Mizuho Asia FX Brief – May 2022

MIZUHO

Economics & Strategy | Asia ex-Japan

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Rising USD & Inflation Tide

- **Global FX:** The USD is asserting its dominance as aggressive Fed hawks maintain unchallenged policy divergence; especially as ECB and BOE hawks are tempered by downside risks to growth. And financial markets spooked by sharply higher rates and tighter USD liquidity, the incremental incentive to hold USD from liquidated positions adds to the shine of King USD.

- **EM-Asia:** With a strong USD and rising global rates that have triggered risk aversion, EM Asia FX (AXJ) appears to be compromised. The soft spots are accentuated by rising inflation (eroding real returns) and fiscal strains that heighten risks of capital outflows. EM Asia central banks forced to respond to a hawkish Fed must assume sharp trade-offs in return for only partial macro-stability backstops for AXJ

- **CNY**: A confluence of economic pain from COVID and lingering property sector pains have, alongside global market wobbles, resulted in sharp correction in the CNY. But political incentives are high to stabilise CNY sooner rather than later. So tests above the 7-figure are neither unchecked nor will it be allowed to collapse further; so long as 2015-16 type panic is averted.

- **INR**: RBI's hawkish intentions may provide INR with some backstops but not immunity against an aggressive Fed. Meanwhile, elevated oil prices, rising inflation and fiscal slack could prolong rupee pain into Q3.

- **KRW**: Technological advantage unable to be exploited fully as supply constraints weigh and the BoK's initial pre-emptive advantage from rate hikes is quickly eroded; KRW will cede ground.

- **SGD**: Despite the MAS' "double barrelled" move in April, and continued hawkish slant, sweeping USD strength dictates SGD slippage near-term. In particular, sharper CNY and AXJ correction suggest further weakness via trade basket dynamics.

- **IDR**: Fading commodity tailwinds, protectionist policies and BI's focus on growth even with building price pressures will lead to regional underperformance.

- **MYR**: Even commodity buffers and BNM hiking proactively will still leave the currency buffeted by a hawkish Fed.

- **PHP**: BSP's dramatic turnaround from neutral to hawkish will help insofar that the pace of depreciation will not be sharp.

- **THB**: A fuller tourism recovery constrained by China's Covid-zero policy weakens the BoT's hand and consequently the THB's resistance against external headwinds.

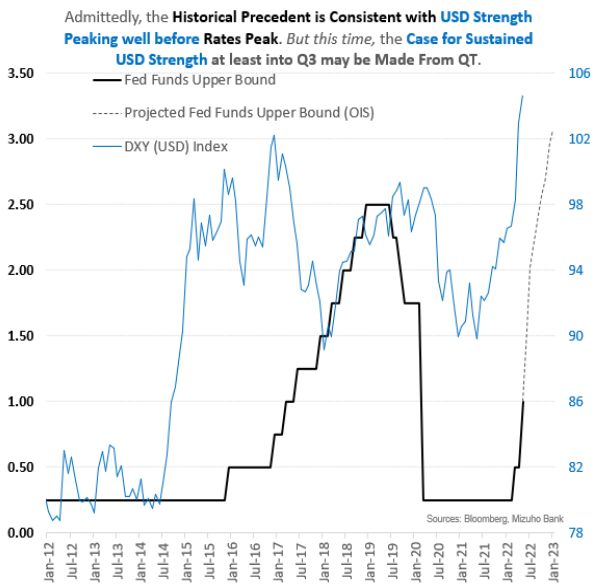
- **VND**: Strong fundamentals and awareness of US Treasury's watchful eyes imply regional outperformance though outright appreciation against USD eludes.

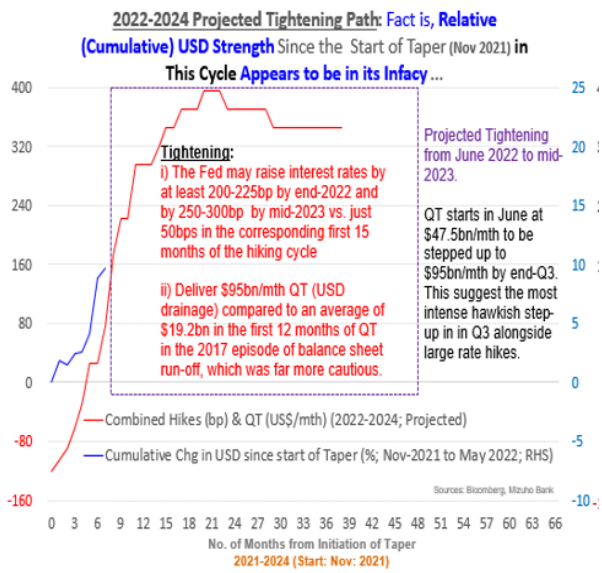
Currency Forecast Ranges

FX Forecasts	Jun 22	Sep 22	Dec 22	Mar 23	Jun 23	Sep 23
USD/CNY	6.34 - 6.95 (6.88)	6.70 - 7.02 (6.82)	6.46 - 6.96 (6.62)	6.27 - 6.73 (6.48)	6.18 - 6.64 (6.38)	6.16 - 6.53 (6.36)
USD/INR	75.0 - 79.1 (78.3)	75.5 - 80.1 (77.5)	73.4 - 78.5 (76.2)	71.4 - 77.7 (75.3)	70.6 - 76.8 (74.4)	70.0 - 76.3 (73.8)
USD/KRW	1210 - 1340 (1290)	1230 - 1370 (1280)	1220 - 1330 (1270)	1190 - 1290 (1240)	1180 - 1300 (1230)	1190 - 1290 (1240)
USD/SGD	1.35 - 1.44 (1.41)	1.35 - 1.43 (1.40)	1.34 - 1.44 (1.37)	1.32 - 1.41 (1.35)	1.31 - 1.39 (1.35)	1.31 - 1.38 (1.34)
USD/IDR	14340 - 15210 (14750)	14330 - 15240 (14680)	13960 - 15000 (14390)	13840 - 14990 (14300)	13700 - 14880 (14150)	13650 - 14810 (14100)
USD/MYR	4.17 - 4.51 (4.43)	4.33 - 4.56 (4.38)	4.04 - 4.45 (4.30)	4.07 - 4.40 (4.26)	4.08 - 4.41 (4.26)	4.05 - 4.41 (4.23)
USD/PHP	51.2 - 53.7 (53.3)	52.1 - 54.5 (52.8)	50.2 - 53.9 (52.4)	49.7 - 53.5 (52.0)	49.5 - 53.3 (51.7)	49.1 - 53.3 (51.3)
USD/THB	33.4 - 36.4 (34.9)	34.7 - 38.1 (35.3)	32.7 - 36.4 (34.6)	32.1 - 35.2 (34.0)	32.9 - 35.2 (33.8)	32.6 - 34.8 (33.5)
USD/VND	22600 - 23400 (23250)	22600 - 23400 (22950)	22500 - 23100 (22700)	22500 - 23100 (22600)	22400 - 22900 (22550)	22300 - 22900 (22550)
AUD/USD	0.637 - 0.769 (0.683)	0.649 - 0.730 (0.705)	0.688 - 0.775 (0.742)	0.726 - 0.808 (0.765)	0.737 - 0.811 (0.775)	0.759 - 0.830 (0.790)

Note: For FX forecasts, level in parentheses pertains to period end forecasts; and the period's range precedes this.

Global FX: All Hail King USD





King USD appears to rule the FX roost; **boosted by an** *aggressively hawkish Fed*, and **further** *accentuated by the "risk off"* mood that favours the refuge of the USD. In which case, the USD may be paired with higher (UST) yields in the case of the former or lower yields in the case of the latter. The upshot is that across a wide range of outcomes, the **USD appears to be set for a period of**

support, if not significant strength. In particular, the Greenback's **dominance spans across** the dimensions of **policy**, **geo-politics** and **risk re-pricing**.
The Fed's Hawkish Edge: For a start, the **Fed's aggressively hawkish stance** maintains an edge **consistent with relative policy divergence** despite wider hawkish inflection by global central banks. Point being, the **Fed's hawkish posturing is far more unfettered** than any other G4 central bankers; given the BoJ is outright dovish, the BoE is turning more restrained about incremental tightening amid greater downside risks to growth and the ECB hamstrung by worries of adverse demand impact from energy and wider cost shocks from the Ukraine war. And so, in coming months, with the Fed "doubling down" – not just with a series of a "double" 50bp hikes and a "double" tightening of both rate hikes as well as balance sheet run-off - USD could remain underpinned on the policy differentials. Especially on the combined impact of USD rendered simultaneously more expensive (on aggressive rate hikes) and shorter in supply (QT).

