Mizuho Bank, Ltd. Asia & Oceania Treasury Department
Tel: 65-6805-4200

MIZUHO

DAILY MARKET REPORT

06-Apr-2023 Thursday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	131.37	131.32	▼0.39	▼1.54
EUR	1.0952	1.0904	▼0.0049	+0.0060
AUD	0.6713	0.6720	▼0.0031	+0.0036
SGD	1.3249	1.3279	+0.0024	▼0.0013
CNY	6.8793	6.8793	+0.0000	▼0.0102
INR	82.13	82.00	▼0.33	▼0.34
IDR	14931	14925	+25	▼140
MYR	4.3970	4.3995	▼0.0048	▼0.0207
PHP	54.42	54.42	▼0.08	▼0.04
THB	33.87	33.87	▼0.34	▼0.26

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.311%	▼2.8 bp	▼25.3 bp
JPY (10YR)	0.481%	+5.6 bp	+15.7 bp
EUR* (10YR)	2.182%	▼6.7 bp	▼14.7 bp
AUD (5YR)	2.993%	+0.2 bp	▼3.0 bp
SGD (5YR)	2.870%	▼4.4 bp	▼3.9 bp
CNY (5YR)	2.685%	+0.0 bp	+1.4 bp
INR (5YR)	7.142%	▼2.9 bp	▼2.9 bp
IDR (5YR)	6.357%	▼0.4 bp	▼5.5 bp
MYR (5YR)	3.516%	▼3.2 bp	▼0.7 bp
PHP (5YR)	5.760%	▼11.4 bp	▼10.5 bp
THB (5YR)	2.081%	▼1.1 bp	+16.0 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,482.72	+0.24%	+2.34%
N225 (JP)	27,813.26	▼1.68%	▼0.25%
STOXX 50 (EU)	4,298.36	▼0.39%	+1.59%
ASX (AU)	4,161.56	+0.14%	+1.09%
STI (SG)	3,318.87	+0.23%	+1.73%
SHCOMP (CN)	3,312.56	+0.00%	+2.24%
SENSEX (IN)	59,689.31	+0.99%	+2.98%
JSE (ID)	6,819.68	▼0.20%	▼0.29%
KLSE (MY)	1,429.55	▼0.00%	+0.65%
PSE (PH)	6,488.51	+0.25%	▼2.15%
SET (TH)	1,571.13	▼1.44%	▼2.45%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	272.25	+0.41%	+3.63%
COPPER (LME)	8,784.75	+0.51%	▲2.49%
IRON ORE (CN)	119.53	▲0.66%	▲5.82%
GOLD	2,020.73	+0.02%	+2.85%
OIL (WTI)	80.61	▼0.12%	+10.47%

Three Take-aways:
1) ISM services slump, softer ADP fuel bets on dovish shift; with front-end led drag on UST yields.
2) But despite this, chances are, rate hikes are not over. Nor is risk aversion/attendant USD backstop.
3) RBA's hold was qualified on hikes "not ... (necessarily over) and RBI may need to hike, not pause.

"Not ... Over"

- The *fat lady has not sung*. And it is "**not ... over**"; regardless of whether with regards to the global tightening cycle, latent banking stability risks or wider risks of policy miscalculations (be it economic or geo-political). It is against this backdrop that softer US data is parsed.
- **Further soft spots in US data** comprising a **sharp drop in US ISM services** (despite being in mildly expansionary territory) alongside **ADP employment shortfall**, which reinforces the miss in JOLTS, *convey worries of US economic slowdown with a distinct jobs market spillover*.
- In turn, **invoking dovish bond market reflex** with ~6bps drop in 2Y yields to 3.77% (10Y: -4bp to 3.30%) **expressing diminished rate hike expectations** (May's 25bp hike odds falling to 50%).
- But this looks to be a *case of markets getting carried away with soft data points*. Point being, the **Fed is likely follow-through on the 25bp hikes** in May as it assesses the depth and durability of softening activity **rather than jumping the gun on declaring inflation risks tamed.**
- And the RBA perhaps best conveys the measured approach to shifting sands that reveal downside risks to growth. In explaining the pause in April, the **RBA revealingly said** *"the decision to hold rates steady this month does not imply that interest rate increases are over"*.
- **Not just tightening risks.** Clearly, **underlying risk aversion, and latent demand for haven refuge** "***not ... (decisively) over***" either; as evidenced by **USD rebound defying softer yields.**

