MIZUHO DAILY MARKET REPORT

22-Mar-2023 Wednesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	131.11	131.32	▼0.53	▼1.89
EUR	1.0657	1.0721	+0.0051	▼0.0010
AUD	0.6689	0.6718	+0.0021	+0.0050
SGD	1.3427	1.3371	▼0.0052	▼0.0091
CNY	6.8904	6.8770	▼0.0097	+0.0287
INR	82.66	82.64	+0.09	+0.51
IDR	15372	15360	+15	▼5
MYR	4.4881	4.4858	▼0.0002	▼0.0109
PHP	54.67	54.68	▼0.04	▼0.28
THB	34.09	34.11	▼0.12	▼0.49

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	3.485%	+5.6 bp	▼8.8 bp
JPY (10YR)	0.250%	▼3.8 bp	▼9.8 bp
EUR* (10YR)	2.125%	+1.7 bp	▼13.4 bp
AUD (5YR)	2.957%	▼17.2 bp	▼32.7 bp
SGD (5YR)	2.819%	▼13.1 bp	▼27.6 bp
CNY (5YR)	2.648%	▼1.8 bp	▼3.3 bp
INR (5YR)	7.190%	▼4.0 bp	▼7.8 bp
IDR (5YR)	6.491%	▼1.3 bp	+0.9 bp
MYR (5YR)	3.516%	▼5.5 bp	▼0.3 bp
PHP (5YR)	5.851%	▼6.8 bp	▼2.1 bp
THB (5YR)	1.992%	▼2.2 bp	▼6.9 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	32,244.58	+1.20%	+1.34%
N225 (JP)	26,945.67	▼1.42%	▼3.19%
STOXX 50 (EU)	4,119.42	+1.34%	+0.56%
ASX (AU)	4,039.44	+0.79%	▼1.90%
STI (SG)	3,139.76	▼1.37%	+0.24%
SHCOMP (CN)	3,234.91	▼0.48%	▼1.03%
SENSEX (IN)	57,628.95	▼0.62%	▼1.05%
JSE (ID)	6,612.49	▼0.98%	▼2.57%
KLSE (MY)	1,401.81	▼0.70%	▼1.41%
PSE (PH)	6,451.02	▼0.29%	▼1.43%
SET (TH)	1,555.45	▼0.53%	▼1.12%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	255.17	+0.20%	▲3.59%
COPPER (LME)	8,573.25	+0.00%	▲3.87%
IRON ORE (CN)	128.30	▲1.81%	▲1.91%
GOLD	1,978.84	▲0.52%	+3.40%
OIL (WTI)	67.64	+1.35%	▼9.57%

Three Take-aways:
1) Pre-FOMC relief rallies are not to lull markets into a sense of resolution and bona fide "risk on".
2) FOMC to stick with, not suspend, a 25bp hike; as financial risks are deemed to be ring-fenced.
3) 'Dot Plot' and revised forecasts to be scrutinized amid wild swings in forward policy expectations.

Relief, Not Resolution

- Pre-FOMC cheer in US equities (S&P500: +1.3%; Nasdaq: +1.6%) alongside a bear flattening in the UST yield curve was a sign of **relief** rallies (being pulled back from fear) and ***not*** an indication of a resolution of risks; be it policy-inflation miscalculations or financial stability threat.
- To be sure, the **authorities have stepped up to ring-fence/dial-back banking meltdown risks** with; US Treasury Secretary (ex-Fed Chair) Janet Yellen assurances of being "*resolutely committed*" to averting financial (in)stability risks (with speculation of expanded FDIC deposit coverage) while ECB and BoE have quelled fears of contagion from Credit Suisse's AT1 wipeout.
- But *"resolute commitment" and resolution are not one and the same*. Commercial real estate exposure of US regional banks might still throw up bumps. Yet, Fed hawks may persist with calibrated tightening; echoing ECB's view of no trade off between price and financial stability.