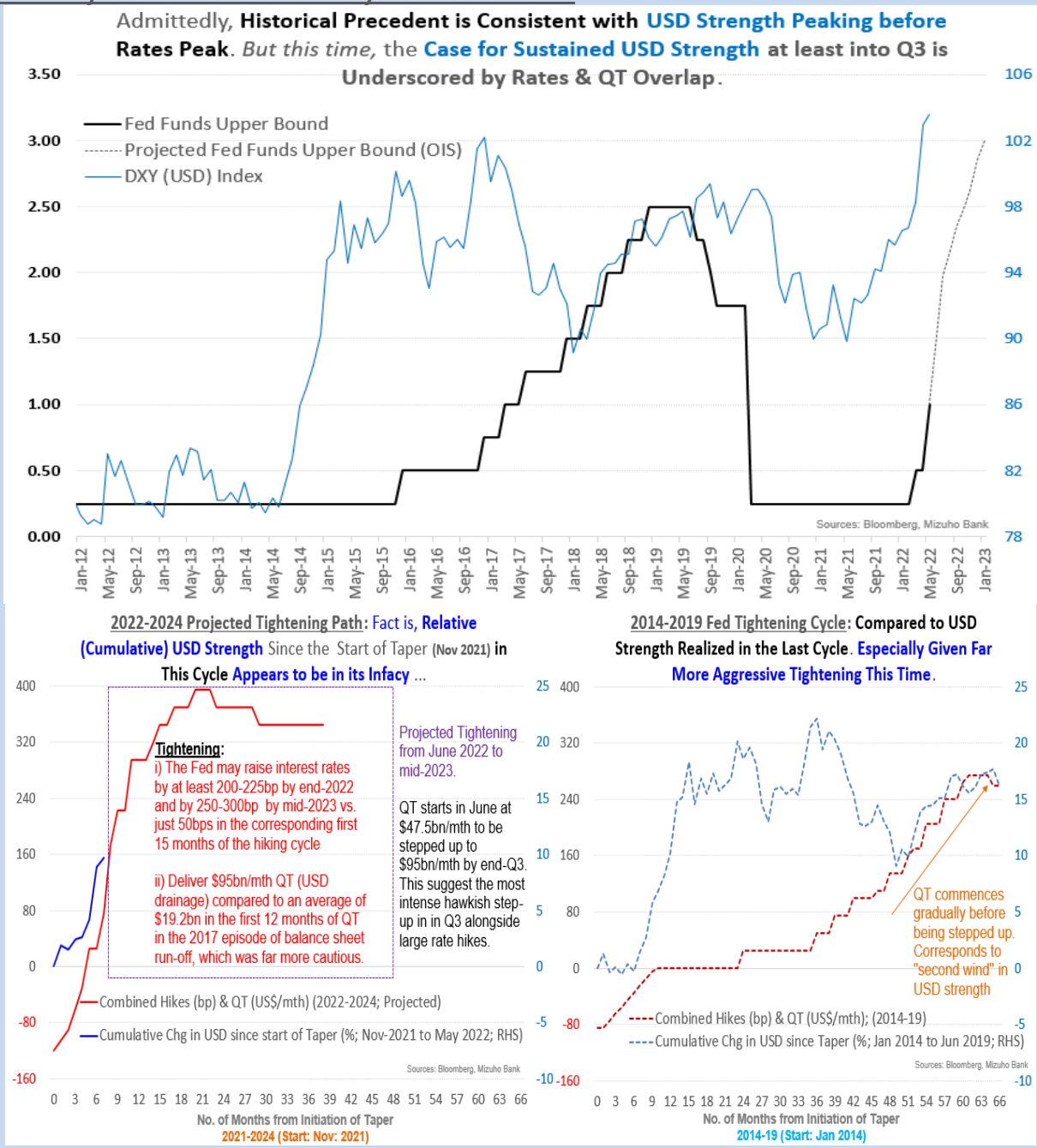
Geo-politics & Risk Re-pricing: What's more, whether due to Geo-political risks or risk re-pricing as markets sell-off on softer risk sentiments, refuge in the USD is likely to be preferred. In the case of the former, precautionary demand for USD holdings/liquidity is par for the course. Meanwhile, in risk off markets where assets are being re-priced, "cash is king" type of instincts will also favour the USD. Because the reality is that not all cash is equal, and it is the USD that is King.

Consequently, the USD is likely to retain pole position at least through Q3; as the Fed steps up on hawkishness, whilst other central banks show more restraint given policy trade-offs that are significantly sharper. And even beyond, capitulation in the Greenback may be measured and cautious rather than unbridled.

EUR: Admittedly, a faster path to ending APP and initiating lift-off constitute a nascent but distinct hawkish inflection for the ECB. But this is far from a convincing trigger for EUR bulls to lunge. Instead, the heavy policy dilemma, which has the ECB divided and President Lagarde tip-toeing around the requisite tightening as inflation surges, means that Fed-ECB divergence remains stark. Consequently, EUR parity is not an outlandish suggestion. Especially as markets probably have the EUR painted in a lose-lose scenario, caught between inflation risks from policy inertia and recession risks should the ECB's tightening compound negative demand effects from Russia's price shocks. So near-term, EUR is likely to remain on the back foot with a downside skew.

JPY: Policy divergence is even more conspicuous for the BoJ given the unambiguously dovish rhetoric stressing on the need to maintain policy stimulus. Insofar as UST yield upside is not yet exhausted - despite a bumpy path higher - USD/JPY could test more upside in coming weeks and months. But clearly, intervention risks are on the rise given that excessive JPY weakness exacerbates demand destruction risks that result from imported cost shocks. For now, tweaks to YCC may be instrumental in reining in USD/JPY ascendancy given it emphasises policy divergence and accentuates UST-JGB yield spreads that tend to be a key driver of USD/JPY. To some extent, drag from JPY crosses could also temper USD/JPY upside pressures.

Box 1: Why Fed Hawk-USD Bulls May Not Be Exhausted



"Never trust to general impressions ... but concentrate … upon details." – Sherlock Holmes

Beware Premature Bets on Peaking USD: At first blush, **received wisdom** about anticipatory markets **and past experience** appear to concur with the notion that **USD strength derived from a hawkish Fed tend to be front-loaded**; *peaking well before the Fed's policy rates.* This is **not wholly inaccurate**. In fact, it is consistent with the logic of Fed rates expectations based projection of USD strength (see top Chart).

But equally, any **conclusions about USD bulls having exhausted a hawkish Fed risk being premature, if not outright misguided**. As Sherlock Holmes put it, "*general impressions*" **of USD strength on the cusp of exhaustion** (due to hawkish rate hike expectations being mostly priced in) **may be debated, if not debunked,** if one "*concentrate(s) upon the details*" of this far more tightening cycle. In particular, once appropriate distinctions on the intensity, extent from the last cycle are drawn.

Intensity of Fed to Instigate USD Bulls: First, the intensity **of the Fed's tightening cycle this time appears to be** under-accounted for by USD bull sceptics drawing parallels to the early USD peak in the last hiking cycle. Crucially, the **coincidence of aggressive rate hikes and balance sheet run-off** (also known as quantitative tightening or QT) is likely to **extend and emphasize USD strength**.

Whereas the *"second wind" of USD strength followed after pause due to the interval between rate "lift-off" and QT in the last cycle,* the conspiracy of rising rates and diminishing USD supply at the margin may instead induce **comparatively more profound and persistent USD strength.** In particular, **given near-term inclination for upsized 50bp hikes** (June and July FOMC) and a **step-up in QT** (commencing June) from $47.5bn per month to $90bn/mth in three months, **Q3 looks primed for further USD strength**.

Extent of Tightening Matters: Second, **peak Fed rates and QT** are set to materially exceed the last cycle (that began in 2014 and ran through mid-2019). Especially ***as the Fed warns that high inflation may require*** some degree of ***policy over-steer.*** Upshot being, a **far larger degree of cumulative tightening** (rates and QT) ought to correspond to a **greater degree and duration of USD strength** (See Charts above).

Risk Retrenchment & USD Reinforcement: Finally, a **conspiracy of sharply higher US rates** and **significant USD liquidity drainage** may **induce larger-than-expected self-validating USD strength**; as the impact of the rising price (higher rates) and shrinking supply (from QT) of USD **feed into, and off, each other**. **Especially amid a retrenchment of risk** as richly valued asset markets correct amid risk re-pricing. And liquidation of assets may **reinforce USD (haven) demand**; and hence USD **strength**.

Resultant EM Asia Soft Spots & Slippery Slopes: What this means is that **resulting weakness in EM Asia currencies (AXJ) may not only endure into Q2, but likely extend into Q3**. And even if AXJ regain traction into end Q3 as Fed hawks mellow, downside risks within Q3 remain significant (See Tables overleaf).

In particular, **vulnerabilities are likely to be most pronounced in currencies exposed to twin deficit risks** (e.g. PHP, INR & IDR) as uncomfortably elevated energy prices (amid Ukraine risks) **collide with a hawkish Fed inciting sharply higher US rates/yields**.

In addition, commodity- (AUD, IDR, MYR) and China's supply-chain (KRW, TWD) and Zero COVID border restriction (THB, PHP) may induce more downside AXJ volatility.

Finally, **upside risks to inflation and attendant monetary policy response** will **further differentiate AXJ outcomes** based on the Fed-EM Asia policy divergence narrative into Q3. IDR may be vulnerable unless Bank Indonesia walks back on "patience", AUD will hinge on the RBA's hawkish pivot, while BoT, BNM and BSP are watched for propensity to calibrate judiciously.

