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Asia Quarterly

— Q3 2021: An Unevenness Problem —

A **divergent global recovery** led by the US (and other advanced economies) and **stacked against EMs** has been widely recognized. The justifiable **worries range from reflation accentuating the pain of "laggards"** (without the pleasure of growth boost) **to threat of financial shocks from global policy dissonance** (in repose to sharpening divergences).

On the healthcare side of equation, divergent outcomes in dealing with the pandemic means that replication cycles in places where outbreaks continue may give rise to a particularly virulent, vaccine-defying variant that may setback the hard-fought global recovery thus far.

But the **fundamental issue** is that this **unevenness problem, too often framed and analyzed as disparities of outcomes**, is in reality, **far more worryingly rooted in unevenness of access**. As a result of which, the **unevenness is rendered "sticky", if not self-reinforcing**.

At the inception, **uneven access to healthcare/vaccines disrupts and retards** the **current recovery**. Afterwhich, it **rolls over as uneven access to cheap financing**, which **disadvantages EM in** their ability to **work out of higher debt** incurred to respond to the pandemicto reverse.

Outbreak of COVID, and resultant lockdowns, **across EM Asia means that a fuller recovery in the region Asia will probably be pushed out to 2022**; even as US economic recovery forges ahead. But clearly, **delayed "gratification" is not the real risk with the unevenness problem**.

9th July 2021

Mizuho Bank, Ltd.

Asia and Oceania Treasury Department

Executive Summary

- **US:** Despite partisan politics dialing back the size of fiscal/infrastructure package, government spending and Fed stimulus are unprecedented; and set course for solid US economic out-performance. Necessarily, the Fed will be delicate in **"taper" approach.**

- **EZ:** COVID overhang and recovery undershoot vis-à-vis the Fed has ECB on course to lag Fed "exit", trying to even the uneven at the margin.. **Japan:** The now spectator-less **Tokyo Olympics** the importance of the Olympics motto of **Faster** (vaccine rollout); **Higher** (public debt to pick-up the slack) and Stronger (stimulus needed).

- **China: Pockets of fresh COVID outbreak interrupt, but don't derail** China's **recovery**; although regardless of the pandemic, there are signs that the **cyclical upswing (of pandemic recovery) is beginning to give way to structural dampeners**.

- The **unevenness of China's credit policies** tilted to MSMEs/"new economy" sector at the expense of the "old" economy/SOEs may undermine confidence. In addition, credit re-channeling/regulatory clamp down prove disruptive property/tech.

- **India:** Only just having overcome a devastating "second wave" in Q2, the reluctance to declare false dawn is justified; especially as surging inflation constraints the RBI, oil undermines C/A and latent credit ratings risks in the distance constrain fiscal room.

- **Indonesia's overhang from COVID could setback H2 GDP rebound expectations. Worryingly, further fiscal strains constrains BI's options and compromise IDR.**

- **Despite fairly buoyant exports, South Korea is not quite out of the woods; but BoK will defer to targeted fiscal pain relief for now. Meanwhile, Vietnam's COVID proliferation across provinces will compromise industrial boost.**

- **Singapore: With vaccination rates set to surge in Q3, potential to ride global demand recovery is welcome, but lingering global COVID risks weigh on the small, open, economy. Malaysia's double whammy of COVID outbreak and political uncertainty dim the outlook despite Oil's fiscal relief and BNM support.**

- The **frustrating inability to re-open Thailand for tourism amid** outbursts of COVID variant infections, means **economic pain will be prolonged;** with BoT having limited options. An **unfettered recovery through H2 look unlikely for the Philippines** between fluid **COVID risks and inconveniently higher inflation.**

- **Australia: Measured RBA "taper"** offset by ultra-dovish base case for no rate hikes at least until 2024; resultant perceptions of relative RBA dovishness vis-à-vis the Fed may setback AUD. Scope for more fiscal relief if COVID outbreak worsens assessed.

- **AXJ: Lingering COVID risks** in EM Asia coupled with **"right-half" 'USD Smile'** corresponding to a stronger USD on continued US recovery/"taper" set the stage for **more two-way volatility; "twin deficit" risks, high inflation/Oil vulnerabilities and exposures to tourism/informal sectors to accentuate swings.**

AT A GLANCE

Yearly Economic Forecasts

Country	2019			2020			2021		
	GDP YoY	CPI	C/A (% GDP)	GDP YoY	CPI	C/A (% GDP)	GDP YoY	CPI	C/A (% GDP)
United States	2.2	1.8	-2.2	-3.5	1.2	-3.1	6.4	2.3	-3.9
Japan	0.3	0.5	3.7	-4.8	0.0	3.3	3.3	0.1	3.6
Eurozone	1.3	1.2	2.3	-6.6	0.3	2.3	4.4	1.4	2.8
ASIA (ex-Japan)	4.9	2.9	1.2	-1.0	2.8	2.5	8.3	2.1	1.5
ASEAN-6	4.6	2.0	1.8	-3.5	1.3	2.7	4.9	2.2	1.3
China	5.8	2.9	1.0	2.3	2.4	2.0	5.8	2.2	1.6
India	4.9 (4.0)	3.7 (4.8)	-0.9	-7.1 (-7.5)	6.6 (6.2)	1.0	8.1 (9.2)	5.4 (5.6)	-1.2
Korea	2.0	0.4	3.6	-1.0	0.5	4.6	2.7	2.0	4.2
Singapore	1.3	0.6	14.3	-5.4	-0.2	17.6	2.4	1.4	14.6
Malaysia	4.3	0.7	3.4	-5.6	-1.1	4.4	4.4	2.8	3.8
Indonesia	5.0	2.8	-2.7	-2.1	2.0	-0.4	5.0	2.1	-1.3
Thailand	2.3	0.7	7.0	-6.1	-0.8	3.3	2.9	1.1	0.5
Philippines	6.0	2.5	-0.9	-9.5	2.6	3.2	6.4	4.2	-0.4
Vietnam	7.0	2.8	3.8	2.9	3.2	2.2	6.8	2.2	2.4
Australia	1.9	1.6	0.7	-2.4	0.9	2.5	4.5	1.7	2.4

Note: Asia (ex Japan) includes China, India, South Korea, Singapore, Hong Kong, Taiwan, Malaysia, Indonesia, Thailand, Philippines, Vietnam
The current account forecasts are from the IMF (April 2021 WEO edition)

Quarterly Outlook – Growth and Consumer Inflation

Growth Forecasts

GDP Growth Forecasts (% YoY)

Country	2020				2021				2022			2018 (FY18-19)	2019 (FY19/20)	2020 (FY20/21)	2021 (FY21/22)	2022 (FY22/23)	2023 (FY23/24)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3						
Australia	1.4	-6.2	-3.7	-1.0	1.1	8.2	5.3	4.2	3.9	3.4	3.2	2.9	1.9	-2.4	4.7	3.3	3.0
China	-6.8	3.2	4.9	6.5	18.3	7.7	6.9	5.3	5.6	5.8	5.8	6.7	6.0	2.3	8.8	5.7	5.6
India	3.1	-24.4	-7.4	0.5	1.6	19.7	8.5	5.8	5.8	10.3	6.6	7.4 (6.5)	4.9 (4.0)	-7.1 (-7.5)	8.1 (9.2)	6.9 (6.8)	6.4(6.5)
Indonesia	3.0	-5.3	-3.5	-2.2	-0.7	5.7	5.3	5.2	6.7	7.2	7.0	5.2	5.0	-2.1	3.9	6.6	5.5
Malaysia	0.7	-17.1	-2.6	-3.4	-0.5	8.7	4.0	5.3	7.8	5.9	9.3	4.8	4.3	-5.6	4.2	8.0	4.8
Philippines	-0.7	-17.0	-11.6	-8.3	-4.2	9.8	7.2	5.8	14.3	12.4	11.1	6.3	6.0	-9.5	4.6	12.0	6.5
Singapore	0.0	-13.3	-5.8	-2.4	1.3	13.3	6.9	4.7	3.0	5.8	4.3	3.5	1.4	-5.4	6.4	3.9	3.0
Korea	1.4	-2.7	-1.1	-1.4	1.8	5.1	4.9	4.9	2.5	2.4	2.8	2.7	2.0	-1.0	4.2	2.8	2.7
Thailand	-2.0	-12.1	-6.4	-4.2	-2.6	5.5	4.2	2.3	5.2	8.4	8.2	4.2	2.4	-6.1	2.5	7.1	3.8
Vietnam*	3.7	0.4	2.6	3.8	4.5	6.6	6.1	6.0	6.9	7.2	7.4	7.1	7.0	2.9	5.8	7.2	6.6

**Vietnam has released Q1 2021 GDP on a new base but has not released historical data for the same. The 2020 growth rates in our table are based on the historical series.*

Consumer Inflation forecasts

Inflation Forecast (%YoY)

Country	2020				2021				2022			2018 (FY19/20)	2019 (FY19/20)	2020 (FY20/21)	2021 (FY21/22)	2022 (FY22/23)	2023 (FY23/24)
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3						
Australia	2.2	-0.3	0.7	0.9	1.1	3.4	2.3	1.9	2.1	1.7	1.9	1.9	1.6	0.9	2.2	1.9	2.1
China	5.0	2.7	2.3	0.1	0.0	1.6	1.8	2.4	2.3	2.2	2.2	2.1	2.9	2.5	1.5	2.2	2.4
India	6.7	6.6	6.9	6.4	4.9	5.8	5.4	5.3	6.0	3.9	4.3	3.9 (3.4)	3.7 (4.8)	6.6 (6.2)	5.4 (5.6)	4.7 (4.5)	4.8 (4.9)
Indonesia	2.9	2.3	1.4	1.6	1.4	1.5	2.4	3.0	2.7	2.6	2.2	3.3	2.8	2.0	2.1	2.4	2.5
Malaysia	0.9	-2.6	-1.4	-1.5	0.5	4.3	3.0	3.5	1.9	1.5	1.5	1.0	0.7	-1.1	2.8	1.5	1.5
Philippines	2.7	2.3	2.5	3.1	4.5	4.4	4.6	3.4	3.0	2.9	2.8	5.2	2.5	2.6	4.2	2.8	3.2
Singapore	0.4	-0.7	-0.3	-0.1	0.7	2.2	1.6	1.2	1.1	1.2	1.2	0.4	0.6	-0.2	1.4	1.2	1.5
Korea	1.2	-0.1	0.6	0.4	1.1	2.5	2.2	2.3	1.4	1.2	1.0	1.5	0.4	0.5	2.0	1.0	1.0
Thailand	0.4	-2.7	-0.7	-0.4	-0.5	2.4	1.3	1.4	1.7	1.1	1.2	1.1	0.7	-0.8	1.1	1.3	1.0
Vietnam	5.6	2.8	3.2	1.4	0.3	2.7	3.1	2.8	2.7	3.5	3.4	3.5	2.8	3.2	2.2	3.3	3.5

Central Bank Policy Outlook

Central Bank Policy Outlook

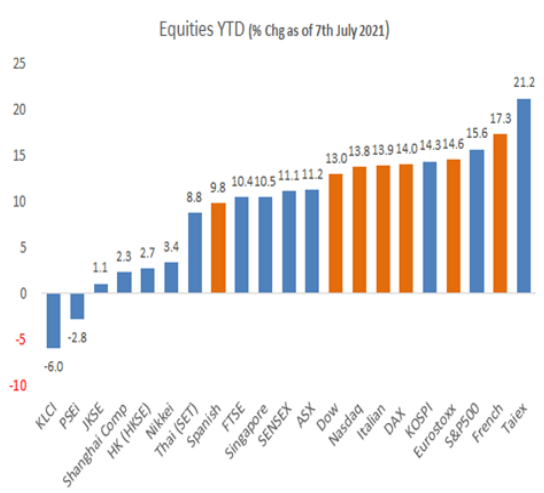
Country	Central Bank	2020				2021				2022			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
US	Fed	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%	0.00-0.25%
Australia	RBA	0.25%	0.25%	0.25%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
China	PBoC	4.35%											
		4.05%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%
India	RBI	4.40%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.25%	4.50%	4.50%	4.50%	4.50%
Indonesia	BI^	4.50%	4.00%	4.00%	3.75%	3.50%	3.50%	3.50%	3.50%	3.50%	4.00%	4.50%	4.50%
Malaysia	BNM	2.50%	2.00%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	1.75%	2.00%	2.25%	2.50%
Philippines	BSP	3.25%	2.50%	2.25%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.50%	2.75%	3.00%
Singapore	MAS*	Flatten S$NEER & Re-Centre to Prevailing S$NEER (~40-70bps lower)		Status Quo		Status Quo		Status Quo		Status Quo		Restore a "Slight" S$NEER Slope (0.5% per annum)	
Korea	BoK	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%	1.50%
Thailand	BoT	0.75%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Vietnam	SBV	5.00%	4.50%	4.50%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%

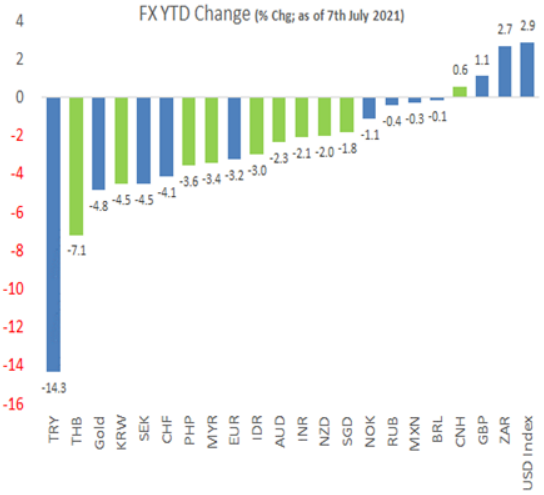
* The MAS conducts monetary policy via FX. Specifically it adopts a trade-weighted SGD appreciation at "modest and gradual" (estimated to be 2% per annum) pace as default.
^ BI shifted to the 7 Day repurchase rate as the benchmark rate in August 2016. This by default constituted 125 bps reduction from the last policy rate
^^ PBoC instituted the loan prime rate (LPR), which sets a floor on commercial interest rates. This replaces the 1-yr Lending rate

FX Outlook

	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
USD/JPY	110	111	112	112	113
EUR/USD	1.17	1.17	1.16	1.15	1.15
USD/CNY	6.49	6.36	6.42	6.58	6.49
USD/INR	74.8	73.3	74.8	77.3	75.6
USD/KRW	1145	1085	1110	1152	1125
USD/SGD	1.35	1.32	1.34	1.36	1.33
USD/IDR	14550	14120	14180	15100	14680
USD/MYR	4.18	4.07	4.12	4.28	4.18
USD/PHP	48.8	47.8	48.0	50.2	48.7
USD/THB	32.2	31.0	31.5	32.5	31.6
USD/VND	23090	22930	23060	23250	23080
AUD/USD	0.77	0.81	0.78	0.75	0.78

Market Watch





Sources: Refinitiv, Mizuho Bank

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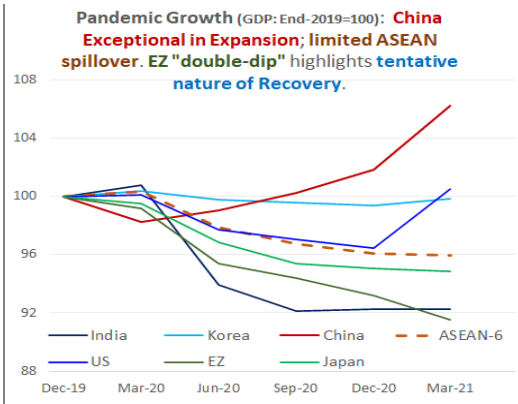
Global Overview: An Unevenness Problem

Growth: While **aggregate global recovery prospects have brightened** *led by extended/ exceptional US policy stimulus flanked by vaccine rollout*, **intensifying unevenness of the recovery *across and within* economies casts a shadow**. *Uneven access to vaccines and financing/cash buffer* **underscores and exacerbates this "unevenness problem"**. By its own admission, the **IMF's upgraded 2021 6% global GDP headline**, masks ***highly divergent global outcomes stacked against EM***. Especially as **vaccine rollout required to restore pre-COVID activity is hampered by EM *procurement gaps and inoculation lags;*** which are exploited by more transmissible/virulent mutations. This will ***result in interrupted EM recovery***; **delayed to 2022**.