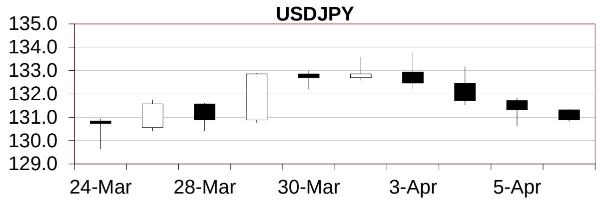
Why the RBI will Stick to its (Hawkish) Guns!

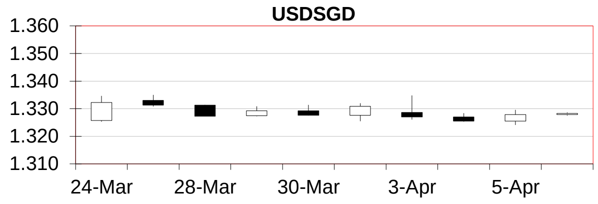
- At the April MPC it almost **appears like the RBI is being presented with options** for the first time in a while. Essentially, the question is "*to hike or not to hike*".
- For us, the answer is a **resounding "hike"**; with the nuance **of a calibrated 25bp**; ***conveying that the RBI is sticking to its Hawkish guns***.

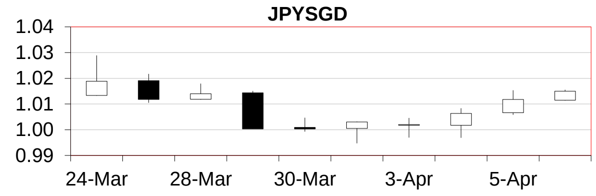
OVERNIGHT RESULTS

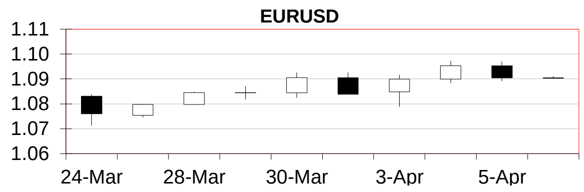
(PH) CPI YoY (Mar): 7.6% (Mkt: 8.0%; Feb: 8.6%) | (TH) CPI/Core YoY (Mar): 2.8%/1.8% (Mkt: 3.3%/1.8%; Feb: 3.8%/1.9%)
(SG) Retail Sales/ex-Autos YoY (Feb): 12.7%/11.7% (Jan: -0.8%/2.1%) | **(US) ADP Emp. Chg (Mar): 145KM (Mkt: 210K; Feb: 261K)**
(US) ISM Services/Prices Paid/Employment/New Orders (Mar): 51.2/59.5/51.3/52.2 (Mkt: 54.4/--/--/--; Feb: 55.1/65.6/54.0/62.6)