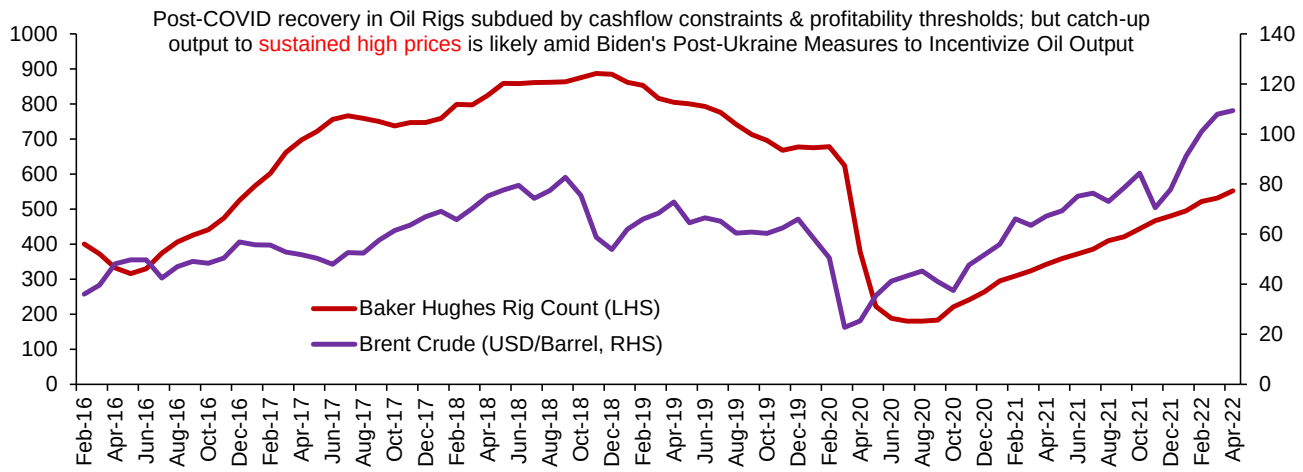
Oil: Tug-Of-War

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Brent Oil	$77 - $139	$95 - $128	$93 - $126	$82 - $118	$75 - $108	$72 - $106
	$107.9	$116	$106	$98	$92	$93

The outlook for oil is nuanced. It is neither unwaveringly bullish nor is it unnervingly bearish. Instead, oil is likely to remain uncomfortably elevated, but not in a state of unfettered acceleration. And in this context we expect Brent crude prices to be traded mostly within the established sub-$100 to $125 range in the coming 2-3 quarters before easing back to $75-$95 range further put.

The main narrative here is that of adverse Geo-political supply shocks - driven predominantly by Russia supply/sanction risks from the war in Ukraine - acting as an elevated backstop near-term even as it collides with, and blunts the price moderation effects that may otherwise have been expected from supply restoration and rising prospects for dampened demand further out (led by headwinds from the Fed's tightening). Simply put, near-term, crude prices will be subject to a tug-of-war type of dynamic from the opposing forces of war on one hand and aggressive hawkish tug (dampening demand) from the Fed.

As a result of which, even as crude moderates into the year, the price level could remain inconveniently high for the corresponding demand levels. While an extreme iteration may be averted, Oil will be a stagflation type of threat even as it is subdued by the Fed's aggressive tightening.



Source: CEIC; Mizuho Bank

Gold: Bug-Bear

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Gold	$1780 - $2070	$1720 - $1990	$1520 - $1785	$1480 - $1680	$1520 - $1750	$1560 - $1820
	$1937	$1745	$1625	$1570	$1635	$1740

A point worth rehashing is that gold's supposed allure as an inflation hedge is misconceived. While gold is a compelling hedge against the erosion of purchasing power due to the debasement of base currencies, it tends to buckle under the weight of rising real rates.

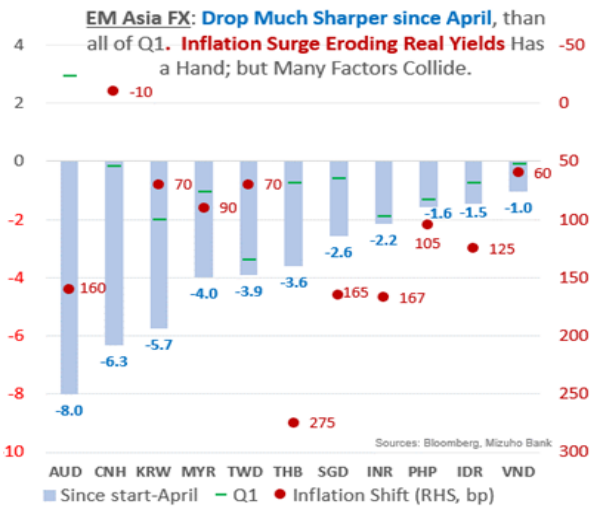
And with the Fed's exceptionally aggressive hawkish turn, gold is at risk of pulling back further, rather than having its shine embellished in coming months. What's more, not only are aggressive rate

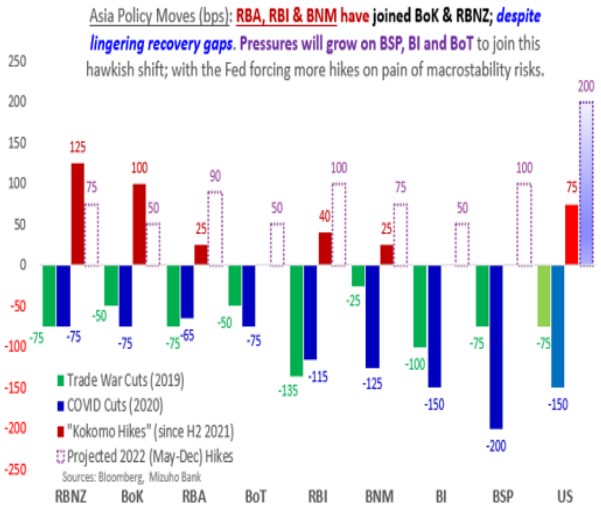
hikes set to lift (nominal and real) rates dramatically, the Fed's balance sheet run off is also set to drain USD liquidity.

Hence not only will zero-yielding gold be dented by rising real rates, shrinking USD supply could add to pressures in the USD-denominated price of gold in coming months/quarters.

All said, the high inflation environment is not a boon for gold bugs. Instead, it is a bugbear for gold as the Fed's hawkish response to inflation looks set to sink gold further in coming quarters before relief could come through later. And so, save for episodes of gold demand due to geo-political risk off, the case for a strategic and sustained long gold position is at best risky, if not, reckless.

Asia FX: Reversions & Aversions





Pressures on EM Asia FX are likely to be protracted, and possibly set to deteriorate before things turn a corner late this year or in H1 next year. For one, on-going aversions to Geo-political uncertainty and the consequent price pressures are delivering stagflation type of risks that are likely to unearth greater aversions on EM. And EM Asia is no exception. Arguably, China risks may even accentuate the bouts of aversions. And while there appeared to be some resilience earlier to the Fed's hawkish turn, reversions to adverse asset markets and currency impact from an aggressively hawkish Fed is par for the course. Perhaps more emphatically so as reversion to greater inflation sensitivities in EM Asia as opposed to developed markets and the US. And in any case the strong USD is already kicking the tires and kicking up vulnerabilities.

With broad-based USD strength finding more dimensions and greater durability, resulting weakness in EM Asia currencies (AXJ) may not only endure into Q2, but are likely to extend into Q3. And even if AXJ regains traction into end Q3 as Fed hawks mellow, downside risks within Q3 remain significant. Point being, this brand of Greenback strength, steeped in a hawkish Fed with lagging and less compelling EM Asia central bank tightening (resulting in persistent policy gaps), has a tendency to hit EM Asia currencies/assets hardest insofar that it stirs capital outflow risks.

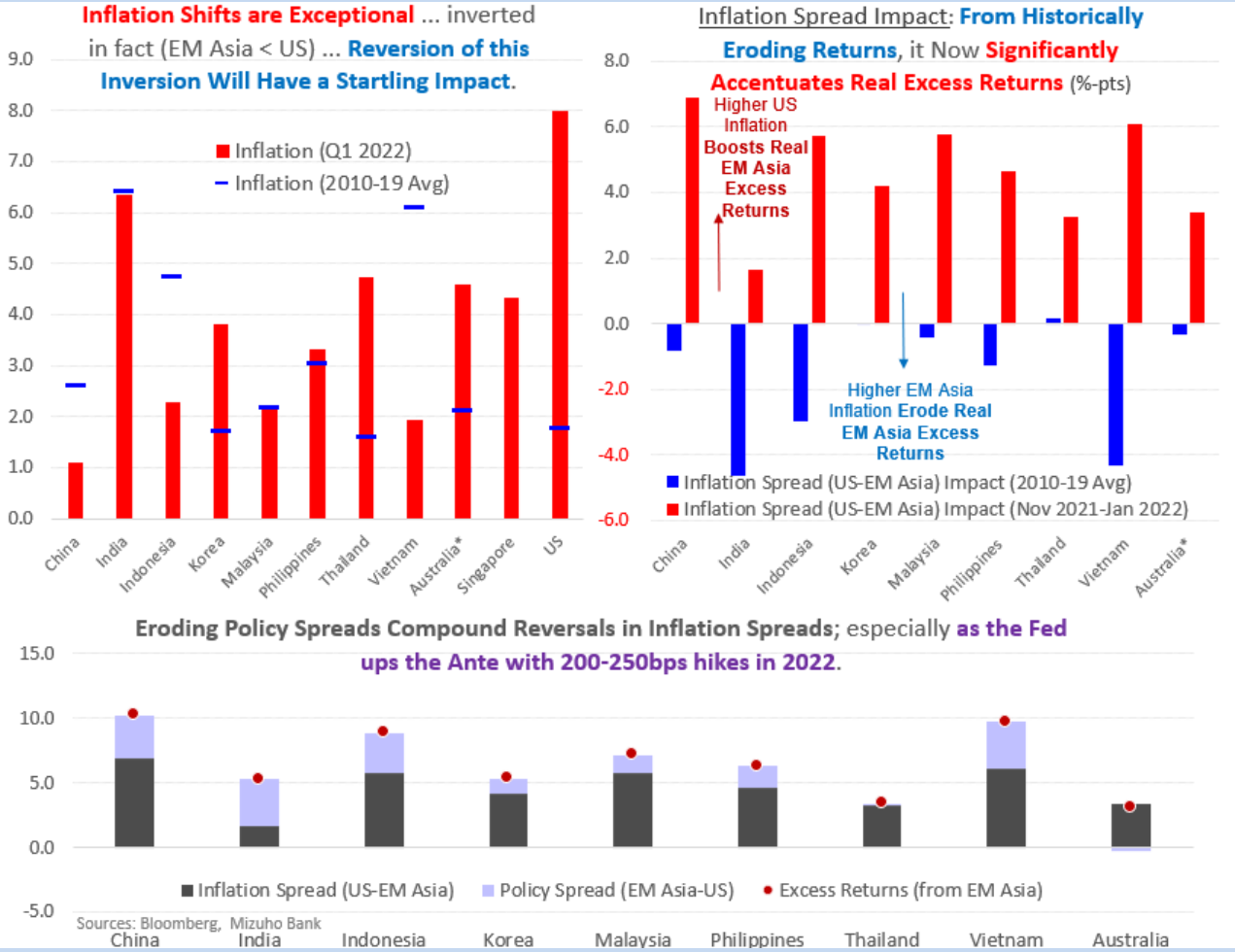
Especially if the dent from rising US/global rates hitting greater levels of indebtedness feed off, and into, the adverse balance sheet effects of a stronger USD (inflating USD-denominated liabilities and diminishing returns of unhedged foreign investments in local currency assets). The most extreme iteration, albeit not the base case this time, would be "reflexivity", whereby EM Asia currency losses turn into a self-fulfilling spiral.