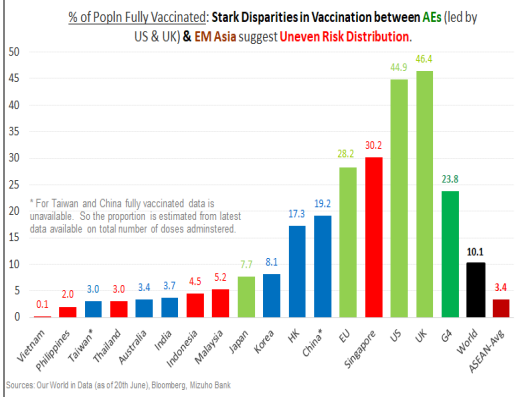
Risks: In an unevenly and inadequately vaccinated world the odds of a critical mass of virus pools – and resultant **mutation cycles** – ultimately **undermining vaccine efficacy cannot be ruled out**. In which case, not only is it **premature to declare** "out of the woods", but ***exiting the woods is a (vaccination) race against time***. Second, an **increasingly divergent recovery understates the risks of** global recovery being dulled by soft patches that may ripple through supply-chains/ financial impulses. Finally, **harder-to-tame reflationary impulses** threatens to dampen the recovery as cost side pressures hamper demand multipliers and critically, accentuates **headwinds from global policy dissonance**.

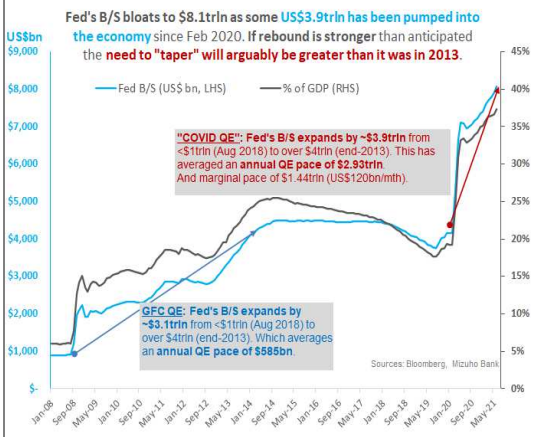
Policy: The **veneer of global policy coordination** to look past transitory cost-push **peels back to reveal tensions in an asynchronous "exit"**; ***led by Fed "taper"***. Fact is, the Fed's "*flexible average inflation targeting*" framework **only partly mitigates policy dissonance**. Crucially, **reflation boosted by record US fiscal stimulus lowers the bar for "taper" sooner** (end-2021/H12022); inadvertently **posing *uneven policy dilemma*** amid macro-stability risks. More **for EM than AE central banks**. **So, ECB has space to signal "exit" after the Fed**, corresponding to recovery differentials; despite ECB's asset purchases (PEPP, APP, etc) challenged as reflation collides with vaccination progress. And the **BoJ has latitude to be unequivocally committed to easing** required to ride out lingering COVID risks.

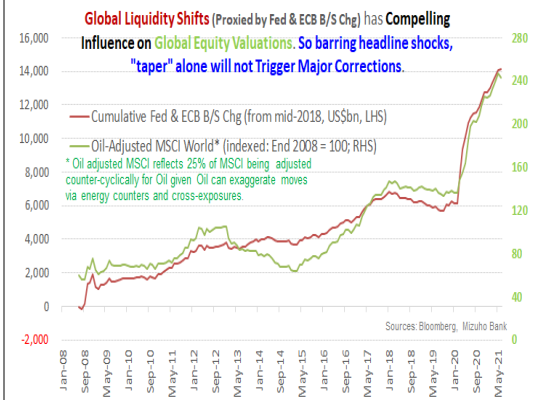
Asset Markets: Two **profound, inter-connected impact from Fed "taper"** are; i) **risk re-pricing** from fading QE boost to asset prices, and; ii) a **sharp rebound in USD** that coincides with, and reinforces ***volatile capital flight from EM to DM***. But the anticipated dent to EM assets is not to be mistaken for uniform capitulation. Rather, it is bound to be an **uneven (re-)dispersion of liquidity and capital across economies and sectors**; differentiated by **real returns** (given volatile inflation) and **temporal effects** (amid step vaccine effects). Above all, **"taper" correction will not be a sweeping pre-COVID "reset" *as immense central bank liquidity lingers and lifts***. Timing to dodge the worst sell-off is instead the goal.



Sources: Bloomberg , Mizuho Bank



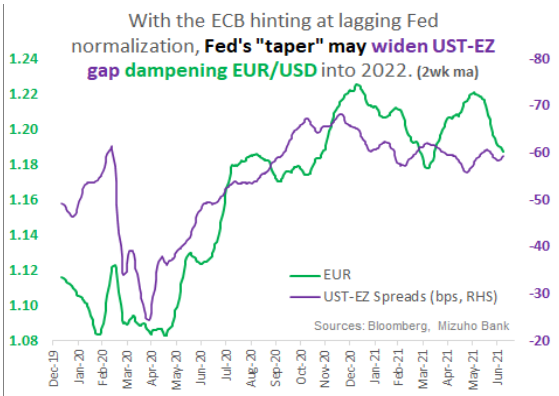


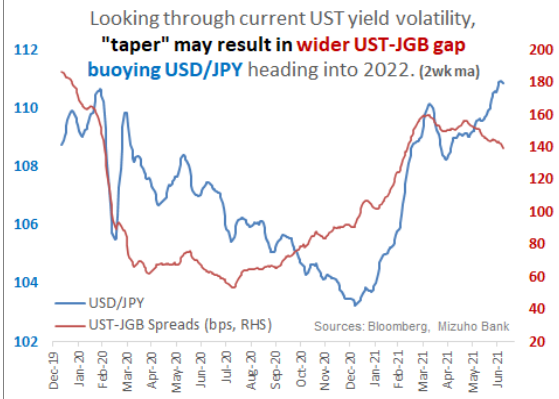


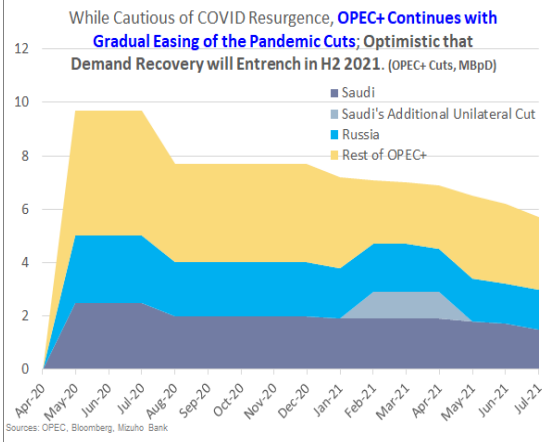
EUR/USD Outlook: **Two opposing narratives** underpin tensions in EUR. On one hand, **persistent and solid C/A surplus** of ~2.5% of GDP is a rare buffer, if not boost for the EUR; especially in sharp contrast to gaping US C/A deficit. Yet on the other, the **ECB subordinating its "exit" plans to the US,** alluding to US-EZ recovery differentials, points to EUR deferring to USD. Question is, which effect will dominate. Our sense is that a **bumpy path lower towards 1.15 into late-2021 and 2022 may emerge** as the rise in UST yields amid a steeper yield curve from "taper" offset C/A buffer.

USD/JPY Outlook: Growing **Fed-BoJ monetary policy divergence**, *expressed as widening UST-JGB yield spreads*, **will underpin appreciable upside bias in USD/JPY** that culminates **in a path up to 112-115** in H2 2021-H1 2022. That said, this may play out bumpily as **tensions between safe-haven appeal and deference to widening UST-JGB gap** are neither isolated nor exclusive through Fed's "taper" guidance; which may unearth bouts of "risk off". Admittedly, a solid C/A surplus will buoy JPY all else equal. But resumption of outbound investments as **UST rates climb will mute opposition to a higher USD/JPY**.

Oil (Brent): Oil may checked on **surge above $85 speaks of buoyancy, not exuberance**. Admittedly, the confluence **global demand recovery** amid vaccine rollout and **steep drawdown of global inventories *ought to* fire up Oil prices in H2 2021**. But here's the rub. **Scope for significant supply response** is probably **under-estimated**. For one, ***nearly 6MBpD of self-inflicted output cuts by OPEC+* producers is primed for restoration**; with OPEC+ tensions What's more, a nuclear deal with **Iran could add to this global crude exports** in 2022. Finally, **US Shale supply could also kick-in if prices breach $80-85**. These supply responses amid fading pent-up demand in 2022 **set the stage for prices to stabilize $68-86**.







	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
Fed Rate^ (%)	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25	0.00-0.25
ECB Rate^ (%)	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
BoJ Rate (%)	-0.10	-0.10	-0.10	-0.10	-0.10	-0.10
EUR/USD*	1.186	1.17	1.17	1.16	1.15	1.15
	1.17 - 1.23	1.16 - 1.22	1.16 - 1.22	1.15 – 1.19	1.15 – 1.20	1.14 – 1.19
USD/JPY*	111.1	110	111	112	112	113
	107.4-112.2	106 - 114	107 - 115	108 - 116	107 -116	108 -118
Brent Crude (US$/bbl)	75.1	77.8	82.6	83.3	76.5	79.6
	61.2-76.6	67.5-83.5	71.0-87.5	74.5-89.5	69.6-85.5	70.8-84.0

Note: Values in black are historical whereas those in blue represent forecasts.
* Point forecast is for end-period. Q1 2020 ranges are from Bloomberg and only indicative.
^ Fed rates refer to the Fed Funds Target rate; ECB rates refer to the Deposit facility rate.

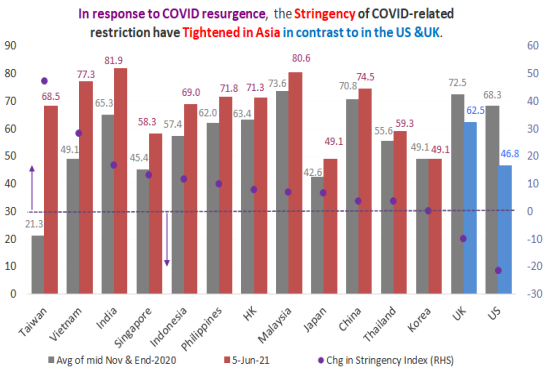
Asia Outlook: Setback

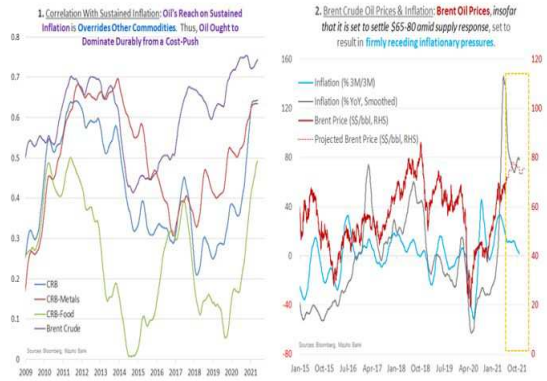
Output: A key realization is that for **most of EM Asia** (ex-China) a **fuller and unfettered recovery** from COVID will **delayed to 2022**; as *COVID mutations such as the "delta variant" unleash subsequent waves of outbreak*, disrupting lives and livelihood. **Setback from "COVID reboot"** is **exacerbated by lagging vaccine rollout** compared to AEs. Even with doubled down vaccine procurement/scaled up inoculation plans, a clear path does not emerge until 2022. Fact is, adaptations to more targeted restrictions only partly offsets the **negative multipliers via tourism/travel** and **hospitality sectors**; with a **more painful setback in economies with larger grey/informal sectors**.

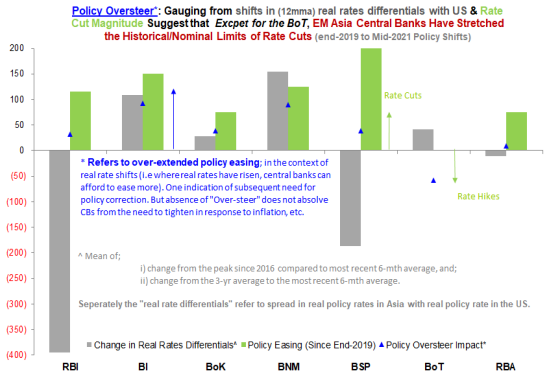
Inflation: Acute upstream cost-push from shipping to commodities **rippling down the supply-chain** means **higher inflation** is not **merely an artefact of COVID base effects to be dismissed**. **Yet** it is **not cause for alarm about run-away inflation either**. The **complex reality** is that of **variable** (9-18months) **fade in "transitory" cost-push** amid ***uneven supply response*** across cost factors. **Especially as lingering economic slack** and prospective **stimulus dial-back help dampen cost-push to demand-pull transmission**; thereby, anchoring inflation (expectations). **Inflation across EM Asia** will however be **uneven** *as will* the **setback to consumption and policy space**.

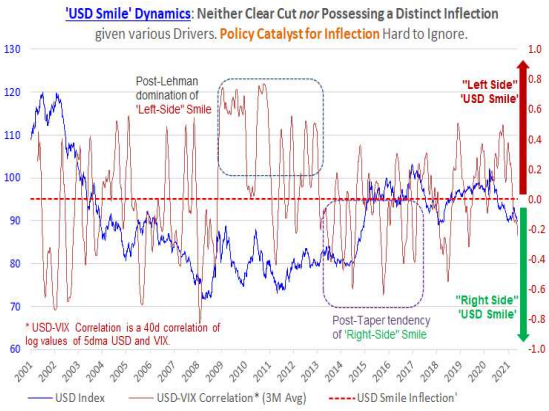
Policy: Rising inflation, even if passed off as transitory cost-push, will **undeniably make it harder for EM Asia central banks to emphatically ease** policy further – especially for "twin deficit" countries as the risk of potentially destabilizing capital outflows (responding to prospects of tumbling real returns). But ***if inflation is an inconvenience***, **Fed's "taper" in the wings is an outright threat** of setback from financial shocks **for EM central banks deemed to have excessively loose policy setting**. The **key challenge** being **calibrating out of accommodation**, but **without setting back** what may still be **fragile recoveries**.