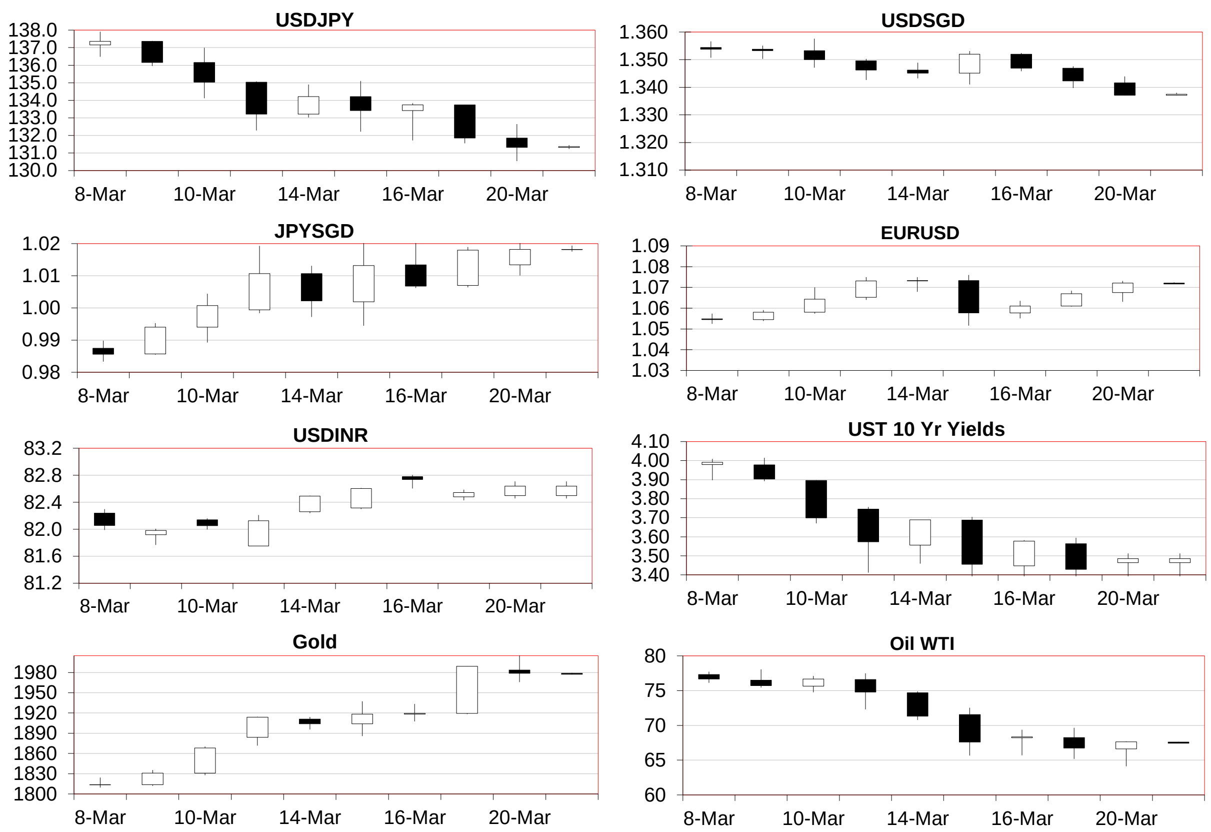
FOMC- Don't Bank(ing Crisis) on a Fed "Blink"

- It may be **best not to bank on bets that the Fed will "blink" amid risks of a banking sector crisis**; that markets believe are unleashed by the tremors from SVB and Credit Suisse. Instead, the Fed is likely to continue with calibrated tightening to address stubborn inflation risks.
- Why? Well, simply because the Fed makes a **distinction between bank-specific stress (even if a few more banks may be exposed to similar risks) and systemic risks of contagion** via opaque and inextricably linked balance sheet risks across the global financial markets.
- What's more, prompt policy response from the Fed (to SVB) in providing guarantees to depositors as well as setting up the BTFP*, which mitigates liquidity risks from falling values of UST portfolios, is also deemed to **ring-fence these more specific bank risks**.
- And that ought to **decouple wider monetary policy from banking sector risk mitigation**.
- Specifically, **allowing the Fed to continue with its calibrated 25bp tightening.**