What's more, this time around, it is likely that inflation "inversion reversion" (see Box 2 for details) is set to exacerbate capital outflow risks as real returns fall even more sharply. Mainly due to the exceptional, almost unprecedented, case of higher US inflation vis-a-vis EM Asia, set to reverse out quickly into H2; as US inflation peaks and the reversion in EM Asia picks up amid ongoing food and energy shocks filtering through.

In particular, vulnerabilities are likely to be most pronounced in currencies exposed to twin deficit risks (e.g. PHP, INR & IDR) as uncomfortably elevated energy prices (amid Ukraine risks) collide with a hawkish Fed inciting sharply higher US rates/yields. And this not only accentuated external position risks, but also exerts pressures on already stretched fiscal positions that have little to give after COVID exhaustion. In addition, commodity- (AUD, IDR, MYR), China's supply-chain (KRW, TWD) and zero COVID border restriction (THB, PHP) may induce more downside AXJ volatility.

Finally, upside risks to inflation and attendant monetary policy response will further differentiate AXJ outcomes based on the Fed-EM Asia policy divergence narrative into Q3. IDR may be vulnerable unless Bank Indonesia walks back on "patience", AUD will hinge on the extent of RBA's hawkish pivot, while BoT, BNM and BSP are watched for propensity to calibrate judiciously.

Box 2: EM Asia FX: The Inflation 'Inversion Reversion' Risk



With US CPI at a 40-year high 7.5%, the **deafening narrative of soaring global cost pressures** distracts from, if not **drowns out**, an equally important and **unprecedented shift in US-EM Asia inflation spreads** that is **distorting risk pricing and overstating EM Asia's asset/FX resilience**.

That is, an exceptional **inversion of US-EM Asia inflation spreads** of an unprecedented scale and amplitude is likely to be **flattering the allure of real EM Asia returns**. The elephant in the room is **the risks and payback that come with a reversion** to US-EM Asia inflation spread "norms".

To be sure, relative inflation swings are profound even in the headlines as **US inflation has, uncharacteristically and unambiguously, surged past inflation anywhere else in EM Asia**. Specifically, the **degree of US inflation upswing** (of 5.5-6.0%-pts) past its pre-pandemic 10-year (2010-19) average is **far more pronounced than the corresponding inflation surge in EM Asia**; that is no more than ~2%-pts above its 10Y (2010-2019) average (See Top Left Chart).

In fact, in some cases, such as **China, India, Indonesia and Vietnam, inflation is in fact lower than it was over the longer-term (2010-19) average**. This underscores the **wider point of far more subdued EM Asia inflation deviation from trend**. **As a consequence of which**, the **inflation spread between US and EM Asia inflation has flipped** *from higher inflation in EM Asia (vs. US) to higher inflation in the US relative to EM Asia.* In other words, there has been an **inversion in US-Asia inflation spreads**.

And this **"inversion"** is **significantly beneficial to real excess returns in EM Asia** (vis-à-vis US; Top Right Chart) *insofar that returns in EM Asia are not eroded (by inflation) as much as in the US.* This is in sharp contrast to any sustained experience in past decades, when higher inflation in EM Asia (vs. US) in fact diminishes real excess returns.

So, what's **unprecedented** is that **even as the Fed prepares to embark on a hawkish path**, the **allure of real excess returns from EM Asia,** *flattered by the inflation inversion,* may be acting as **an exceptional backstop**; conferring more stability to EM Asia assets/FX than otherwise the case.

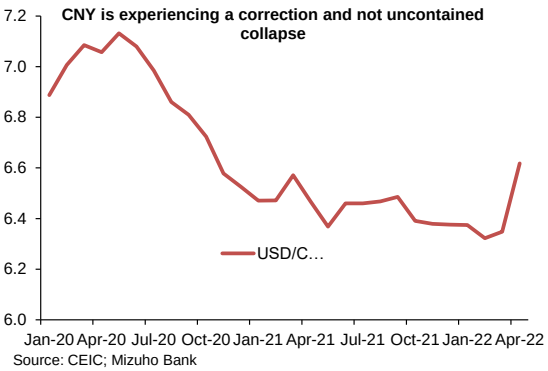
In fact, at a very simplistic level, ***EM Asia-US inflation spreads appear to be a far greater boost to EM Asia excess returns than policy spreads*** (Bottom Chart). As a corollary, **"inflation inversion" set for reversion down the road**, as US inflation peaks and EM Asia inflation either catches up or remains sticky, then the **erosion in real excess returns in EM Asia may be profound**.

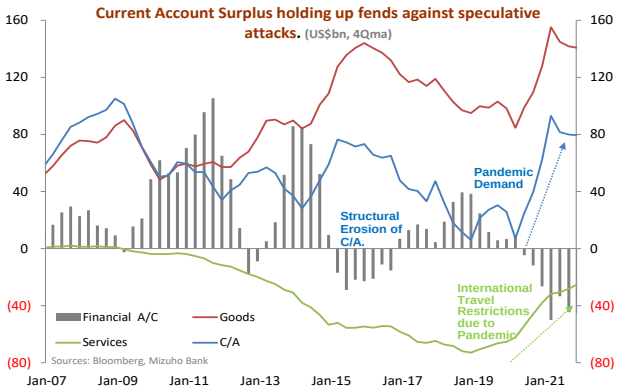
Especially as already slim **policy spread advantages for most of EM Asia is likely to be eroded further**, **as most EM Asia central banks are likely to lag** (if not fall further behind) **an aggressively hawkish Fed;** *which has 150bps of hikes priced in for 2022.* And so, the clear and present danger heading into H2 2022 is that **inflation "inversion reversion" risk**, ***resulting in a sharp erosion in real excess returns in EM Asia,* may inadvertently destabilize of EM Asia assets/FX**. *Especially if a particularly aggressive hawkish iteration of Fed tightening and complacent EM Asia policy inertia conspire against a wider backdrop of "risk off".*

CNY: Correction, Not Collapse

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy rate^	3.70%	3.60%	3.50%	3.50%	3.50%	3.50%
USD/CNY*	6.31-6.39	6.34 - 6.95	6.70 – 7.02	6.46 - 6.96	6.27 - 6.73	6.18 - 6.64
	6.34	6.88	6.82	6.62	6.48	6.38

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative. ^ The 1-yr Loan Prime rate is expected to be adjusted in small 5-10bps calibrations to 3.80%





Sharp drop of 7-8% since February's 6.32-6.35 levels to test above 6.80 is admittedly a worrying development for a usually steady CNY, which tends to have volatility dampened by the PBoC's trading bands coupled with a trade-weighted guidance/reference for the currency. But this is merely a correction in what was an **overvalued CNY from earlier this year, and not an uncontained collapse**.

Fact is, with the CNY NEER at the highest levels since the 2015-16 meltdown in Chinese asset markets (the "China crisis"), the PBoC was arguably in favour of some - albeit measured - degree of correction. Admittedly, the depth of the current drop is worrying as is the speed. But this is precisely why we expect that policy will step up to lean against speculation. Specifically, the PBoC has both **capital control tools and a solid current account surplus in its favour to defend against unchecked speculative attacks**. This is despite supply-side disruptions threatening to dampen exports while high commodity import prices eat into net trade margins.

The biggest threat for the PBoC is perhaps from a sharp turn in sentiments that sets off an avalanche of asset market sell-off, ensuring liquidation amid cross-defaults and ultimately resulting in capital flight in a replay of 2015-16 (during which time the PBoC had burnt through $1trln in FX reserves (which fell from $4trln to $3trln). And such a scenario, we concede, cannot be ruled out if financial shocks from an ultra-hawkish Fed collide and conspire with geo-political crisis (Russia risks spilling over to China) to set off a perfect storm. This is not outside the realm of possibilities, nor is it the base case.

Instead, the 20th Party Congress in Oct/Nov this year, where President Xi is arguably set for the most important political transition in his career (extending to an unprecedented third term and amassing enough political capital) may be good news for the CNY. Simply because economic and attendant currency stability (if not slight strength) is almost a precondition. And so we expect that policy levers will kick in to backstop the economy as well as the CNY.

That's not to say the CNY is immune to further correction near term - it is not completely spared. We expect that further CNY downside is par for the course into mid-2022 and in Q3 amid greater FX market volatility as the Fed's step up in policy tightening triggers further assault on risk assets. But heading into Q4 we expect some traction will be regained by the CNY due to **policy support that**

coincides with less severe Fed policy divergence; as well as the COVID lockdown fears in China likely abating by then. This is why our USD/CNY view, while conceding a breach of 7 in coming weeks and months is still consistent with a turnaround back to 6.60-6.85 levels in late-2022/early-2023.