FX: **Inflection from "left-half" of 'USD Smile'** that corresponds to a *weaker USD on improving sentiments* **to the "right-half"** (*a stronger USD as the US leads the way out of this uneven global recovery*) is set to be a **decisive catalyst for how EM Asia FX play out/stack up**. A stronger USD trend alongside rising yields/ steeper yield curve become entrenched on "taper", **initial setback to liquid, lower-yielders** such as KRW, THB and SGD. But **will probably migrate more adversely to higher-yielders with "twin deficits"** fairly quickly. From there, **exposures to Oil price volatility** and **C/A shifts** as well as **fiscal/credit risks accentuated by COVID response overhang** will **differentiate further**. ***Some stability may be lent by CNY***.



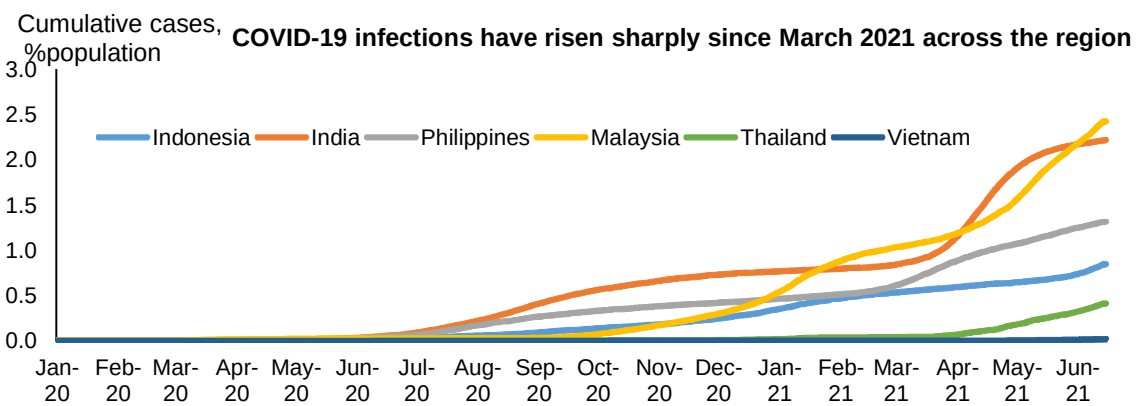






Box 1: Renewed Virus Outbreaks Threaten Growth Recovery Amidst Slow Inoculations

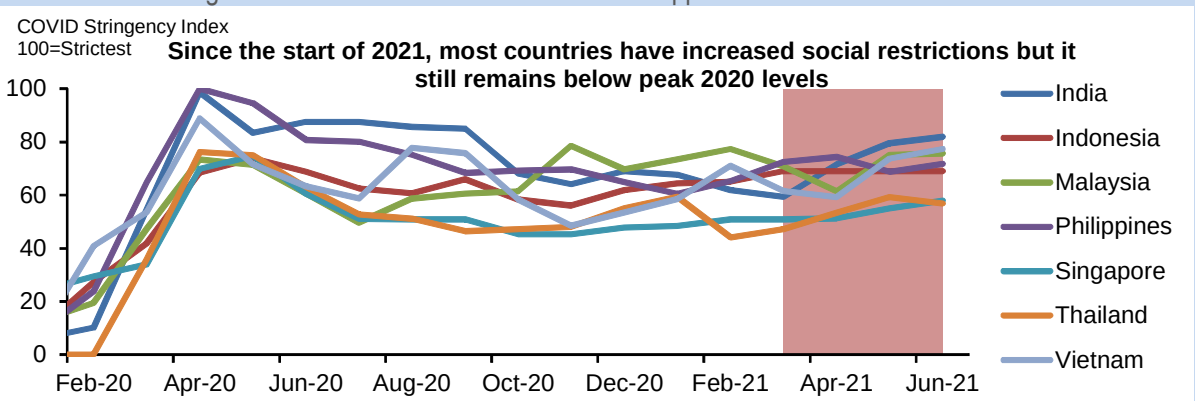
That 2021 would usher in a distinct turnaround in the pandemic situation for the ASEAN-6 (Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam) countries and India is now confirmed to be a lofty hope. In recent weeks all these have had to deal with a resurgence of COVID-19 infections with the rise in infections in Indonesia, Malaysia, Thailand and the Philippines being particularly acute (Figure 1). India experienced its worst wave of infections in April/May and is reportedly expecting an even bigger third wave in the coming months.



Source: Bloomberg; Mizuho Bank

Countries have had to re-impose social restrictions to rein in the spread of the virus and in the case of Indonesia, introduce its most stringent restrictions yet. Initially, many of these countries tried to avoid complete lockdowns, resorting instead to targeted restrictions such as reduced restaurant capacity, limited public transportation capacity, online schooling, reduced workplace capacity and curfews on night time activities but in many cases these failed to break the chain of infection. Malaysia had to re-impose stringent country wide lockdowns in January and recently in end-May/early June after COVID=19 cases hit new records, the capital city in the Philippines had to impose the tightest form of restrictions in early April while the bigger cities in India took turns to impose lockdowns from late April until early June. Indonesia, from 3-20 July, is imposing its tightest social restrictions on the Java and Bali islands, which could also fall short.

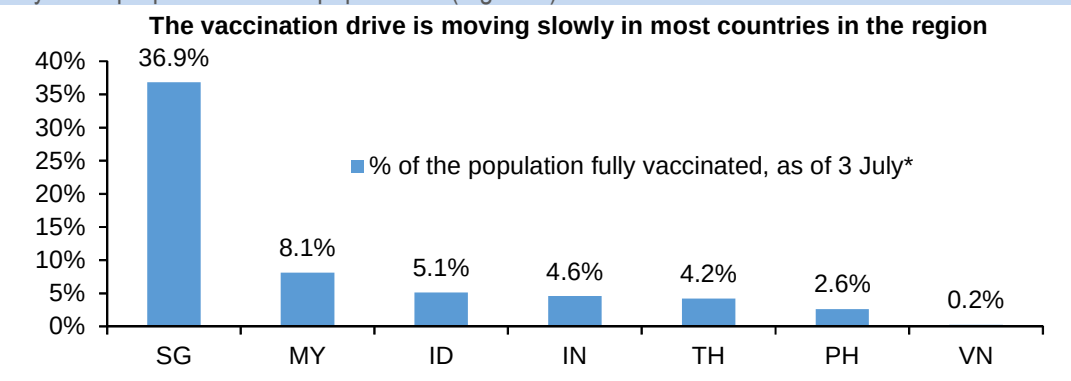
The University of Oxford's COVID-19: Stringent Index, which it defines as "a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, rescaled to a value from 0 to 100 (100 =strictest)", shows that social restrictions in all the countries under discussion have increased in recent months. The sharpest increases were in India, Vietnam and Malaysia (Figure 2). The index also shows tighter restrictions in Indonesia and the Philippines.



Source: Our World in Data, Oxford University; Mizuho Bank.
Note: The original data is daily and we have averaged the index for the month

The vaccination drive is off to a slow start

With COVID-19 infections resurging and the virus mutating into more virulent strains, governments' reliance on the inoculation drive has become more apparent, we daresay desperate. While all of the seven countries under discussion started their inoculation drive in earnest in Q1 2021, the pace has differed depending on vaccine procurement and distribution. Even Singapore with a population of 5.5mn is moving at a relatively slow pace, which has admittedly gathered speed in recent weeks, especially compared to the US and Europe. So far, ~37% of the population has been fully vaccination. This percentage rapidly declines as we head down the list of countries. In a distant second place is Malaysia with 8.1% of its total population vaccinated followed by Indonesia, Thailand and India. The Philippines and Vietnam have vaccinated only a very small proportion of their populations (Figure 3).



Source: Our World in Data, Philippines Ministry of Health, Bloomberg, Mizuho Bank
Note: Fully vaccinated implies recieved two doses of the vaccine.

Taking into account the severity of the recent wave of COVID-19 infections for some countries and the progress on the vaccination drive, we have adjusted some of our GDP growth forecasts. The biggest downgrade is to India's 2021 CY GDP growth by 2.4pp to 7.5% - this reflects the devastating impact of the most recent wave of COVID-19 infections which have dealt a severe blow to lives, livelihood and inevitably the economic recovery through weaker private consumption, investment and export channels. Moreover, fiscal support has been woefully in short-supply. The government's recently announced package barely provides 0.3% of GDP in additional new spending, while the bulk of the support comes in the form of credit support measures.

The same channels of impact will affect GDP growth in the Philippines this year as the lockdown through early April in Manila and the surrounding areas will hurt all key sectors including manufacturing, construction and services (especially retail services). As such, we have shaved off 2.1pp to our 2021 GDP growth forecast taking it to 4.6%.

We knocked down Malaysia's 2021 GDP growth to 4.2%YoY reflecting the impact of the recent lockdown. Although the country is struggling to rein it the pandemic, its vaccination drive is closely gathering momentum which bodes well in terms of easing restrictions sooner rather than later. Notwithstanding, Malaysia's economy is poised to bounce back strongly given tailwinds from higher commodity prices electronics exports.

In Thailand's case, 0.6pp growth downgrade this year is driven by the country's poor progress on inoculations as well as its conservative vaccine procurement pipeline and its struggling procurement pipeline. We also cut our 2022 GDP growth forecast by a more significant 2.1pp cut, taking it to 7.1% YoY, reflecting a slower-than-expected return of tourism and tourism-related activities.

Our 2021 GDP growth forecast for Indonesia at 3.9% already takes into account a worsening of the COVID situation, some tighter restrictions and the resultant recoil in activity. Should the situation remain as dire into August and September, we will further reduce our forecasts. For now, the government is providing some, albeit limited, counter-cyclical support in the form of cash handouts to the poor, additional electricity subsidies and enhanced food distribution schemes to cushion the blow.

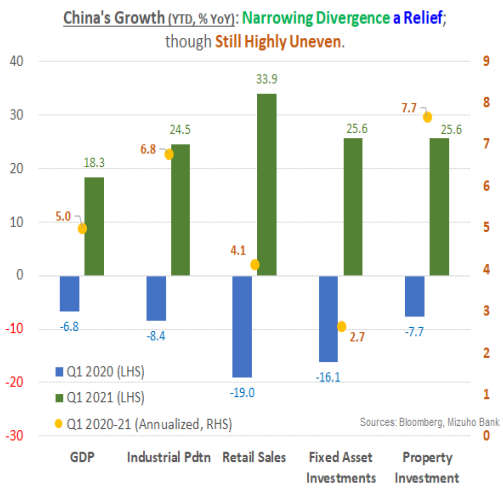
China: Solid, but Less Unfettered

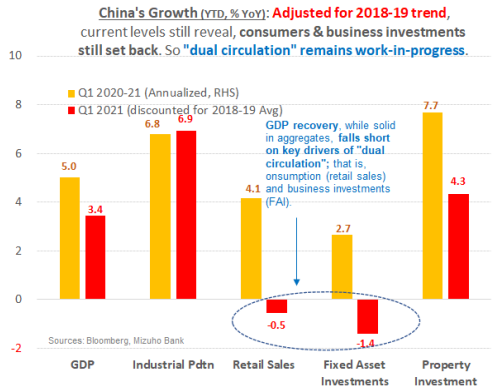
Growth: **Solid recovery** is **set to continue**. ***But*** recovery **momentum is fading**, **poised to become less unfettered** amid emerging headwinds; self-inflicted and external. **Policy conflict from subduing asset market bubbles/financial risks**, *through credit scale back* that may have an **extensive knock on effect** beyond the intended sector/firm, **will inevitably dampen economic momentum**. But despite destabilization threats, this is a ***cyclical risk to be managed via policy levers***. More worrying are **deepening US-China conflict risks**, posing ***structural, geo-political threats far harder to diffuse***. These **challenge China's economic and political ambitions** via multilateral sanctions, tariffs as well as industrial/financial impediments. So, **~9% 2021 growth rebound from a low base is but an interlude** to a slip back ~5.0-5.5% growth amid structural constraints further out.

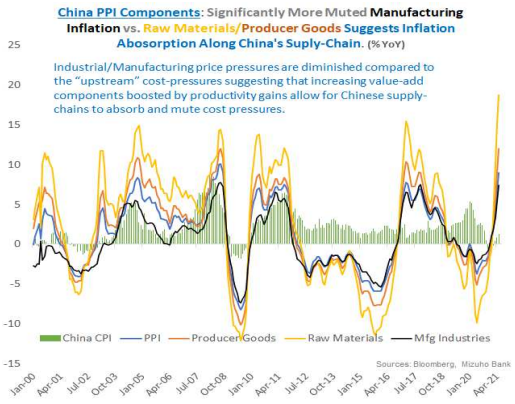
Industry: Industrial **activity** for China has **rebounded in solid fashion since H2 2020** as ***initial lift-off from supply-side activity*** resumption in the context of COVID containment in China coincided with within and nimble production capabilities to cater to global "COVID demand". Subsequently, **vaccine rollout globally have provided follow-through boost** to demand feeding into to manufacturing; ***but this is not unfettered***. Outbreaks of COVID variants dangle the threat of demand disruptions. What's more, hard to avoid **by-product of Beijing leaning against global commodity surge and property market froth** is **dampened industrial activity**.

Growth dynamics: Perhaps a more important distinction to make is that **China's growth** is **owed to uneven drivers**. Crucially, **Beijing's industrial duality** *between boosting high-tech, "new" economy sectors* and *quelling property bubbles/overcapacity/financial risks* means policy cannot be unfettered. What's more, **transitioning to "dual circulation" will require near-term growth trade-offs** (cost efficiencies are compromised) in the pursuit of longer-term growth potential. Also, **credit rationing to "older" industries and SOEs** will **necessarily dampen near-term momentum** as vaccine fillip fades.