OVERNIGHT RESULTS

(GE) Zew Survey Expectations/Current (Mar): 13.0/-46.5 (Mkt: 15.0/-44.3; Feb: 28.1/-45.1)
(US) Existing Home Sales (Feb): 4.58m (Mkt: 4.20m; Jan: 4.00m) | **(US) Philly Fed Non-Mfg (Mar): -12.8 (Feb: 3.2)**

*** Past Two Weeks Movement ***



- Especially as the evidence on taming inflation sufficiently remains scant. And prematurely reversing course may be deemed a greater inflationary risk than a dis-inflationary banking crisis; which the Fed likely considers sufficiently ring-fenced and backstopped.
- To be sure, between SVB and Credit Suisse triggered wobbles in markets fretting a banking/financial sector crisis, FOMC expectations have swung wildly.
- From stepping back up to a 50bp hike just before SVB shocks hit (when markets were fretting a hot and sticky core services inflation print) to suspending the hiking cycle abruptly on panic about a wider banking/financial crisis; although this has now substantially dissipated.
- Neither extreme reflects **the Fed's temperament for steady and calibrated tightening**; **with work left but perhaps no haste required**. All said, markets *should not bank on a banking crisis to derail a well-telegraphed 25bp hike;* **validated by inflation hot spots.**

* This is the Bank Term Funding Program, which allows for banks to access liquidity using

Connecting the "Dot (Plot)"

- Admittedly, **OIS-implied Fed rate hike expectations** for March FOMC (later today) and peak rates **have swung about wildly**; March FOMC from 50bp to suspension of hikes, back to 25bps.
- To some extent the fat-tail risk of financial instability from banking sector contagion accounts for these wild swings. And insofar that Fed re-pricing is dynamic, exaggerated even, **hawkish revisions to the 'Dot Plot' may check relief rallies and attendant USD pullback**.
- In **quantifying the Fed's commitment to tightening**, the 'Dot Plot' may help connect the dots on policy risks/expectations gap; thereby taking some edge off risks assets/EM FX rebound.

FX Daily Outlook

- EUR/USD: ECB & BoE assuaging risks around AT1 wipeout backstop; but brace for FOMC volatility.
- USD/JPY: Extreme risks around financial stability being allayed to help boost/backstop 132+.
- USD/SGD: Consolidation above, rather than declines below, mid-1.33 suggest caution about FOMC.
- AUD/USD: FOMC rate hikes expectations keeping AUD subdued; around low-0.66 to mild 0.67+

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	131.40	EUR/USD	1.0719
USD/SGD	1.3377	USD/THB	34.05
JPY/SGD	1.0180	USD/MYR	4.475

Forecast

USD/JPY	131.30	-	133.80
EUR/USD	1.0710	-	1.0820
AUD/USD	0.6620	-	0.6750
USD/SGD	1.3320	-	1.3440
JPY/SGD	0.9955	-	1.0236
USD/CNH	6.8630	-	6.9060
USD/INR	82.00	-	83.30
USD/IDR	15300	-	15420
USD/MYR	4.450	-	4.478
USD/PHP	54.25	-	54.78
USD/THB	34.25	-	34.68

Today's Direction

	Bull		Bear
USD/SGD	6	:	2
USD/JPY	8	:	0

TODAY'S EVENTS

(AU) Westpac Leading Index MoM (Feb): -0.1% (Jan: -0.1%)
(JP) Machine Tool Orders YoY (Feb F): (Prelim: 10.7%)
Central Banks: FOMC Decision | ECB's Lagarde speaks | ECB's Rehn, Wunsch, Visco, Panetta & Nagel speak