AUD: RBA's Helping Hand

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	0.10%	0.60%	1.00%	1.25%	1.50%	1.50%
AUD/USD	0.697-0.754	0.637-0.769	0.649-0.730	0.688-0.775	0.726-0.808	0.737-0.811
	0.748	0.683	0.705	0.742	0.765	0.775

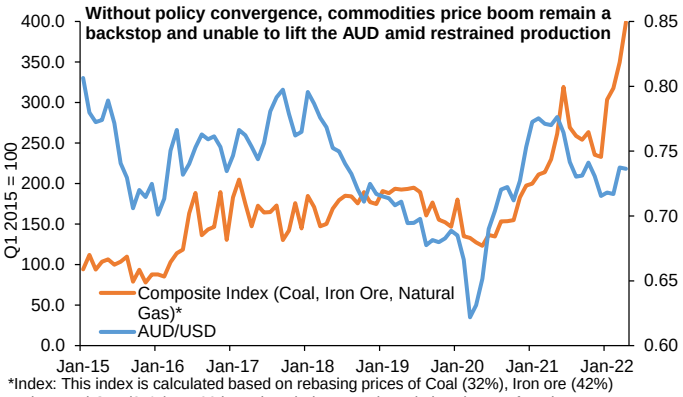
Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

The RBA's hawkish 25bps turn in May was evidently overshadowed by the Fed's confirmation of multiple 50bps hikes. The RBA's mildly surprising turn came on the back of a resilient economy and higher than expected inflation alongside broadening price pressures. An interesting allusion was that a range of industries are willing to pass on cost increases to consumer prices. In our view, together with the growth data, this can be taken as a mix of confidence in household's absorption of some sticker shock and that the magnitude and range of input price increases has become substantial.

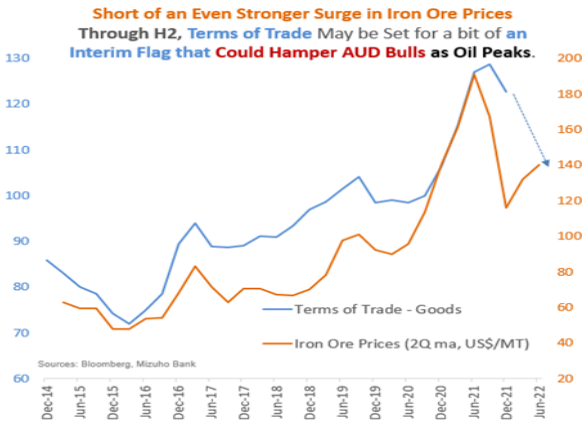
Looking ahead, we expect the RBA to continue calibrating monetary policy. Specifically, another 25bps rate hike for the cash rate to reach 60bps in Q2, reflecting faster movement towards the neutral rate and prevent un-anchoring of inflation expectations. Nonetheless, this will merely check, not reverse the FED-RBA policy divergence narrative. Accordingly, bearish AUD baggage from this divergence may not be discarded imminently either.

What's more, adverse China demand risks are also notable drags assaulting the AUD for now. With repeated warnings on domestic growth from the Chinese authorities and a staunch zero-Covid policy, the outlook for iron ore demand has waned significantly and weighed on the AUD. While higher energy prices from coal, oil and gas will continue to bolster the current account balance, transmission to AUD strength remains more of a backstop, rather than appreciation bias as output remains constrained and unable to exploit the higher demand.

To be sure, we expect that the underlying global impetus for infrastructure expansion should continue to feed in as a fundamental support for AUD, which at current levels looks undervalued. But a restoration to 80 cents and above is pre-conditioned on the abatement of an ultra-hawkish Fed and soft spots in the Chinese economy. Which is to say that AUD may not bottom till mid-2022 or Q3, and even then, it may only recover tentatively, with risks of air pockets given the precarious state of global markets amid stagflation type risks.



*Index: This index is calculated based on rebasing prices of Coal (32%), Iron ore (42%) and Natural Gas (25%) to 100 based on their respective relative shares of total exports.
Source: CEIC, Bloomberg, Mizuho Bank



A fat tail risk to the downside for the AUD, which may unexpectedly prolong AUD slide and pain is a much larger than expected housing market shock from sharply higher rates that inadvertently results in a balance sheet recession. But with the RBA highly cognisant of adverse housing-household-banking feedback loops, we think this remains a tail risk; as the RBA exercises utmost care and caution.

Meanwhile downside tests to 65 cents is on the table before a recovery to mid-0.75 to sub-0.80 further down the road, heading into 2023.

Further international reopening optimism could also continue to shine for the AUD boosting the tourism sector with spillovers to services such as education and housing. All said, we expect meek gains for the AUD by end-Q3 while more substantial policy convergence sets the stage for a stronger AUD in Q4 and beyond.

KRW: Unable to Chip Away Weakness

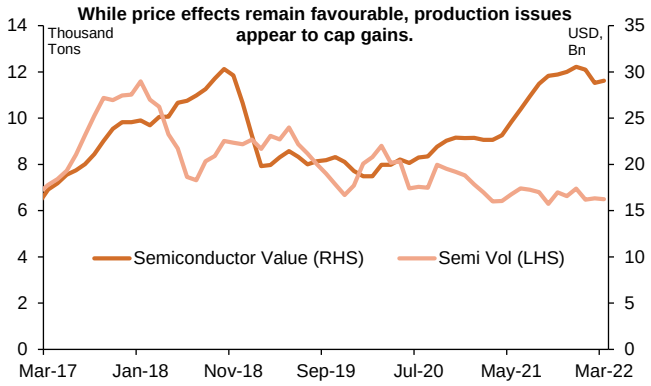
	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	1.25%	1.75%	2.00%	2.00%	2.00%	2.00%
USD/KRW	1185-1244	1210 - 1340	1230 - 1370	1220 - 1330	1190 - 1290	1180 - 1300
	1211	1290	1280	1270	1240	1230

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

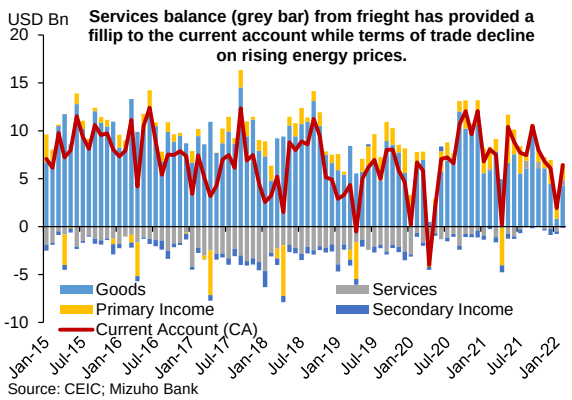
Despite a strong current account and leading monetary policy calibration efforts by the BoK, the **KRW will likely continue to cede ground to the USD in Q2** before recovery heading into Q4 2022.

With **four 25bps rate** increases bringing policy rate to 1.5% thus far, the **BoK has provided an important backstop for excessive weakness in the KRW** especially with the Fed's hawkish rate hike and quantitative tightening. As headline and core inflation rates are set to remain above 4% and 3% at least for H1 2022, the worsening negative real interest rates signal that the BoK's action remains a backstop and **not an emphatic source of strength for KRW.** Given **widening policy differentials with the Fed**, we factor in an **additional rate hike of 25bps in Q2 and Q3 each to reach 2.00% as new Governor Rhee attempts to arrest rising inflation expectations.** The 2% terminal rate imposed is based on a delicate balance between nearer term concerns of unprecedented inflationary pressures, elevated household debt burdens, slowing global growth alongside longer term potential growth worries amid a silvering population and productivity challenges. **Rate hikes to above 2% will be contingent on higher than expected growth uptick in H1.**

Domestically, mobility in South Korea has largely returned above pre-Covid baseline as the government removed private gathering limits and business hour curfews. Industrial production has also recovered strongly with higher manufacturing capacity utilisation signalling healthy demand.



Source: CEIC, Mizuho Bank



Source: CEIC; Mizuho Bank

Externally, **current account surplus remains healthy** at US$6.7 billion (as of March 2022) anchored by strong demand for electronics and associated components. South Korea's technology conglomerates and the country's goods balance will continue to be boosted by an expanding global semiconductor market this year, especially in the memory category with **prices remaining favourable** amid **ongoing semiconductor supply tightness evident from the price-volume divergence from the chart above**. In addition, the high value added nature of production also implies the ability to pass on rising cost pressures to consumers abroad. That said, these tailwinds remain a structural feature which has restrained KRW weakness rather than provide unimpeded strengthening.

The worrying phenomenon on the trade front stems from **declining terms of trade. Escalating import prices from surging commodities' prices** has begun to chip away at tailwinds from these traditional high tech comparative advantages, and worsen exports at the lower end of the value chain with lower cost absorption capacities.

Korea's reliance on energy (9% of fuel imports) and animal product (~5%) imports from Russia will continue to push up industrial and household costs respectively, amidst continued geo-political tensions. In addition, costs for segments such as ramyeon and cosmetics are also inflated owing to Indonesia's **palm oil export ban,** given Korea's reliance **on Indonesia for more than half of their palm oil imports.**

Our earlier highlighted **improvement in services trade balance has proved to be rather sustainable**. **Elevated freight rates** amid continued supply chain issues should continue to buttress the current account as the **services balances looks to continue a streak of rare surplus** despite the lack of tourism receipts.

SGD: "Double-Barrelled" Tightening Defers to USD

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	**Unscheduled "Steeper" Slope to 1.0% p.a.**	**Re-center Mid-Pt Higher & "Slightly" Increase S$NEER Slope (2.5% p.a.)**	**"Slightly" Increase to S$NEER Slope (2.0% per annum)**		**Maintain S$NEER Slope (2.0% per annum)**	
USD/SGD	1.34-1.37	1.35 - 1.44	1.35 - 1.43	1.34 - 1.44	1.32 - 1.41	1.31 - 1.39
	1.36	1.41	1.40	1.37	1.35	1.35

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Our call for a double-barrelled tightening by the MAS – which was on the more hawkish side of market expectations – proved correct. As to be expected, this has vaulted the S$NEER higher since the MAS meet on 14th April.