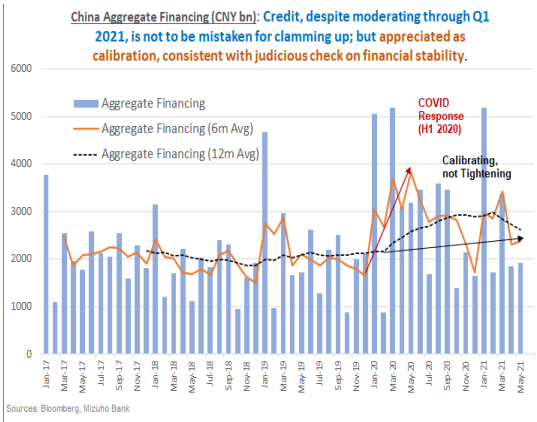
Inflation: Equally, this means **overheating risks**, apart from a few pockets of asset markets, **is mitigated**. Which is to say, **upswing in price pressures need not cause undue alarm** about run-away inflation. Fact is, inflation is a transitory inconvenience not an enduring risk. For the record, **China's inflation surge is most acutely expressed in factory gate prices** (PPI), where 13-year highs nearing 9% YoY is **hard to ignore**. ***But***, **China's industries have exceptional cost-push absorption capabilities** from; i) productivity gains; ii), profit margin buffer and; iii) inventory stockpile to restrain acute commodity/raw material price upswings. As such, the **pass-through of cost-push to consumer inflation remains highly muted**; with inflation **unlikely to durably exceed** the **2-3%** comfort range of the PBoC.



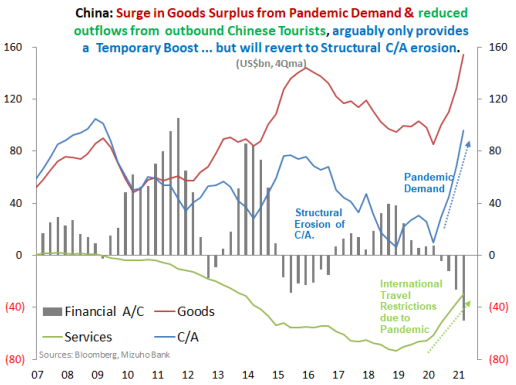




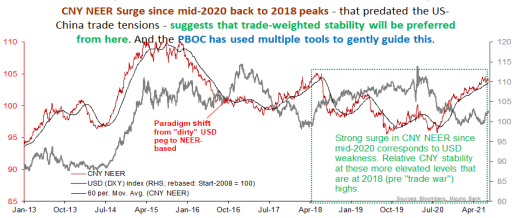
Policy: This **view of transitory inflation gives defining context to** the **PBoC's policy calibration** (away from ubiquitous easing). Specifically, that the **PBoC will be in no rush to hike headline rates** or deliver broad-based tightening via credit/liquidity tools. Instead, the **PBoC's main play book will abide by re-channeling/checking credit** with the view to; i) skimming froth off speculative parts of the property and wider asset markets; ii) ensuring appropriately-directed (to SMEs) and sized policy support for "new tech/green" away from over-capacity/inefficient industries, and; iii) crucially, **pre-empt "Minsky moment"**-type financial instability risks. That's to say, **check excesses, and mis-allocation, not crimp growth**.



External Position: As observed before, **China's ability to nimbly cater to "pandemic demand"** has **boosted** the **Goods surplus** while the **services deficit** – mainly driven by outbound Chinese tourists – has **significantly diminished with suspension of outbound Chinese abroad**; resulting in a **strong surge in the Current Account (C/A) surplus through COVID**. This however is **not a permanent reversal of the structural erosion** that had been **underway prior to COVID**. As such, a **gradual reversion to declining C/A surplus is likely** led by **higher commodity and energy prices** (cutting into net goods balance), followed by **resumption of outbound tourism**. ***US-China tensions re-emerging may also cut into the external balance***.



FX: This **erosion in the C/A surplus** as the world emerges out of the pandemic should correspond to a **slower pace of organic FX reserve accumulation**. In turn, this **ought to dampen scope for underlying CNY appreciation bias**. Also, while relatively lower inflation in China ought to provide some ***CNY lift on a PPP basis***, this is a ***long-term equilibrium***. Whereas more imminent **US-China conflict risks** amid **'taper" headwinds**, are poised to hamper scope for sustained CNY appreciation – at least initially in 2022, with measured traction likely to emerge further out. The wider point is, regardless of USD curve balls, **CNY will exhibit relatively lower volatility**, with trade-weighted CNY steadying at currently loftier levels.



	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	7.7%	6.9%	5.3%	5.6%	5.8%	5.8%
CPI (% y/y)	1.6%	1.8%	2.4%	2.3%	2.2%	2.2%
Policy Rate^ (%)	3.85%	3.85%	3.85%	3.85%	3.85%	3.85%
USD/CNY*	6.45	6.49	6.36	6.42	6.58	6.49
	6.35-6.58	6.26 - 6.81	6.14 - 6.54	6.22 - 6.60	6.37 - 6.77	6.28 - 6.70

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

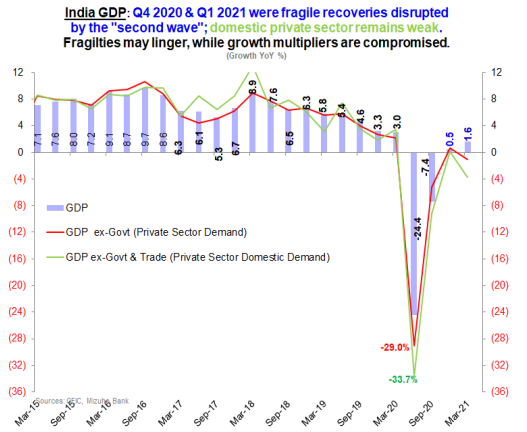
India: Of Relapse & Recovery

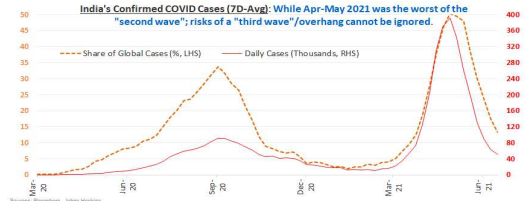
Growth: Earlier **hopes of resounding growth rebound** (IMF forecast: 12.5%) **in 2021 have been hijacked by a relapse** into a devastating **"second wave"** of COVID. And **lingering threat of a "third wave"** suggest that the **risks to growth remain tilted to the downside**. So, despite signs that the worst of India's second wave in 2021 was over in April-May, **steady sequential growth recovery** may only start **to emerge into (CY) 2022**. Our **growth outlook at 8.1% (9.2%)** for this year (FY) is admittedly at the pessimistic side of things. But this merely accounts for **growth multipliers undermined** by **pre-existing banking sector overhang rendered more acute during COVID** and the disproportionate pain in the **informal sector**.

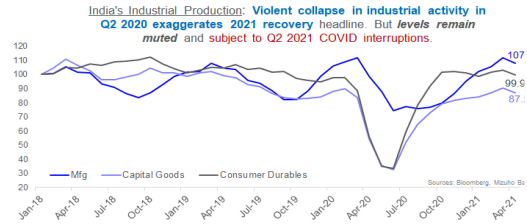
Industry: With the **fragile recovery in IP relapsing into a sputter amid "second wave" induced restrictions** in activity, an **unfettered recovery in industry will only take shape in H2**. The bigger picture is that **extreme base effects flatter the headline recovery**. Whereas levels of activity reveal a shaky reversion to pre-COVID levels of activity. The **upswing in oil and commodity prices getting ahead of industrial/demand recovery** – especially in the context of *chronic weakness in capital goods and consumer durables* – is **an unwelcome inconvenience** that erodes margins and household spending power at the same time. This **underscores soft spots in private sector demand recovery**.

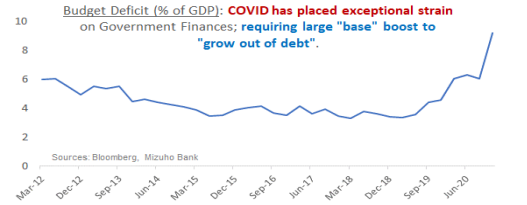
Growth dynamics: With a **slump in private sector demand**, accentuated by a *hollowing out of the informal sector*, and *banks burdened by pre-existing balance sheet impairment*, **fiscal policy has had to do the heavy lifting**. **Record budget deficits in response to COVID may prove *difficult to reverse*** given the long shadow of the pandemic. And **oil exacerbating fiscal/economic headwinds** suggest ratings risks further out cannot be ruled out. Also, while the silver lining is that RBI's measures have helped improve **access to credit for MSMEs**, the reality is that credit as a whole is fraught – both due to demand and supply factors. And **negative credit ripples from the NBFC^ sector** remains a threat.

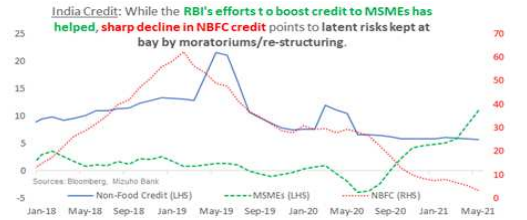
Inflation: The **onslaught of price pressures** lifting **inflation above the 4-6% target range** despite fairly subdued food prices is worryingly; as inflation drivers are **neither narrow *nor*** necessarily **transitory enough for the RBI to brush off**. Core inflation has moved up emphatically to 6-7% and **higher fuel prices may prove ultimately sticky**; as spill-over via transport suggests wider dissemination of cost-push. To be sure, **CPI is poised to ease back to the 4-6% range in 2022 as global cost push is expected to fade** from supply response. But underlying ***price pressures may only decline gradually inflicting stagflation-esque pain***.

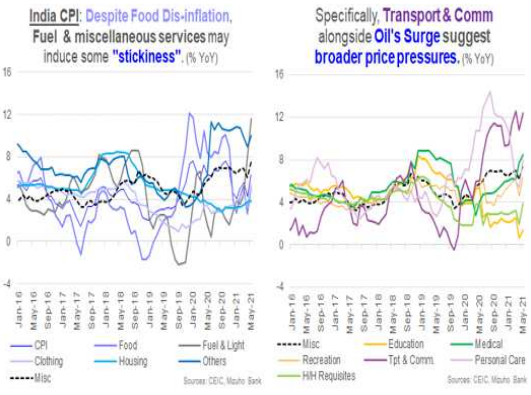






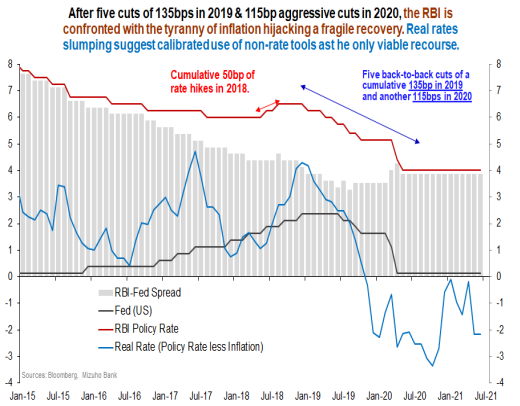




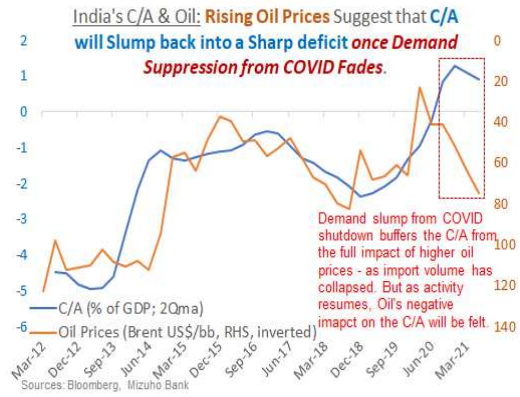


^ **NBFC**: **Non-banking financial companies** in India, the source of credit surge in the recent past.

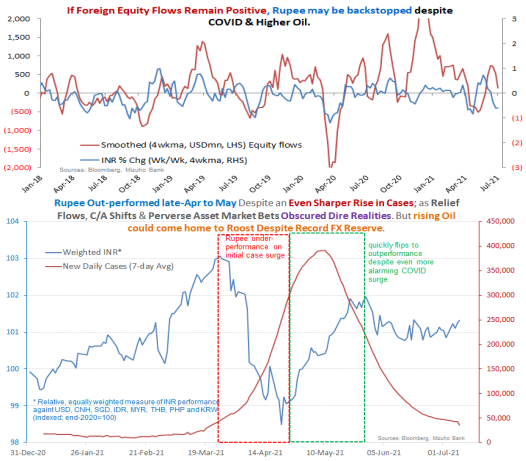
Policy: **Pain** which the **RBI will be forced to succumb to**. While "second wave" devastation/setback in Q2 this year left the door to more easing earlier – especially as food dis-inflation reined in CPI in – **inflation resurgence** has **not only thwarted scope for easing monetary conditions**, **but may potentially require a measured rate hike *if headline inflation does not cool appreciably by late-2024***. We are thus flagging **the risk of a 25bps rate cut late-2021** and **another 25bps rate hike in early 2022** to take the **policy rate to 4.50% by H1 2022**. This is **to ensure real rates are not left negative for a prolonged period**; especially as India emerges from the pandemic. That said, ad-hoc **YCC-type moves** to anchor yields will **remain on the card as the RBI navigates between a rock and hard place**.



External Position: India's **Current Account** (C/A), which ***flipped from a deficit in 2019 to a surplus in 2020***, is **set to slide back into a measured deficit of ~1.0-1.5% of GDP as peculiar pandemic effects start to fade**. Specifically**, Oil's import compression** – *both price and volume effects* – looks set to reverse; with **Oil prices rebounding above pre-COVID** levels coincident to **easing lockdown reviving activity**, **and** as a corollary, **energy demand**. Taken alongside an appreciable resumption of imported consumption, which was earlier partly suspended, C/A slippage will be hard to avoid. And in fact, **reflation boost to commodities** in general **threatens to** lift overall imports costs substantially, and **accentuate C/A deterioration**.



FX: A conspiracy of **surging oil prices** (resultant C/A deterioration), **sharper than expected fiscal slippage** due to necessary intervention in response to a devastating "second wave" and an **inconvenient inflation upswing** that is depressing real rates in negative territory suggest that the **rupee vulnerable to be an under-performer**. Especially **on the Fed's "taper"** risks should a capitulation of capital from EM (Asia) to DM (especially the US) be unleashed. Admittedly, **record FX reserve accumulation** by the RBI **to over $608bn appreciably mitigates the risk of severe rupee sell-off** – as was the case in 2013, when it was identified as one of the "fragile five" currencies. ***But FX reserve cushion is not immunity***. And **the worst bout of global risk aversion (in H1 2022) may push USD/INR past 78**; before settling sub-74 further out.



	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	19.7%	8.5%	5.8%	5.8%	10.3%	6.6%
CPI (% y/y)	5.8%	5.4%	5.3%	6.0%	3.9%	4.3%
Policy Rate (%)	**4.00%**	4.00%	4.25%	4.50%	4.50%	4.50%
USD/INR*	**74.3**	74.8	73.3	74.8	77.3	75.6
	72.3-75.3	71.7 - 78.0	70.3 - 75.2	72.4 - 77.1	73.8 - 79.6	72.2 - 78.1

Note: Values in black are historical whereas those in blue represent forecasts.

