with restrictive measures. Looking ahead, an outstanding vaccination campaign and strong global demand for copper mean that Chile is in a good position to lead the economic recovery of the region this year. Elsewhere, the Peruvian economy also experienced a downturn in Q1 amid fresh lockdown measures. Importantly, policy uncertainty brought about by a changing political environment and a slow vaccine rollout pose risks to Peru's positive outlook.

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