But it would be misguided to conflate this with unwavering, unambiguous and unbridled SGD strength. While the reflex SGD surge after the tightening came through, this has quickly more than reversed for two key reasons.

First, a strong USD trend overrides SGD pick-up from the "double-barrelled" tightening. Second, the relative position of the S$NEER within the now lifted policy bands is also not as elevated.

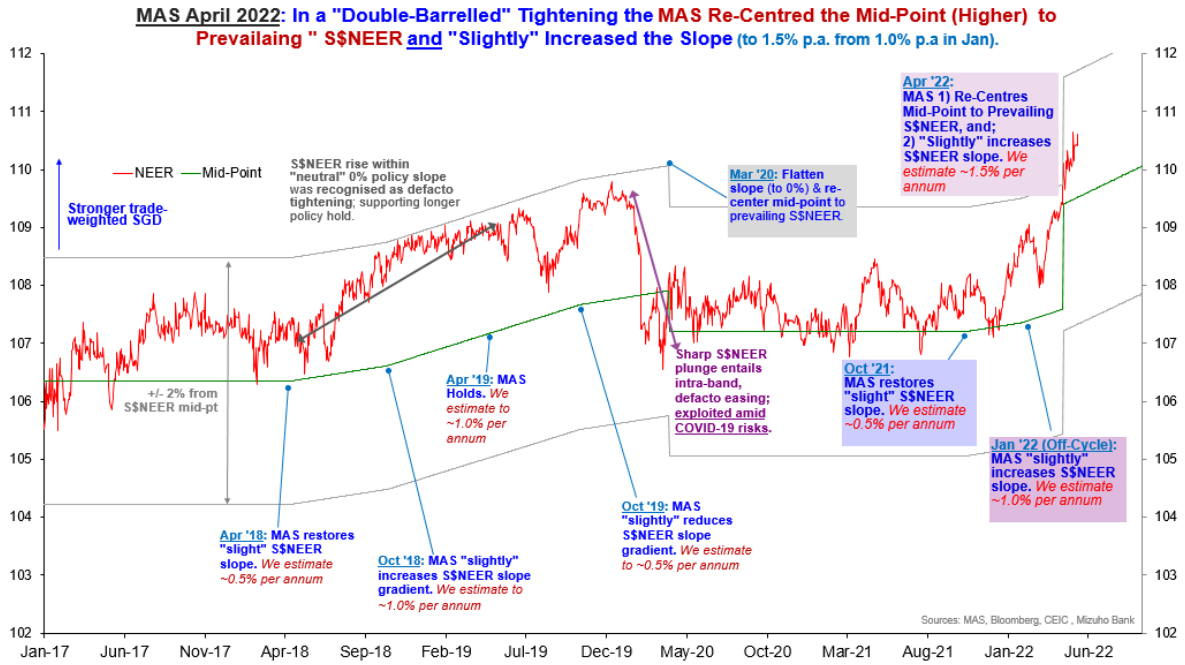
The upshot is that a **bullish USD**, combined with **moderated levels of S$NEER** within the policy bands, **may easily translate as weaker SGD vs. USD** while being consistent with a higher level of S$NEER; which then squares with firmer SGD against the weighted trade-basket currencies.

SGD-S$NEER Shifts: Point being, the **post-MAS reflex of SGD strength** (vis-à-vis USD) was but a derivative of the jump in S$NEER; with all else equal (including USD levels constant). But beyond

which, amid wider FX market shifts driven by an overarching (bullish) USD trend, USD/SGD looks to correspond to the same elevated levels of the S$NEER (trade-weighted SGD).

Put differently, **as broad-based USD strength impacts FX markets across the board**, *S$NEER and corresponding USD/SGD levels may shift tremendously*.

Strong USD & Hawkish Fed: As such, with a bullish USD driven by a hawkish Fed, USD/SGD is prone to more upside pressures. These pressures may be most acute perhaps in late Q2 and early-Q3 as the Fed reveals more aggressive rate hikes alongside balance sheet run-off.



Compounded by CNY Drop: And this is compounded by bouts of CNY sell-off given significant weight of the CNY in the S$NEER trade basket. This will however be tempered by the PBoC's inclination to subdue one-way bearish bets, and likely favour a stable CNY heading into the Party Congress in Fall (Oct/Nov).

More Upside Volatility: And so, given that CNY sell-off need not necessarily be perfectly coordinated with hawkish Fed impulses, upside USD/SGD volatility may be the more likely expression than a linear, one-way and sustained USD/SGD upside.

Tempered S$NEER: And insofar that building latent risks downside threats to economic growth and likely peaking inflation conspiring to rein in hawkish MAS expectations out into 2023, **relative S$NEER levels within the policy bands** may be somewhat less rich, **moderating from the top-end of the policy bands (pre-MAS in April) to just above the mid-point**.

In the coming months, a harsher perception of hawkish Feds could send the USD/SGD above 1.40; and perhaps higher to 1.42-1.44 fleetingly. But if the PBoC manages to steady the CNY, then in Q4, this could lend to some SGD traction back to 1.34-1.38 levels. In any case, despite the "double-barrelled" tightening in April and further slope tightening on the table in October, near-term risks must defer to a substantially stronger USD, with SGD drag likely to be accentuated by CNY and ASEAN FX slippage.

INR: A Conspiracy of Downside Risks

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	4.00%	4.75%	5.25%	5.50%	5.75%	5.75%
USD/INR	73.77-76.98	75.0 – 79.1	75.5 – 80.1	73.4 – 78.5	71.4 – 77.7	70.6 – 76.8
	75.79	78.3	77.5	76.2	75.3	74.4

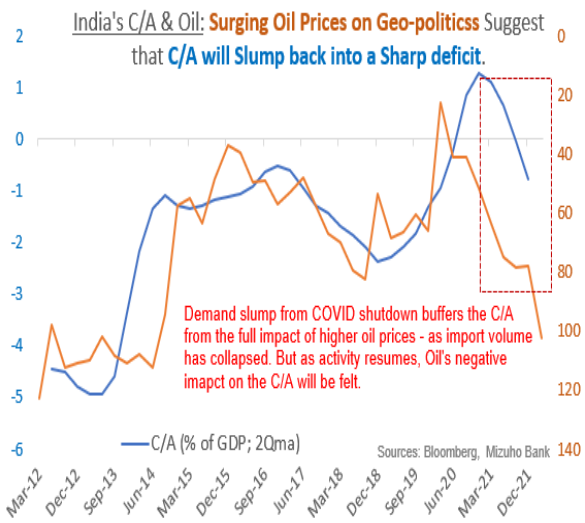
Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

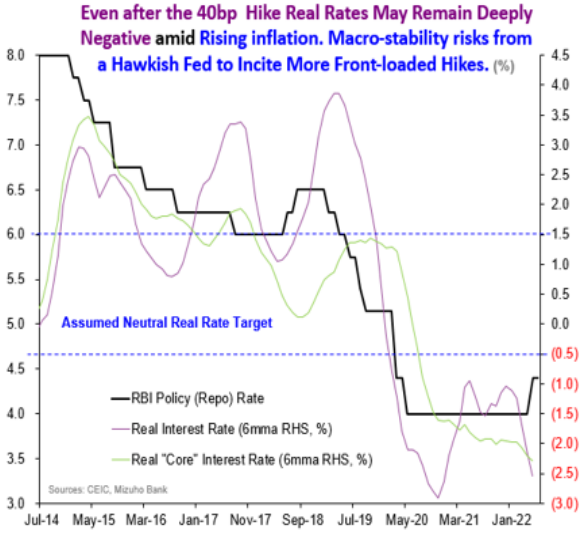
The drop in the rupee to record lows recently is testament to the conspiracy of downside risks confronting the economy/policy playing out in the currency. And along with it the drop in FX reserves below $600bn is a case in point that FX reserves offer some degree of insulation but not immunity from much larger risks that loom. Fact is, **it is hard to build FX reserves, but alarmingly easy to burn through them in a period of bullish USD waves coinciding with risk aversion**.

To be fair, India's recovery was set to gain traction with COVID waves under control and a resumption in activity and demand. And with that, it would not have been unreasonable to expect a stable, if not gently appreciating rupee. But a conspiracy of downside risks has now painted the rupee onto a bearish corner with no real panacea; only sharp trade-offs to contend with. And the RBI's unscheduled 40bp hike in May (literally hours before the Fed's 50bp hike), just after suggesting at the April meeting that accommodation needs to be maintained, speaks of the devil-and-deep blue sea type of options the central bank is faced with. The upshot is that the INR appears to be under pressure from all sides. Namely, Oil, inflation, fiscal slack and a hawkish Fed.

Oil: With further sanctions on Russian oil/energy likely, it appears that the $100+ Oil may be a persistent "twin deficit" drag rather than a passing storm that will clear in weeks. What accentuated the attendant assault on the rupee is the fact that this surge in oil prices has been rapid compared to subdued prices during the worst of COVID. And so, there is a double whammy of i) shocks (both in amplitude and speed) to households and businesses that will dampen activity/recovery, and; ii) sharp deterioration in the C/A position that accentuates the twin deficit risks that mount for India. And while the ability to buy discounted Russian oil provides partial economic relief, it poses a potentially high Geo-political cost. And the rupee may well incorporate the latter.