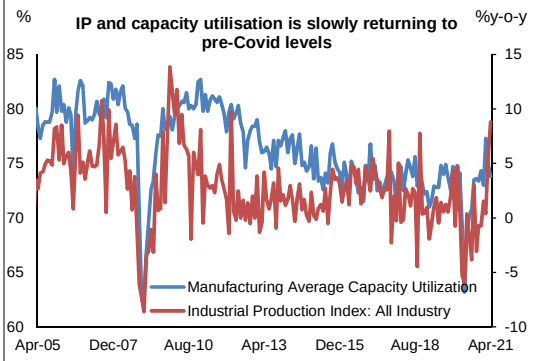
* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

South Korea: Export driven recovery

Growth: GDP contracted 0.9% in 2020 as the economy was battered by the pandemic. However, as the government did not resort a complete lockdown, the impact of the pandemic was felt in waves and was not as severe as elsewhere in the region. The government provided strong counter-cyclical fiscal support through the year – the fiscal packages announced in 2020 were worth 3.1% of GDP. In addition, a major boost to electrical and electronics goods exports supported growth into Q1 2021. These factors helped push Q1 2021 growth to 1.8% YoY. For this year, we expect GDP growth will improve dramatically to 4.2%.

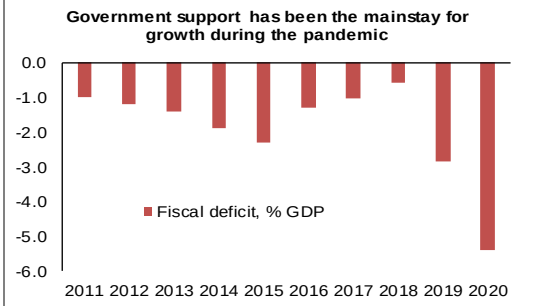
Source: CEIC; Mizuho Bank

Industry: Industrial production has been severely hurt by the pandemic. Although export growth improved in Q4 2020 and Q1 2021, renewed waves of Covid-19 have weighed on industrial production as factories closed down to contain the spread of the infection. The pick-up in exports was driven by greater demand from China, Vietnam and the EU with semiconductors, home appliances and automobiles being the key items of exports. For the rest of this year, we expect the recovery in IP and exports to continue especially in electronics sector as chip shortages prove to be a major tailwind for Korean exports.



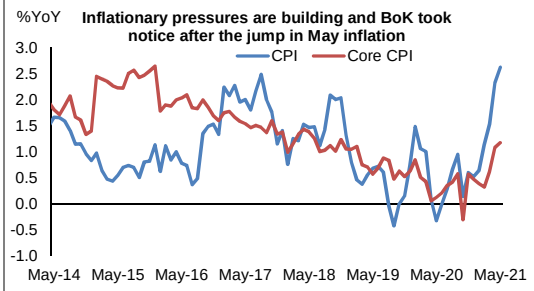
Source: CEIC; Mizuho Bank

Growth dynamics: The government started its vaccination drive in the last week of February with the aim of inoculating nearly a quarter of the population by June and achieving herd immunity by November. However, much of this depends on the supply of vaccinations especially since the government will be using mainly AstraZeneca vaccines. Meanwhile, fiscal policy will continue to support growth. The government in 2021 alone has allocated KRW19.5trn (~1.0% of GDP) to the support the economy through the pandemic. Additional fiscal stimulus is likely through the year seeing that renewed waves of infections cannot be ruled out.



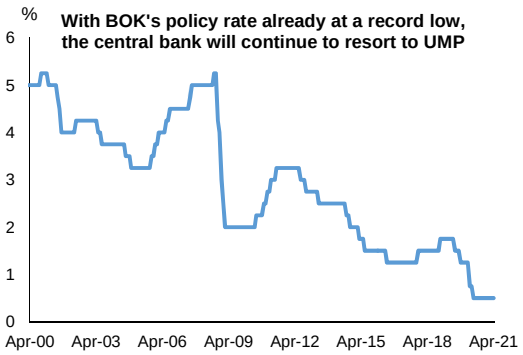
Source: CEIC; Mizuho Bank

Inflation: Headline inflation averaged 0.5%YoY in 2020 given low food and energy inflation. Core inflation averaged an even lower 0.4% during this period, underscoring weak domestic demand conditions. For 2021, we expect headline inflation to pick-up reflecting higher global energy prices. Indeed, for the first five months of 2021 headline inflation averaged 1.7% YoY with core inflation at 0.7%. The sharp rise in May inflation caught the attention of BoK, which is now increasingly sounding more hawkish.



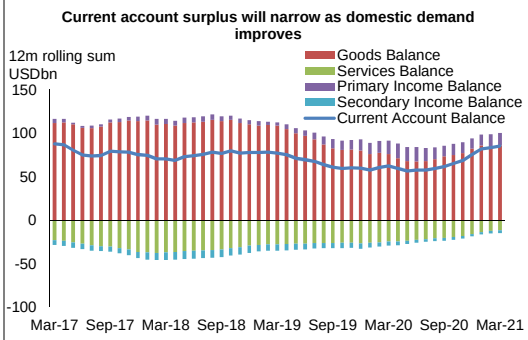
Source: CEIC; Mizuho Bank

Policy: While BoK lowered its policy rate to a record low of 0.5%, it has shown limited interest in taking rates into the negative territory. Apart from policy rate, BoK has introduced several measures to ensure that monetary policy conditions remain accommodative including making unlimited liquidity available through OMOs, expanding OMO participants and collateral. Recent statements from the BoK Governor suggest that a policy rate hike maybe on the cards as soon as end-2020 given the sudden jump inflation. For now, we have penciled hikes from Q1 2021 given that the state of growth is still precarious and subject to downside risks from renewed waves of COVID-19 infections.



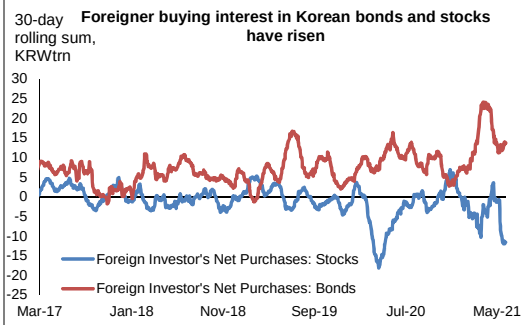
Source: CEIC; Mizuho Bank

External Position: The current account surplus widened significantly to 7.0% in 2020 from 4.3% in 2019 reflecting a collapse in import demand brought on by domestic demand compression even as export growth showed some signs of life. The dissemination of vaccines should allow for some economic recovery in 2021, albeit an uneven one and the concomitant pickup in import demand. This will lead to a narrow current account surplus, even as the recovery in exports continues. In addition, the capital account balance will remain positive supported by inflows into the bond and equity markets, especially against the global backdrop of an improved appetite for risk assets.



Source: CEIC; Mizuho Bank

FX: The weakening KRW since the start of the year will alleviate some concern from the authorities (BoK and the government) after concerns were expressed about the sharp appreciation of the KRW in 2020. The BoK Governor noted that while KRW strength does not hamper the recovery in export, it does increase the uncertainty for businesses. This is likely true for any sharp moves in the currency, which the authorities will try to smooth. We expect USD/KRW will move higher into Q3 before easing back towards the end of the year, mainly reflecting our USD direction.



Source: CEIC; Mizuho Bank

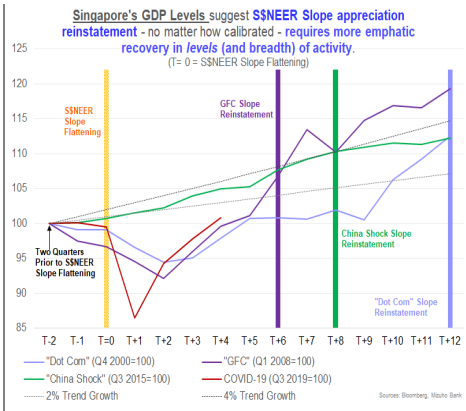
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	5.1%	4.9%	4.9%	2.5%	2.4%	2.8%
CPI (% y/y)	2.5%	2.2%	2.3%	1.4%	1.2%	1.0%
Policy Rate (%)	0.50%	0.50%	0.50%	0.75%	1.00%	1.25%
USD/KRW*	1126	1145	1085	1110	1152	1125
	1105-1139	1100 - 1200	1040 - 1110	1080 - 1150	1110 - 1190	1080 - 1160

Note: Values in black are historical whereas those in blue represent forecasts.

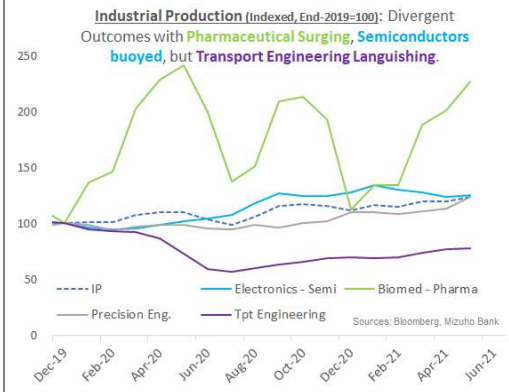
* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

Singapore: The "SO" Factor

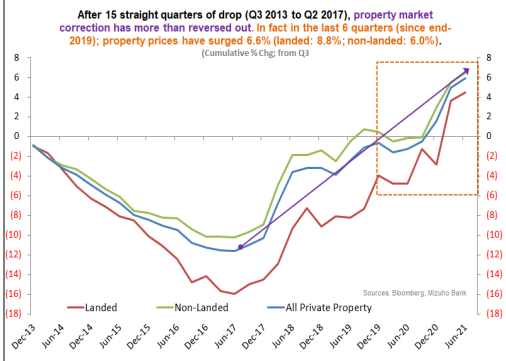
Growth: The **outlook has brightened appreciably**, with **growth now set to exceed the 4-6% "official" target**, **given** exports advantages to benefit from demand for semiconductors and pharmaceuticals, alongside brisk **vaccine rollout**. **But uncertainty continues to flicker** as outbreaks of more transmissible COVID variants ("variant risk") in EM Asia tha has setback regional recovery will inevitably transmit to ***Singapore; being a "small, open" economy*** – so-called **"SO" factor**. This "SO" factor also means that **a deluge of global liquidity boosting may froth asset/property prices** – a policy challenge – and render regional vaccination successes/lapses equally "contagious". For now, **"SO" factor vulnerabilities warrant leaving accommodation intact**.



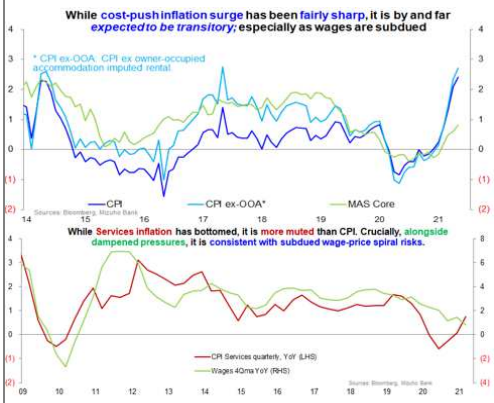
Industry: It is this very **"SO" factor** that **shows up as stark divergences in** Singapore's heavily exports-oriented **industrial activity**. While supply crunch in some parts such as semiconductors has by and large been beneficial, the warning is that **unexpected capacity constraints at some other parts of the complex global supply chain ma**y lead to activity disruptions that **dents growth**. What's more, global reflation is **starting to add to costs**, and varying ability to pass on this cost may also translate into **more divergent bottom-line impact**. The wider point being, this **"SO" factor dictates** that as well-positioned as **Singapore** may be **to ride global demand recovery**, it may also be **exposed to regional/global setbacks *via open trade, financial and immigration channels***.



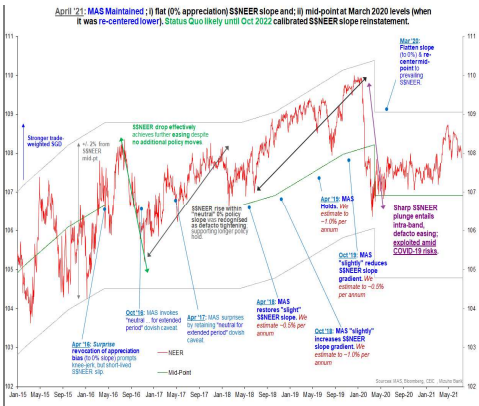
Growth dynamics: One **unexpected consequence** of **effusive global stimulus/liquidity *in the context of the pandemic*** is that the wider asset price inflation phenomenon is fueling **frothy property market activity**; especially as the allure of Singapore as a home has evoked foreign buying interest. Whether realized or not, this **sentiment of rising property prices coupled with construction schedules for new homes being set back** during the pandemic has led to surging property prices through the pandemic. **The pervasive spillover from property** – to jobs, services etc. – **could overstate broader, organic recovery**.



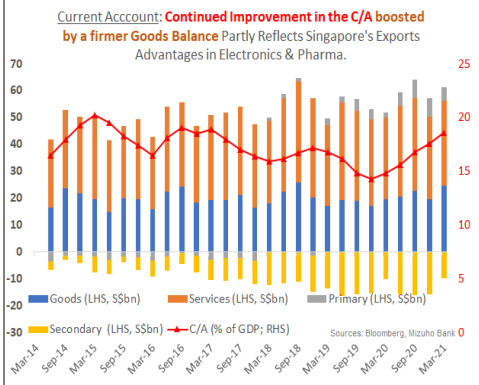
Inflation: Admittedly, **headline inflation upswing** is not immaterial; but it is a distortion – ***blowing up transitory cost-push pressures*** – that **distracts from the bigger picture of "slack"** in the economy that continues to justify, if not warrant, the current policy accommodation. Point being, while sequential **cost-push pressures** from global reflationary forces are not denied, their impact is **exaggerated by a low base**, **COVID capacity constraints** impeding (price-taming) supply response and pockets of vaccine demand rebound. All said, with the recovery still highly uneven and wage pressures subdued, alongside far tamer services inflation, **wage-price spiral risks/demand-pull inflation is not even likely, much less the main threat**; with CPI to settle back below 2% by late-2021/early-2022.



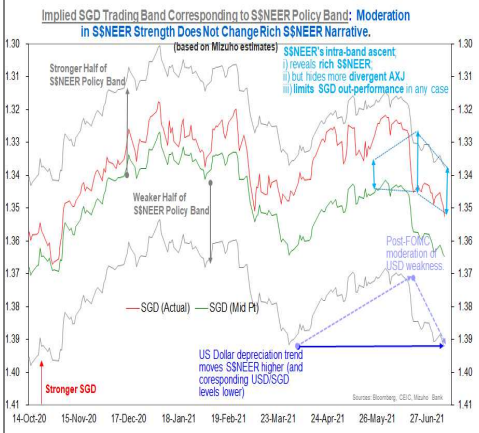
Policy: **Even with Singapore's recovery on-track**, if not ahead of expectations coinciding with cost-push – even if by and large transitory – there is **good reason not to jump the gun**. The **MAS is just as likely to** buy **wait out** the initial rebound this year **to assess more durable underlying recovery momentum** (amid lingering "variant risks") **as it is inclined to look through the glare of transitory cost-push impulses**. And even when the MAS is ready to "exit", it **will only extract accommodation very gradually in 2022**; via *calibrated restoration of S$NEER slope appreciation bias* (~0.5%/annum) and not a more aggressive slope steepening; certainly not re-center the mid-point higher. While MAS may move as early as April **our base case if for Oct 2022**.