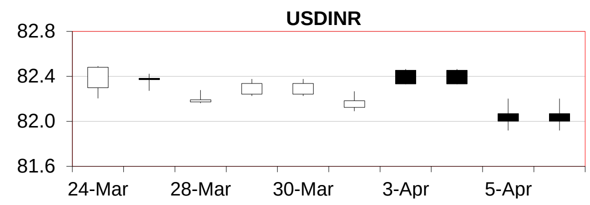
* Past Two Weeks Movement *

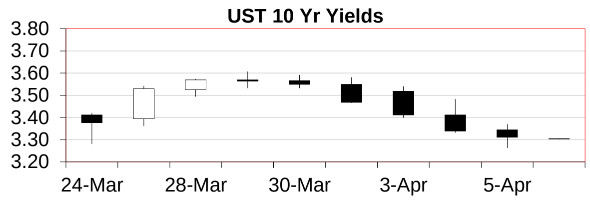


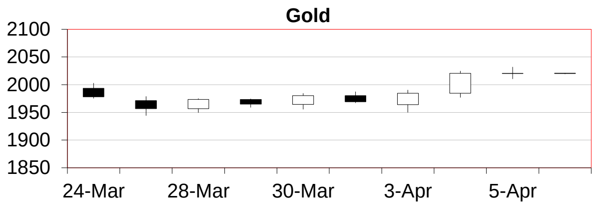


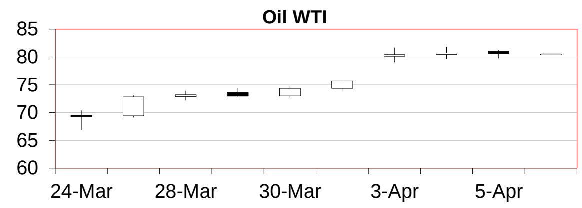












TODAY'S COMMENTS & FORECAST

Open

USD/JPY	130.93	EUR/USD	1.0904
USD/SGD	1.3283	USD/THB	33.96
JPY/SGD	1.0147	USD/MYR	4.400

Forecast

USD/JPY	130.40	-	131.80
EUR/USD	1.0820	-	1.0970
AUD/USD	0.6660	-	0.6780
USD/SGD	1.3220	-	1.3330
JPY/SGD	1.0030	-	1.0222
USD/CNH	6.8650	-	6.8960
USD/INR	81.90	-	82.50
USD/IDR	14800	-	15030
USD/MYR	4.385	-	4.413
USD/PHP	54.25	-	54.65
USD/THB	33.78	-	34.08

Today's Direction

	Bull		Bear
USD/SGD	3	:	6
USD/JPY	2	:	7

- The reasons why it appears that the RBI has scope to pause, are that;
  - i) the *worst fears of resurgent inflation* have been *assuaged*, and;
  - ii) perceived elevation in *downside risks to growth inflamed by* the *threat of a banking crisis/contagion* (with attendant demand destruction)
- But **neither clear the bar for the RBI to pause, much less suspend**, on-going **tightening** yet.
- On the first (i), **while inflation appears to be peaking**, and crucially does not pose the threat of an upward spiral, price pressures are **still too elevated and sticky.**
- The upshot is that **inflation remains well above the 6% upper limit of the RBI's inflation target** (at ~6.5%), and sticky components could stall the moderation despite signs of peaking.
- And so, the RBI may have to *tighten a little further to positive real rates territory* so as to anchor inflation expectations (and to demonstrate its price stability mandate unequivocally).
- As for (ii) **adverse economic impact from global banking sector risks**, this is ironically a **case for the RBI not to double down, not dial back, price stability commitments.**
- Reason being, **financial shocks may initially impact via adverse capital outflows**, and doubts about inflation anchor will inadvertently amplify macro-stability and rupee sell-off risks.
- And the economic devastation from capital (out)flows induced-macro-rupee stability risk spiral will likely be far greater than economic relief from a rate pause (or even cuts).
- Hence it makes sense to endure with **at least one more (measured 25bp) rate hike to insure against macro-stability risks while re-assuring lingering inflation concerns.**

FX Daily Outlook

- EUR/USD: As expected, softer UST yields have not resulted in buoyant EUR given underlying risks.
- USD/JPY: Softer UST yields (and underlying caution) both weigh on the USD/JPY; but 130 support.
- USD/SGD: Caution and CNH restraint will likely limit the SGD's upside.
- AUD/USD: RBA's intent in infusing rate hike odds ahead has not buoyed AUD; 0.67 traction is thin.

TODAY'S EVENTS

(AU) Trade Balance (Feb) : (Mkt: A$11.2b; Jan: A$11.7b)
(CH) Caixin PMI Services/Composite (Mar): (Mkt: 55.0/--; Feb: 55.0/54.2)
(US) Initial Jobless Claims (1-Apr): (Mkt: 200k; Prev wk: 198k)
Central Banks: RBI Monetary Policy Decision | Fed's Bullard Speaks