Inflation: While Oil feeds into inflation, inflation poses a broader risk than just that from oil. Sharply higher food inflation in the pipeline, alongside broadening price pressures simultaneously threaten disproportionate economic pain and the cruel need to tighten policy when the economy may be least able to endure another assault on affordability/costs. This is the RBI's conundrum, and the path of least harm suggests more hikes sooner to staunch excessive rupee bleed, but perhaps not fast enough to fend off the drop in real returns (and consequent capital leakage) from higher inflation. So, while the RBI's rate hikes are necessary to alleviate rupee sell-off, it cannot completely insulate from further near-term wobbles (USD/INR testing above 80 remains a risk in Q2 and Q3).





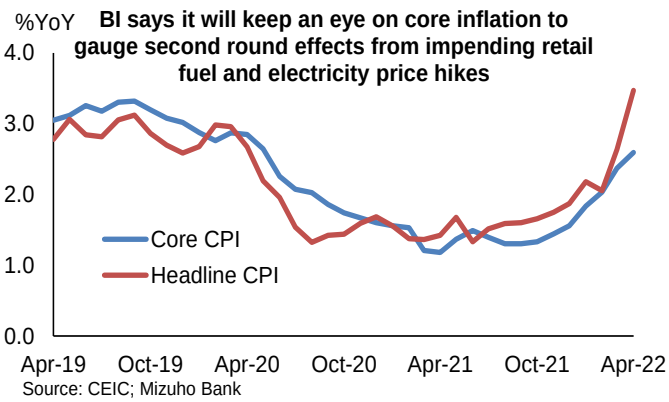
Fiscal Slack & Hawkish Fed: And while a slower glide path to fiscal consolidation appeared to have economic justification of allowing the recovery to take root, against rising global rates and inflation, it tends to reveal macro stability risks, which may be exacerbated by credit ratings risks. Especially as an aggressive Fed brutally lifts global rates, which will magnify foreign currency liabilities, borrowing costs in general and deflate asset values. In addition, financial market turbulence resulting from the Fed's hikes and QT (which may impose episodes of USD funding squeeze) also impair the ability to resort to asset sales to plug gaps. This could also impose a further discount on the rupee, impeding a quicker turnaround.

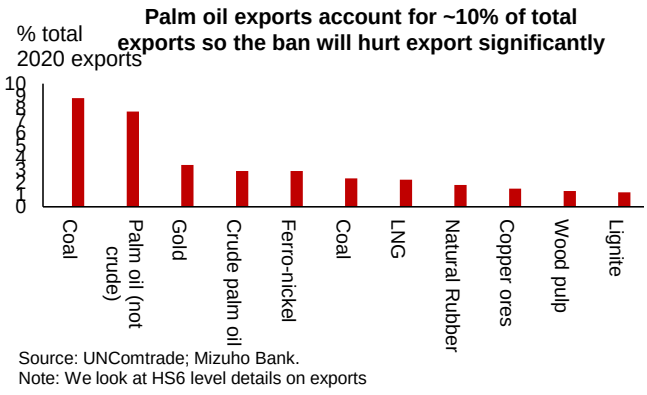
All said, the RBI's prompt action alongside fiscal manoeuvres to avert worst case outcomes should see rupee traction being restored (albeit gradually and tentatively) in late-2022 into early-2023. But in the meantime further rupee headwinds may be hard to avert.

IDR: Self-goals and more

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	3.50%	3.50%	3.75%	4.00%	4.25%	4.50%
USD/IDR	14253-14420	14340-15210	14330-15240	13960-15000	13840-14990	13700-14880
	14369	14750	14680	14390	14300	14150

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.





IDR depreciation against the USD as well as in REER terms has so far remained contained in 2022. This was aided, at least initially, by Bank Indonesia's proactive announcement in January to gradually raise the Rupiah Reserve Requirement Ratio (RRR) by 300bps from March to September, limiting foreign fund outflows on the debt and equity fronts. This was complemented by the

government's effort to push ahead with fiscal reforms (including raising the VAT rate from April 2022). The tailwinds from higher global coal, petroleum and palm oil prices also lent support to IDR.

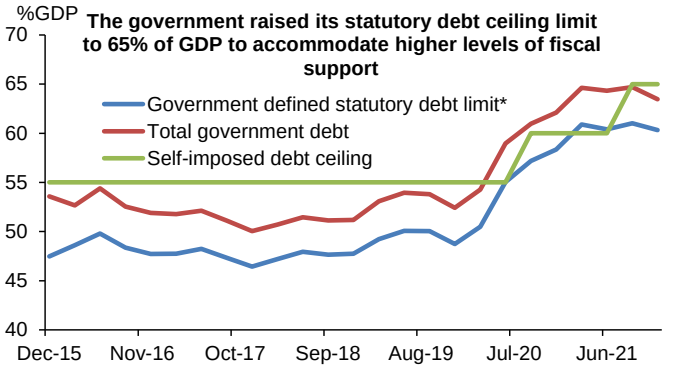
With the US Fed embarking on its fastest and most aggressive path of rate hikes and quantitative tightening, BI's top priority will be managing macro stability and currency depreciation risks. However, **BI has sounded more dovish, focusing on growth** which risks putting it 'behind the curve' on rate hikes, exacerbating (and alleviating) IDR depreciation pressures. Moreover, **within target headline inflation is largely optical and shifts the burden to the fiscal deficit** (and/or Pertamina) with retail fuel subsidies still in place. This exacerbates the 'twin deficit' situation for Indonesia, making IDR even more vulnerable. **The risk for BI is that sustained IDR depreciation, and associated macro stability risks, will force it into rate hikes sooner than it would like, hurting its credibility.**

External pressures will be compounded by, what we deem as, 'self-goals' including protectionist policies and the rising risk of BI falling behind the curve. The blanket ban on palm oil exports (including CPO), Indonesia's single largest item of export, to stymie the sharp increase in domestic cooking oil by redirecting export supplies for domestic consumption will hurt growth and the current account. Even if inflation is temporarily brought down, the blanket ban will not address fundamental supply-demand shortfalls. Instead, it will compound already glaring downside risks to growth and the current account deficit, adding to IDR pressures.

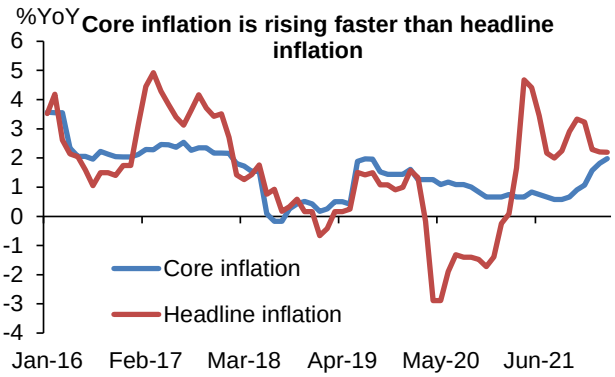
MYR: Hurt Despite Tailwinds

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q1 2023
Policy Rate (%)	2.00%	2.25%	2.50%	2.75%	3.00%	3.00%
USD/MYR	4.17-4.24	4.17-4.51	4.33-4.56	4.04-4.45	4.07-4.40	4.08-4.41
	4.20	4.43	4.38	4.30	4.26	4.26

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.



Note: *The governments' definition includes MGS, MGII and Islamic T-bills.For the latter, we do not the exact breakdown and proxy it with total T-bills. Data is quarterly; % GDP is a 4 quarter rolling sum figure. Source: CEIC; Mizuho Bank



Source:CEIC; Mizuho Bank.

MYR depreciation has persisted since the start of the year, versus the USD as well as in REER terms. This is despite rising global commodity prices providing strong tailwinds for exports and growth; the aggressive path for Fed rate hikes and the prospects of tighter monetary policy have outweighed these tailwinds to bear down on MYR.

It would be exceedingly difficult for MYR to buck the strong dollar trend especially as the Fed's path until Q3 is clearly hawkish, and to that end, we expect a continued upward trajectory in USD/MYR. However, **this should not take away from fundamental improvements** in the

Malaysian economy in terms of GDP recovering to pre-Covid levels in Q1 2022 and increased credibility around fiscal consolidation bolstered by commodity related revenues. These elevated commodity prices will provide further tailwinds for growth complementing the move to a 'new normal' on the easing of social restrictions and international travel constraints.

Bank Negara Malaysia (BNM) starting the normalization process in May will provide a backstop to MYR but will not provide it with immunity against a strong USD trend. **Improvements on the domestic economic front with an easing of social restrictions allowed BNM to focus on rising inflationary pressures, on the external and domestic fronts.** The consequence of which is leading "*several (global) central banks…to adjust their monetary policy settings at a faster pace to reduce inflationary pressures*".

Ostensibly, this **implies that BNM is cognisant of the vulnerabilities arising from capital outflows as Fed-BNM rate differentials shift**; **compounded by mounting domestic inflationary pressures** (albeit blunted by price buffers afforded by oil revenues) will hurt macro stability. **Specifically, on domestic inflation, BNM noted that core inflation is "***expected to trend higher***"** reflecting "the improvement in economic activity amid lingering cost pressures".

Accordingly, we expect the BNM to deliver another 50bps in rate hikes in H2, taking cumulative hikes the year to 75bp. The **BNM's challenge will be to strike the right balance between sufficient accommodation** given nascent, uneven recovery and **enough calibration to pre-empt macro-stability risks** form tighter global liquidity conditions amidst sharp price pressures.

PHP: Limited Backstops

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Policy Rate (%)	2.00%	2.25%	2.50%	2.75%	3.00%	3.00%
USD/PHP	50.9-52.5	51.2-53.7	52.1-54.5	50.2-53.9	49.7-53.5	49.5-53.3
	51.7	53.3	52.8	52.4	52.0	51.7

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Year-to-date PHP depreciation versus USD has largely been in line with our expectations, impacted by a host of factors coinciding with one another. These included **uncertainties around the Philippines Presidential elections,** which threw up 'Bongbong' Marcos as the President-elect, **elevated global oil and commodity prices** from Russia-Ukraine tensions and a **dovish Bangko Sentral ng Pilipinas (BSP)** despite fast building inflation pressures.