External: **Sustained improvement in** Singapore's **Current Account** (C/A) through COVID from below 15% of GDP to well above 18% of GDP reflects a confluence of early-stage imports compression during COVID being followed on by a rebound in net exports; catalysed by China's manufacturing roaring back since Q2 2020. Moreover, **global demand recovery** since H2 2020 **have played to the advantages of Singapore's Pharmaceutical and semiconductor sectors**. While global demand recovery ought to help buoy the exports sector and C/A, a bumpy path in the race between COVID variants and global vaccination rollout warns against linear projections. Higher cost-push/reflation could also erode C/A.



FX: Speaking of non-linearity, strengthening C/A need not correspond tightly with surging **SGD** (vs. USD) as the **wider USD trend**, **COVID risks** and **CNY cues have a far greater sway**. But the C/A is one validates **S$NEER at the top half of policy bands**. And Singapore's vaccination progress augurs well, dependence on regional countries attaining significantly higher vaccination check SGD. Crucially, **likely rendition of** normalization by means of ***"slight" S$NEER slope restoration should not be mistaken for bullish SGD trigger***; as a **calibrated S$NEER slope** incrementally raising S$NEER policy cap ~50bps per annum (less than 5bps per month) **does not a stand-alone bullish SGD bet make**. Instead expect deference to USD trend; albeit prone to out-perform ASEAN peers on "taper". "Taper" volatility may lift to 1.38-1.40 before restoring back to 1.32-1.33 late 2022.



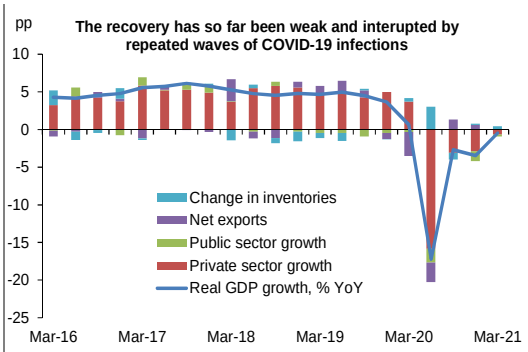
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	13.3%	6.9%	4.7%	3.0%	5.8%	4.3%
CPI (% y/y)	2.2%	1.6%	1.2%	1.1%	1.2%	1.2%
FX Policy	Status Quo	Status Quo		Status Quo		Restore a "Slight" S$NEER Slope (0.5% per annum)
USD/SGD*	1.35	1.35	1.32	1.34	1.36	1.33
	1.32-1.35	1.33 - 1.40	1.29 - 1.37	1.31 - 1.41	1.33 - 1.41	1.30 - 1.38

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

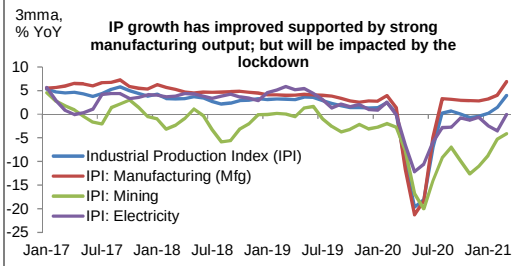
Malaysia: Double whammy from the pandemic and politics

Growth: Although the contraction moderated to -0.5% YoY in Q1, it continues to highlight Malaysia's struggle to rein in the pandemic. A fresh wave of COVID-19 infections hit in September following the Sabah elections, resulting in tightened social restrictions for much of 2021 and a complete lockdown in June, extended into July 2021. UMNO, the largest party supporting the ruling coalition, withdrew support and demanded the PM's resignation on 7 July triggering another bout of political uncertainty. While the PM has not resigned yet, this puts the 'National Recovery Plan', which sets out timelines for the economy to exit lockdown based on the daily case count, vaccination progress and hospital capacity, at risk.



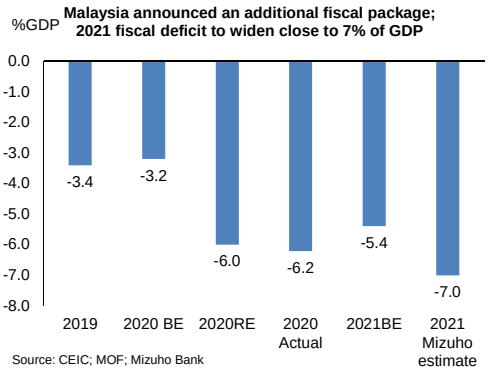
Source: CEIC; Mizuho Bank

Industry: IP growth started the year on relatively strong note growing 4.0% YoY in Q1 from -0.4% in Q4. The pick-up was supported by manufacturing sector output, especially electronics and electrical sector output. This is consistent with strong export growth of these products. With the economy back in a state of lockdown, IP improvements in Q2 will be more staggered as industries will need to get permission from the Ministry of Trade and Industry to operate. These permissions will be granted on a case-by-case basis.



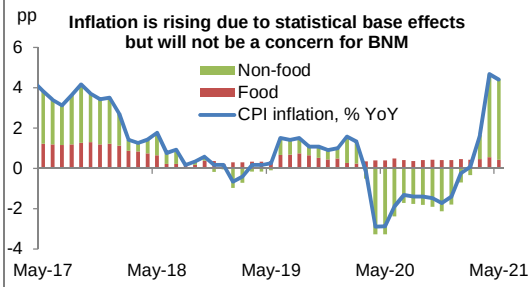
Source: CEIC; Mizuho Bank

Growth dynamics: We expect only a modest growth recovery in 2021 to 4.2% from -5.6% in 2020 reflections a slow vaccination drive and renewed lockdowns. Although the government has announced four additional fiscal stimulus packages till date, they will provide only a modest offset. With the introduction of the first two packages, the government revised the 2021 fiscal deficit target to 6% of GDP from 5.4%. The third and fourth packages, announced on 31 May and 28 June, will inject 1.0% of GDP of new money implying a wider deficit to ~7% of GDP. But the deficit could be offset to some extent by higher revenues from rising global oil prices.



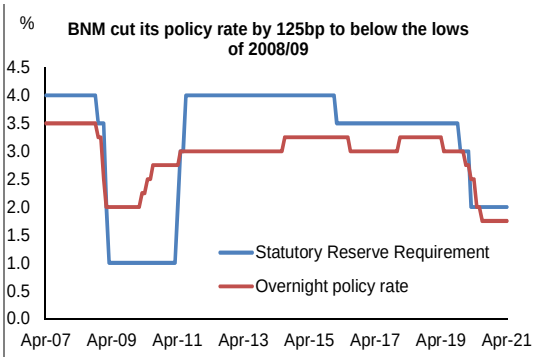
Source: CEIC; MOF; Mizuho Bank

Inflation: Headline inflation moderated to 4.4% YoY in May from 4.7% YoY in April & 0.5% in Q1 as favourable base effects from lower fuel prices faded. Looking ahead, we expect headline inflation to pick up to 2.8% YoY in 2021 as the global economic recovery boosts global demand and with it global oil prices. Core inflation, however, will likely remain weak underscoring anemic domestic demand conditions but will nonetheless rise in 2021 compared to 1.1% in 2020.



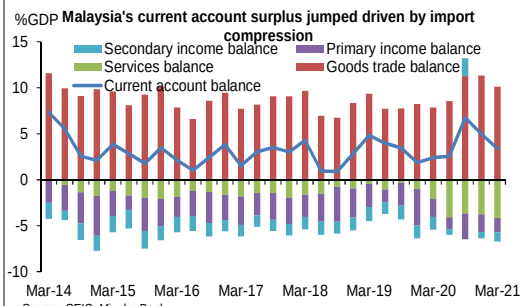
Source: CEIC; Mizuho Bank

Policy: BNM cut by a cumulative 125bp in 2020 to cushion against downside risks to growth and has left the door open for further easing. We expect BNM to keep its policy rate unchanged for the rest of this year as it defers growth support to fiscal policy. It could, however, continue to provide credit/liquidity support. As the recovery gains traction next year, we expect BNM to look for an opportunity to normalize the policy rate back to pre-Covid levels. Assuming that herd immunity has been achieved in terms of vaccinations and the recovery is underway, we expect BNM raise its policy rate by a cumulative 75bp in 2022.



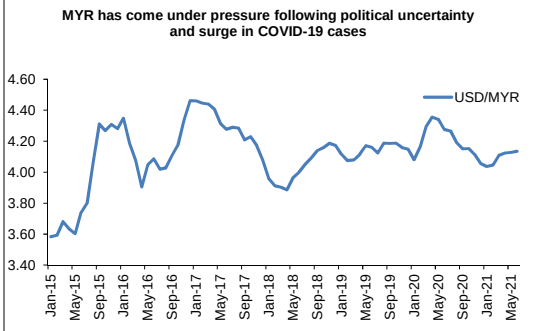
Source: CEIC; Mizuho Bank

External Position: The current account surplus widened to 4.4% of GDP in 2020 from 3.4% in 2019 reflecting a collapse in import demand underscored by weak domestic demand. In Q1 2021, the surplus narrowed to 3.4% of GDP. The recent rise in oil prices to above USD70/barrel bodes well for a net commodity exporter like Malaysia and will support export growth. Import growth will also likely improve only modestly compared to 2020 but will be more obvious in 2022 as the recovery takes hold. As such, we expect the current account surplus to narrow slightly this year.



Source: CEIC; Mizuho Bank

FX: Since the start of March, MYR has depreciated versus the USD partly reflecting USD strength but also Malaysia's general troubles curbing COVID-19 infections and rising political uncertainties. In December 2020, Fitch downgraded Malaysia's credit rating by one notch to BBB+, in what we deem more a technical checkbox exercise than it is a harbinger of imminent credit risks. Notwithstanding, FTSE Russell reaffirmed Malaysia's inclusion in its bond index for government bonds as a testament to BNM progressing its reform agenda by introducing measures to enhance the ability to hedge FX risks as well as deepen bond market liquidity/pricing.



Source: CEIC; Mizuho Bank

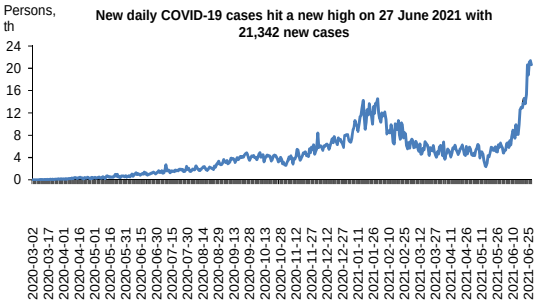
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	8.7%	4.0%	5.3%	7.8%	5.9%	9.3%
CPI (% y/y)	4.3%	3.0%	3.5%	1.9%	1.5%	1.5%
Policy Rate (%)	1.75%	1.75%	1.75%	1.75%	2.00%	2.00%
USD/MYR*	4.15	4.18	4.07	4.12	4.28	4.18
	4.09-4.17	3.94 - 4.37	3.91 - 4.17	4.00 - 4.28	4.10 - 4.41	4.01 - 4.36

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

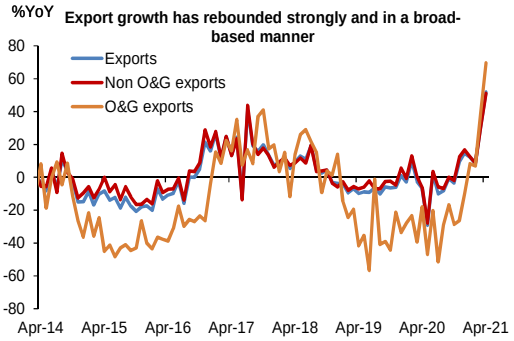
Indonesia: Hit by its most severe wave of COVID-19

Growth: The economy shrunk by 2.1% YoY in 2020 on account of the pandemic, which weighed on all major drivers of growth. The outlook for this year is obfuscated by the latest, most severe wave of COVID-19 infections. Daily infections hit a new record of over 21k on 27 June. The government is finally thinking about instituting a stringent form of lockdown but is yet to do so. It is relying heavily on the vaccination drive. But with <5% of the population vaccinated completely, the hurdle to achieving 'herd immunity' is high. Moreover, healthcare and hospital systems are coming under duress, which is a worrying sign.



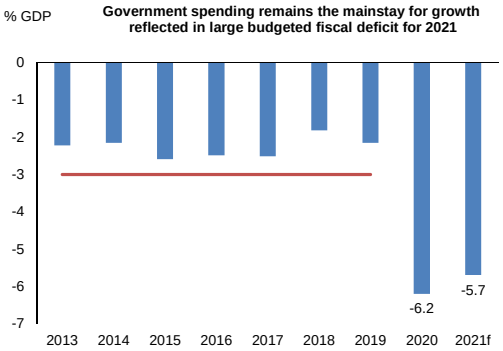
Source: Our World in Data; Bloomberg; Mizuho Bank

Industry: Export growth held up relatively well in the first five months of 2021 (30.5% YoY from 6.7% in Q4 2020) and was driven by broad-based improvements; April exports in value terms hit the highest on record but moderated in may. The pick-up can be sustained if that commodity prices continue to rise, allowing Indonesian exports to benefit from positive Terms of Trade effects especially since commodity exports (coal, rubber and palm oil) constitute the lion's share of total exports. That said, as the global recovery continues to be uneven and impacted by renewed waves of infection, the commodity price rally could fade reversing Indonesia's commodity export fortunes.



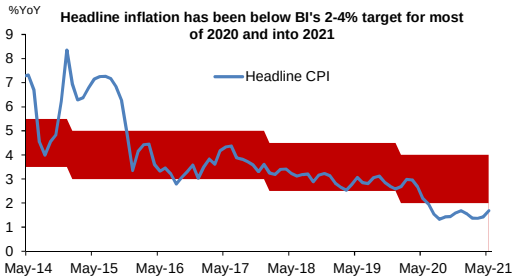
Source: CEIC; Mizuho Bank

Growth dynamics: Growth recovery will be slow and uneven as different parts of the country will recover differently depending on the severity of the Covid-19 outbreak as well as the efficiency of the vaccine drive. Given the spatial distribution of the Indonesian archipelago, remote areas of the country will likely receive vaccinations at a slower pace. In the meantime, growth remains vulnerable to renewed waves of the infections. Fiscal policy will continue to be the mainstay for growth with the central bank still funding the government's fiscal deficit for the year. A lot depends on the government's ability to break the chain of transmission as infection rates surge and hospital capacity becomes stretched.



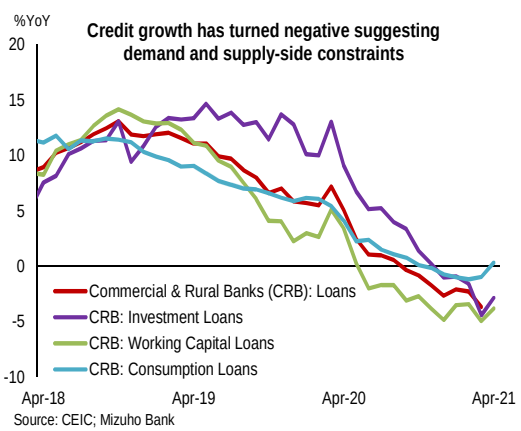
Source: CEIC; Mizuho Bank

Inflation: Headline inflation has remained below Bank Indonesia's (BI) 2-4% range in the first four months of 2021, driven by lower food, fuel and utility prices. Although headline inflation will likely rise through the rest of 2021, it will still remain within BI's target range. The government managed to keep food prices under check during the Lebaran period, which has also contributed to generally lower inflation. Without any adjustment in retail fuel prices to allow it to more in tandem with global oil prices, transportation related inflation will also remain contained, albeit at a fiscal cost.

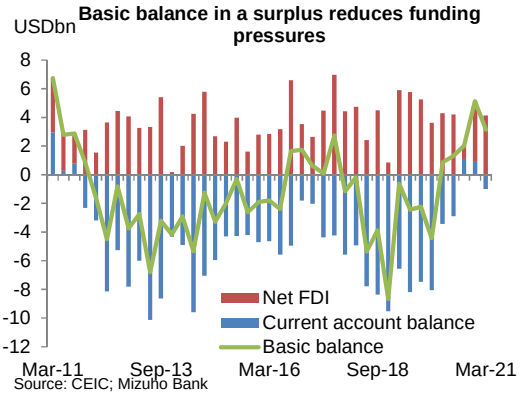


Source: CEIC; Mizuho Bank

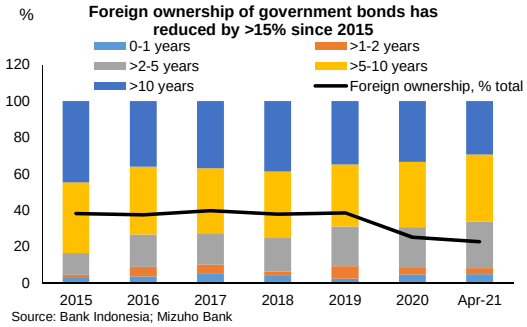
Policy: BI unleashed a series of easing measures in February 2021 including i) a 25bp rate cut across the policy corridor ; ii) lowering the Loan-To-Value (LTV) ratios for housing loans; iii) relaxing the down payment requirements on auto loans to 0% for all new vehicles. The latter two measures will be in effect from 1 March 2021 until 31 December 2021. While we expect BI to keep its policy rate unchanged for the rest of 2021, it will continue to focus on improving transmission of the previous rate cuts through the banking system. It will also continue to tweak macro and micro prudential measures - it recently lowered the ceiling interest rates for credit cards by 25bp - to support liquidity and credit growth.



External Position: The external position has improved dramatically largely on account of severe import compression. The 2020 current account deficit (CAD) was 0.4% of GDP with, the basic balance (current account balance + net FDI) in a surplus. Although the CAD widened to 1.0% of GDP in Q1 2021, the basic balance surplus sustained. However, as the growth outlook improves (albeit in an uneven manner), import demand will rise and the CAD will widen. Although the "Omnibus bill" has opened up all but six sectors to foreign investors, the implementing regulations will take time. Whether long-term funding pressures are reduced with greater FDI inflow will depend heavily on these regulations in terms of attracting greater FDI.



FX: A steepening UST yield curve against a backdrop of rising oil prices may start to compromise the performance of IDR. Furthermore, USD direction seems to be at inflection point and could strengthen through the course of this year, putting additional pressure on the IDR. Moreover, increased "twin deficit" strains and legislation that potentially reduces the independence of BI are also risk factors for IDR. That said, since the start of 2020, foreign ownership of Indonesian government bonds has reduced by >10%, providing some buffer against IDR volatility.



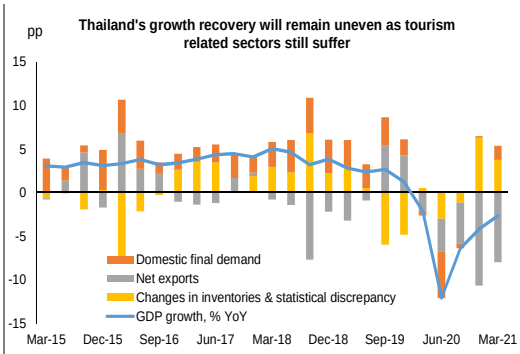
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	5.7%	5.3%	5.2%	6.7%	7.2%	7.0%
CPI (% y/y)	1.5%	2.4%	3.0%	2.7%	2.6%	2.2%
Policy Rate (%)	3.50%	3.50%	3.50%	3.50%	4.00%	4.50%
USD/IDR*	14500	14550	14120	14180	15100	14680
	14145-14635	14120 - 15290	13710 - 14830	13860 - 15010	14620 - 15840	14210 - 15440

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

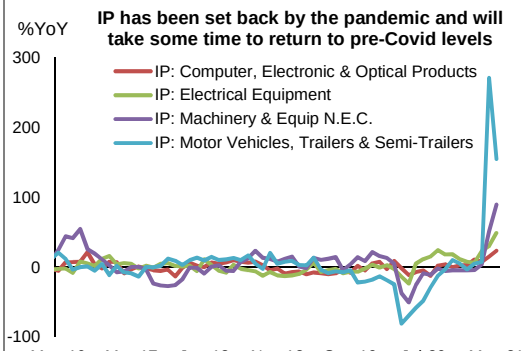
Thailand: Tourism deprived

Growth: GDP contracted by 6.1% YoY in 2020 as the Covid-19 pandemic hit all key sectors of the economy. The contraction narrowed to 2.6% YoY in Q1. The tourism sector was all but destroyed by the pandemic as international tourist arrivals fell to zero from April to September 2020. Although the government has incentivized domestic tourism, it cannot compensate for the dearth of international travelers. Consumer and business confidence have been severely dented and this weakness has only been exacerbated by the rising political uncertainties. These uncertainties have also hamstrung government spending, which is the biggest driver of growth.



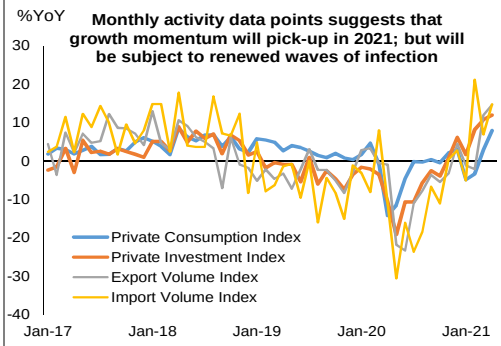
Source: CEIC; Mizuho Bank

Industry: Industrial production suffered a major setback due to the pandemic, contracting 9.2% in 2020. Although IP has averaged 8.0% YoY for the first five months of 2021, the recent improvement being mainly due to low base effects from last year. The latest wave of COVID-19 infections has pushed the government to tighten social restrictions, which will hurt capacity utilization and hence IP. Meanwhile, notwithstanding favourable base effects, export growth will likely remain weak and any recovery in the electronics sector could be shallow as Thailand caters to the production of Hard Disk Drives, which are increasingly falling out of favour to Solid State Drives.



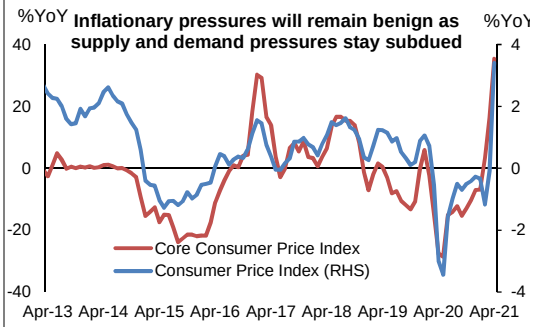
Source: CEIC; Mizuho Bank

Growth dynamics: The growth outlook for 2021 remains precarious; albeit with some improvement in the growth rate given the depressed base in 2020. Government spending will continue to be the mainstay of growth. But structural constraints that predate the pandemic such as high household debt levels, poor implementation of large scale infrastructure projects and increasingly outdated electronics exports will hamper any meaningful recovery. For now, however, the biggest blow to growth will continue to be from the lack of international tourist activities as lockdowns and social restrictions remain the norm.



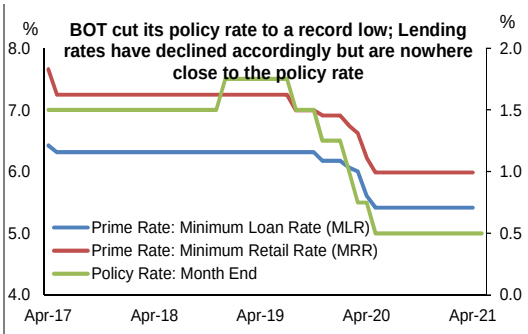
Source: CEIC; Mizuho Bank

Inflation: Headline inflation averaged -0.8% YoY in 2020 driven by a drop in global oil prices passing through onto retail fuel prices, a reduction in electricity tariffs and anemic domestic demand. Reflecting the latter, core inflation fell to -12.4% YoY in 2020. For 2021, we expect headline inflation to average 1.1% YoY as retail fuel and electricity prices pick up. Even with this pick-up, headline inflation will remain within the Bank of Thailand's (BOT) 1-4% inflation target range.



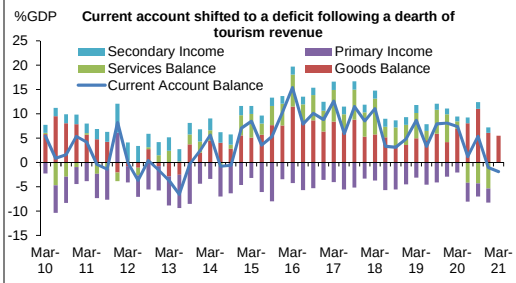
Source: CEIC; Mizuho Bank

Policy: BoT cut its policy rate to a historical low of 0.5% and has kept all options on the table to further support growth including launching a formal quantitative easing program. The threshold for triggering such a program, however, remains high. The recent weakness in the THB is a welcome respite for the BOT has fretted about undue appreciation of the currency for most of the last year. Given the weak state of the economy and subdued inflationary pressure, BOT will be one of the few central banks in EM Asia that will be comfortable maintaining a clear dovish bias, even as the US Fed looks to normalize monetary policy.



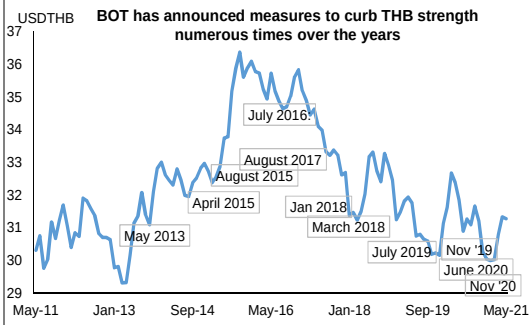
Source: CEIC; Mizuho Bank

External Position: The current account registered its first quarterly deficit since 2014 in Q4 2020 driven by a slump in tourist arrivals and goods exports even as the contraction in imports remained severe. The deficit widened to ~2% of GDP in Q1 2021 from 1.1% in Q4. With the limited visibility into the timing around the resumption of global tourism, the current account may remain under some pressure. That said, we expect import contraction to remain severe consistent with the weak state of domestic demand.



Source: CEIC; Mizuho Bank

FX: From April to December 2020, THB gained close to 10% against the USD but has since lost some ground, mainly on account the USD trend. This recent easing of THB will come as respite for the authorities, BOT and the MOF, who spent most of 2020 concerned about THB appreciation. So much so, that BOT announced measures on 20 November to ease capital outflows including raising the limit for Thai residents to invest abroad to alleviate pressure from the THB. If THB strength returns and cannot be justified by economic fundamentals, we expect more measures from BOT to reign in the currency strength.



Source: BOT; Bloomberg, Reuters, Bangkok Post, Mizuho Bank

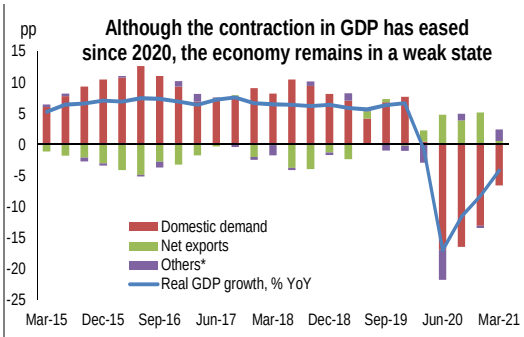
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	5.5%	4.2%	2.3%	5.2%	8.4%	8.2%
CPI (% y/y)	**2.4%**	1.3%	1.4%	1.7%	1.1%	1.2%
Policy Rate (%)	**0.50%**	0.50%	0.50%	0.50%	0.50%	0.50%
USD/THB*	**32.1**	32.2	31.0	31.5	32.5	31.6
	31.0-32.1	31.4-33.4	30.2 - 32.4	30.3 - 32.4	30.6 - 33.4	30.7 - 32.5

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

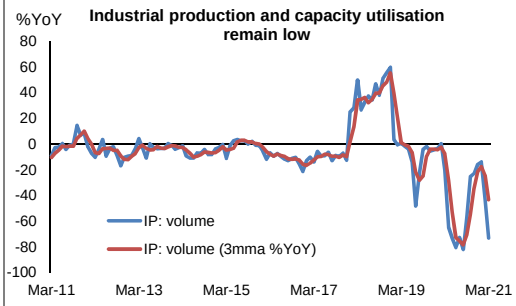
Philippines: Struggling to find a foothold

Growth: GDP contracted by 9.5% YoY in 2020 as the pandemic all but destroyed all the main growth engines of the economy. The contribution of domestic demand was abysmal as consumption and investment spending tanked. This weakness in domestic demand led to severe import compression and led to a positive contribution from net exports. As the COVID-19 situation in the Philippines remains grim, with the government extending lockdowns in Metro Manila and neighboring areas and the vaccination drive progressing slowly, we expect GDP growth this year to improve only marginally; with the bulk of the improvements in H2.



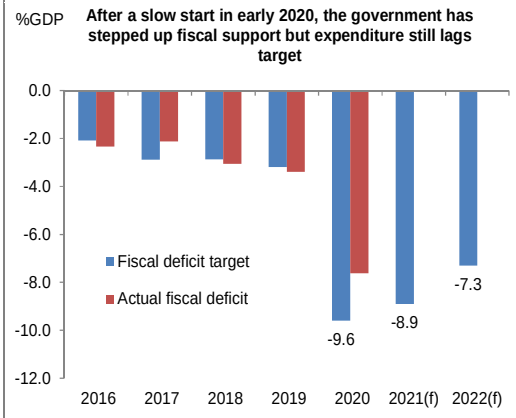
*Others includes changes in inventories and statistical discrepancy.
Source: CEIC; Mizuho Bank

Industry: Industrial production and capacity utilization have remained poor through the pandemic. With the virus still showing limited signs of coming under control, the economic recovery in the aftermath of the pandemic will be inconsistent and uneven, until vaccine distribution is widespread. As such, the risk of repeated waves of Covid-19 outbreaks remains high. Further as multiple waves of Covid-19 threaten growth in Asia, export demand will remain volatile. This will keep external sector oriented manufacturing under stress.