Looking ahead, **some of these factors will ease heading into Q3 allowing for PHP gains.** For one, **monetary policy has shifted gears from being passive to outright hawkish**. BSP has started its policy normalisation cycle with a 25bp hike at its 19 May meeting. Governor Diokno indicated that further action will be data dependent. We expect with headline inflation elevated BSP will hike by another 50bp in H2 2022, taking the cumulative hikes to 75bp for the year.

Second, our base case is for policy continuity under the Marcos presidency, which will provide some backstops to PHP depreciation. Admittedly, political outcomes may not be as clear cut, and with it economic policy making could face risks. The appointment of the economic team will be watched closely and with it the incoming administration's focus on fiscal consolidation and debt management. Importantly, even with political change afoot, we expect BSP to stay the course on policy normalisation. Finally, **external pressures from aggressive US Fed rate hikes would have eased off by Q4 after peaking in Q3**.

THB: Lagging Tourism and Policy Support

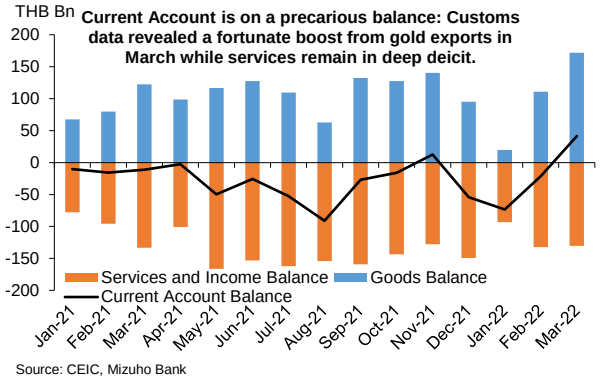
	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2022	Q2 2023
Policy Rate (%)	0.50%	0.50%	1.00%	1.50%	1.50%	1.50%
USD/THB	32.1 – 33.8	33.4-36.4	34.7-38.1	32.7-36.4	32.1-35.2	32.9-35.2
	33.2	34.9	35.3	34.6	34.0	33.8

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.

Despite the current account surplus turning positive in March 2022, we **continue to expect near-term pressures on THB** as the support was fortuitous (from bumper gold exports) and will need to be bolstered by a reduction in services deficit from tourism recovery and policy convergence by the BoT. These factors remain partial offsets which are likely to **remain subordinated to the Fed's twin headwinds of rate hikes and quantitative tightening.** Heading into end-2022, the tourism recovery may start to firm and strengthen alongside monetary policy convergence which allows THB to outperform relative to regional peers.

With Test & Go entry scheme's cancellation since the start of May **removing the need for on arrival Covid testing**, Thailand's tourism recovery can be set on a firmer footing as the ASEAN region opens up. An **exponential surge in tourism receipts** will stem from greater arrival inflows and higher tourism prices (such as sticky room rates) amid preference towards the luxury end of the market. However, a **fuller recovery will be absent** as **Chinese tourists making up 30% of arrivals remain within China** while high Russian expenditures **(third in share of tourism receipts) will be severely impeded** amid a volatile Ruble fraught with payment difficulties and domestic economic woes.

Meanwhile, high prices of energy imports will also weigh on the goods balance for the quarters ahead and worsen the current account side of the twin deficits. In addition, fiscal deficit will continue to widen as the sharing of burden between excise tax collections and State Oil Fund to keep a lid on diesel prices are simply presents categorical changes which do not derail the path of public debt creeping up as these moves cannot escape wider fiscal equivalence.



Thailand Tourism Recovery Status - Trough and Pre-covid Comparison (As of Mar 22)

	% of Trough	% of Dec 2019
Occupancy	756%	49%
International Tourist Arrivals	17570%	5%
Room Rates	129%	51%

With the BoT expecting headline inflation to average 4.1% over the next 12 months, the **policy trade-offs have turned sharper** despite their dovish inclination towards still anchored inflation expectations and continued allusion to supply side drivers elevating headline inflation. The BoT will be **wary of halting the economic recovery** in its tracks and **worsening household debt servicing ability** being heightened and **amplified by higher interest rates**. On balance, we expect the BoT to begin a gradual increase of policy rates by 25bps, twice in Q3. This is **merely leaning** against the Fed's hawkish tightening (which would have hiked by at least 125bps before the BoT initiates normalisation) which worsens **nominal policy rate differential into deeply negative territory** and reduce excessive THB weakness and avoid severe macrostability challenges.

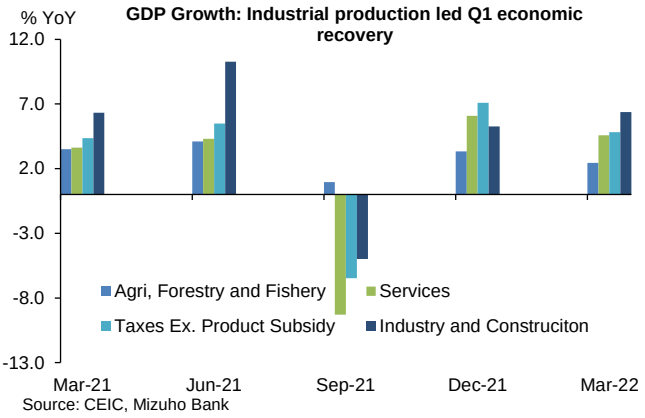
Political uncertainty risks will also resurface close to August 2022. These risks predate the pandemic, when street protests calling for PM Prayuth's resignation, changes to the constitution and

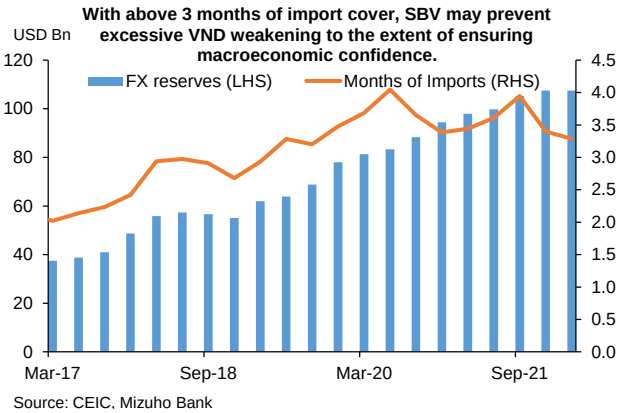
monarchy began in earnest. Despite the **legal team of the House of Representatives recently asserting that PM's term began in mid-2019** and thereby allowing him to serve until 2027, declining popularity indicated by opinion polls and **multiple no-confidence votes** suggest further bouts of volatility for the THB from these potential twist and turns.

VND: US Treasury Vs Fed Tightening

	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2022	Q2 2023
Policy Rate (%)	4.00%	4.00%	4.25%	4.50%	4.50%	4.50%
USD/VND	**22627-22910**	22600 - 23400	22600 - 23400	22500 - 23100	22400-23000	22400-22900
	22837	23250	22950	22700	22550	22550

Note: Values in black are historical whereas those in blue represent forecasts. * Point forecast is for end-period. Ranges are only indicative.





In 2021, the VND gained 1.1% against the USD and outperformed regional peers which depreciated against the USD; except for the CNY which posted even larger gains. With annual 2021 GDP at an uninspired 2.6% (in contrast to their 2020 relative performance) and continued current account deficit, their gains against the USD may not be intuitive on first sight.

First, Vietnam's push into multilateral FTAs such as RCEP, CPTPP and bilateral FTAs such as EU-Vietnam FTA has enhanced their attractiveness as a manufacturing base, in turn supporting FDI inflows into Vietnam, albeit at slightly reduced levels in 2021 compared to 2020. While FDI inflows do indeed mitigate the GDP and current account weaknesses, outright gains from these slow burn factors are unlikely and signals another accomplice.

Second, an important **diplomatic consideration for the SBV** will continue to be their agreement with the US Treasury which helps to avoid the label of a currency manipulator and the associated consequences. In view of Vietnam satisfying all three conditions in the recent US Treasury report and yet again escaping the unwanted label, further VND depreciation may not be too palatable. However, the relative VND gains in 2021 should be viewed as **allowing historically strengthening fundamentals and improving foreign exchange reserves (see chart above) prior to the pandemic to come through and reflect onto the VND**. In a bid to avoid a "mercantilist suppressor" image, a case can be made for regional VND outperformance in 2022 as the SBV provides occasional support for the VND. However, this is far from the VND going against overall USD trends.

On the inflation front, the **VAT reduction from 10% to 8%** will result in a step down in prices and encourage private consumption. It will serve to mitigate inflationary pressures stemming from rising petrol costs which has placed an increasing burden on the Petrol Stabilisation Fund. **Headline inflation in Q1 at 1.9% has served to boost real asset returns** vis-à-vis the US. This allows the SBV to keep rates low for longer as growth recovery entrenches until the second half of the year.

With Vietnam's increasingly integrated supply chain, improved market access and enhanced competitiveness, as a result of the various FTAs, will boost the goods balance while a recovery in tourism will boost their services account. **Global trends of supply chain resiliency building and bifurcation remain intact and favourable to Vietnam** given their comparative advantage in labour and competitive setup of economic zones further **supported by continued infrastructure development from their economic recovery package over 2022-23**.

All in, the **VND may likely have to defer to the strong USD** trend for much of Q2-Q3 2022, leaning towards some weakening of the VND as **SBV's caution against US Treasury will dampen excessive weakness**. But the **underlying trend and structural factors conspire to make a case for medium-term, sustained VND appreciation**.

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