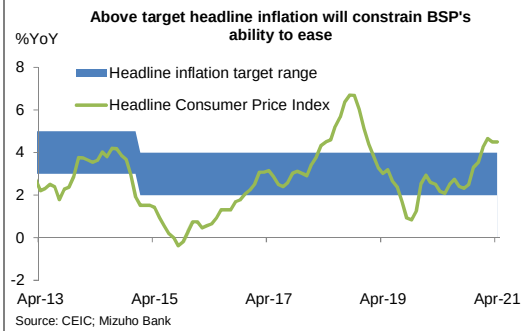
Source: CEIC; Mizuho Bank

Growth dynamics: The biggest driver of growth remains fiscal spending as most other drivers have been severely impacted by the pandemic. Consumer spending has been hit by a high rate of joblessness (10%) and significantly lower overseas remittances. Investment spending has been curtailed by uncertainty regarding the end of the pandemic. This makes it critical for the government to boost government spending, which has been struggling with. The government undershot its 2020 fiscal deficit target of 9.6% of GDP by 2% of GDP. For this year, officials have passed three supplementary budgets. While funding *per se* may become a more limiting factor only in time (as debt levels still remain manageable), the fundamental problem is that spending bottlenecks still remain.



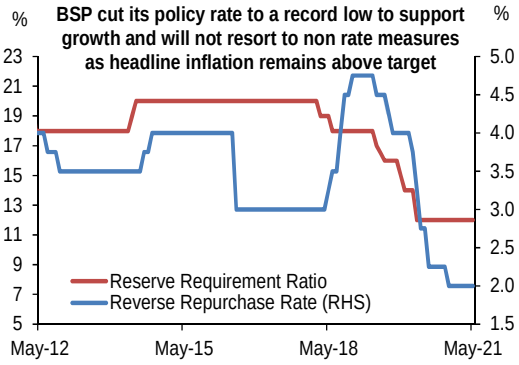
Source: CEIC; DBM; Mizuho Bank

Inflation: The jump in headline inflation to above the upper band of the 2-4% target range has proved to be road block for the BSP in terms of additional easing. Food prices, in particular pork prices have soared in the last two months and while the government is trying to address the supply-side shortages, demand continues to exceed supply. For its part, BSP has stated that it will remain vigilant of second round effects from higher headline inflation especially against a backdrop of rising fuel and utility prices.



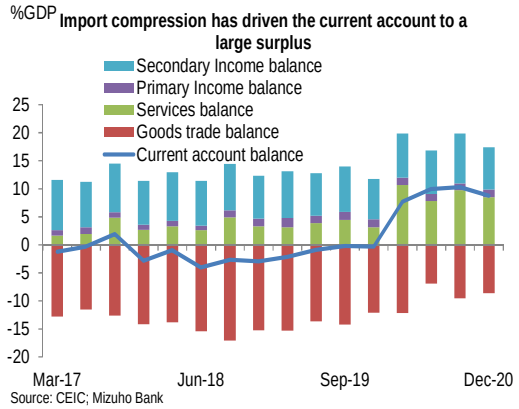
Source: CEIC; Mizuho Bank

Policy: BSP is unlikely to follow through with additional policy rate cuts this year as elevated headline inflation remains a major headwind. That does not go to rule out non-rate measures. BSP has in its arsenal another 200bp worth of Reserve Requirement Ratio cuts and an increased capacity to lend money to the Bureau of Treasury to fund the fiscal deficit. Further, BSP can incentivize banks to bolster credit growth which has been weak, consistent with weak domestic demand conditions, by introducing and/or tweaking macroprudential policies, adjusting bank capital requirement criteria and expanding the financial instruments banks' can use to meet reserve/lending buffers.



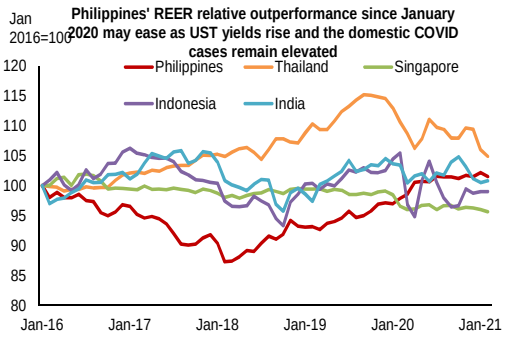
Source: CEIC; Mizuho Bank

External Position: The current account balance shifted to a massive surplus of 9.2% of GDP in 2020 from a deficit of 0.1% of GDP in 2019. Severe import compression due to poor domestic demand conditions and a drop in global oil prices was the major reason behind the shift. For this year, we expect the current account surplus to narrow as economic growth momentum picks up, albeit in an uneven and inconsistent manner. As business and consumer spending is unlikely to return to pre-Covid levels soon, the current account balance is not likely to dip into a deficit. Unsurprisingly, FDI inflows slowed sharply in 2020 as global risk appetite waned.



Source: CEIC; Mizuho Bank

FX: Confidence in the PHP through much of 2020 was bolstered by prudent policies introduced to handle the Covid-19 pandemic by BSP and the government as well as the large current account surplus. Specifically, BSP has given market participants the confidence that debt monetization risks remain low. So far in 2021, PHP has lost ground to the USD, with USD/PHP hovering around mid-48 levels. Although the depreciation in the PHP was largely in line with regional peers, the renewed wave of COVID-19 infections, slow immunization drive and consequently the weak economic outlook could add to PHP depreciation pressures.



Source: CEIC; Mizuho Bank

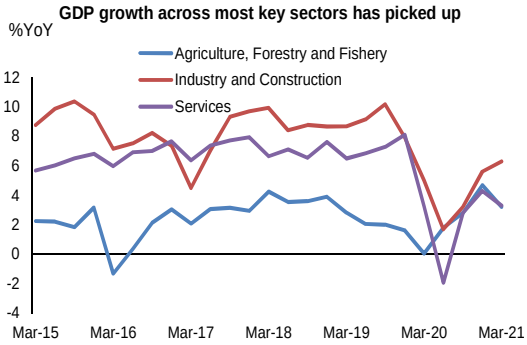
	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	9.8%	7.2%	5.8%	14.3%	12.4%	11.1%
CPI (% y/y)	4.5%	4.6%	3.4%	3.0%	2.9%	2.8%
Policy Rate (%)	2.00%	2.00%	2.00%	2.00%	2.50%	2.75%
USD/PHP*	48.8	48.8	47.8	48.0	50.2	48.7
	47.6-48.9	46.9 - 50.9	45.9 - 49.0	46.5 - 49.5	48.1 - 51.7	46.6 - 50.3

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

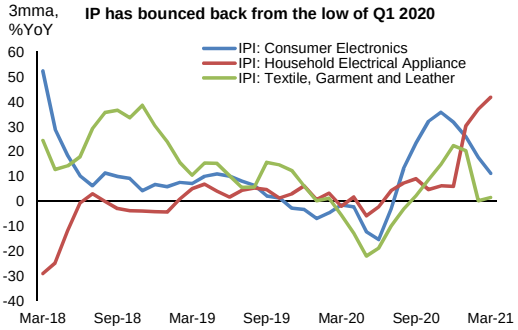
Vietnam: Facing its biggest pandemic challenge

Growth: Unlike other countries in the region, Vietnam's GDP did not contract in 2020. 2020 GDP growth stood at 2.9%, with Q2 being the bottom (0.4% YoY growth). This resilience can be attributed to a couple of factors: First, the government's response to Covid-19 was proactive and prompt, reducing the need for a prolonged lockdown. Second, although investment spending as underscored by construction sector growth slowed, it did not come to a standstill. More importantly, state investment spending (at the local and central level) picked up sharply in 2020 reflecting strong government support to growth.



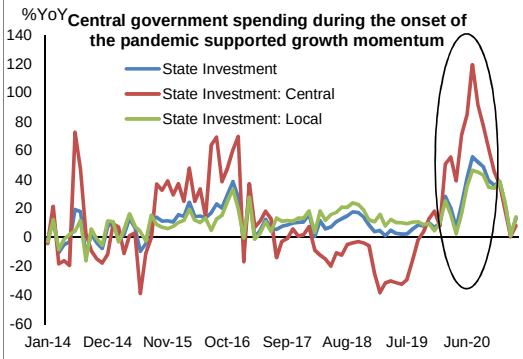
Source: CEIC; Mizuho Bank

Industry: But now Vietnam is facing its biggest challenge during the pandemic. The most recent wave of infections has hit industrial production and Q2 GDP growth (at 6.6% was lower than the +7% growth initially expected). Industrial production has been hit as industrial provinces such Bac Ninh, home to major factories for Samsung and Apple suppliers, have turned into virus hotspots and prompted the closure of four industrial parks. The vaccination drive has been slow to get off the ground with the government only recently diversifying its vaccine procurement to brands other than AstraZeneca.



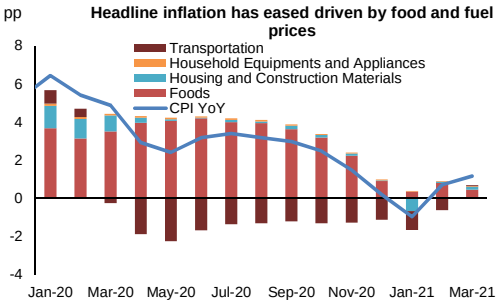
Source: CEIC; Mizuho Bank

Growth dynamics: As such, we now expect GDP growth to rebound to a less extent in 2021. We have revised down our 2021 GDP growth forecast to 5.8% from 6.1% in 2021 as private consumption and industrial production take a hit from the recent wave of COVID-19 infections, which has prompted authorities to tighten social restriction measures. From a political standpoint, under the new leadership and new PM, we do not expect any fundamental changes from the administration. The priority for the government will be effectively containing the pandemic and expediting the nations' vaccination drive.



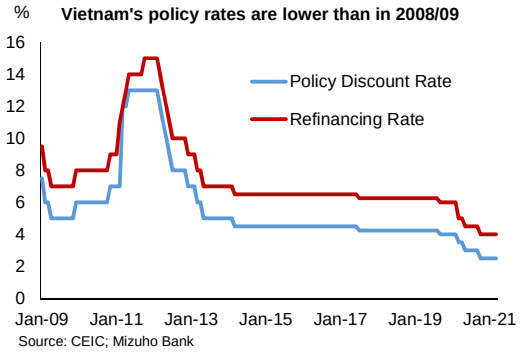
Source: CEIC; Mizuho Bank

Inflation: Headline inflation moderated through 2020 led by transportation inflation even as food inflation remained elevated. In 2021, we expect headline inflation to moderate to 2.3% from 3.2% in 2020 as lower food prices following the normalization of pork prices offset any increases in fuel and utility prices. In addition, price pressures from domestic demand and specifically tourism related sectors will remain weak as foreigner inflows are unlikely to return to pre-Covid levels this year.

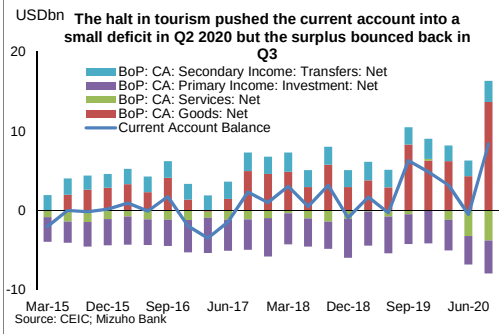


Source: CEIC; Mizuho Bank

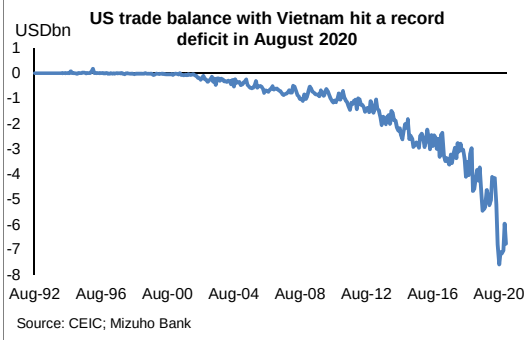
Policy: SBV cut its policy rate by 150bp in 2020, taking it to a record low of 2.5%. It also lowered the short-term deposit and lending rates cap by 0.25bp and 50bp for priority sectors, respectively. Looking ahead, if the economic recovery materializes, we do not expect SBV to deliver any further rates even though favourable base effects will keep headline inflation under check. However, it will continue to provide non-rate support as it has through 2020. Some such measures including allowing for credit provisions related to rescheduling of payments, exempting and reducing interest on existing debt and extending new loans; as well as incentivizing loan growth in priority sectors.



External Position: Vietnam's current account surplus widened to USD11.0bn in Q1-Q3 2020 from USD7.6bn in same period in 2019. The current account surplus could widen in 2021 led by an improvement in goods exports while services exports improve to a lesser extent. Even with a vaccine, we do not expect tourism to resume to pre-Covid levels until the vaccination drive domestically and globally gets underway. Encouragingly, however, although FDI inflows have moderated, they remain fairly strong bolstering the overall balance of payments position.



FX: The US Departments of Commerce and Treasury in August 2020 concluded that Vietnam manipulated its currency in at least one trade case related to the export of tires; which led to anti-subsidy duties on those products. The US trade deficit with Vietnam has widened to a record low and this could put pressure on the US to impose tariffs on certain Vietnamese exports. This pressure from the US on Vietnam will sustain even under a Biden administration, however, policy measures will become more predictable and dialogue more open.



	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	6.6%	6.1%	6.0%	6.9%	7.2%	7.4%
CPI (% y/y)	2.7%	3.1%	2.8%	2.7%	3.5%	3.4%
Policy Rate (%)	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%
USD/VND*	23008	23090	22930	23060	23250	23080
	22944-23094	22500 - 23700	22400 - 23300	22600 - 23500	22600 - 23700	22400 - 23500

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

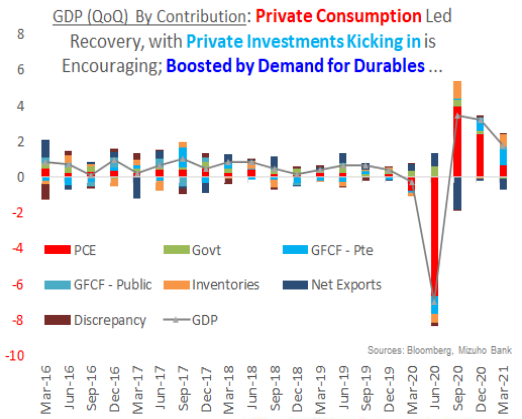
Australia: Durable!?

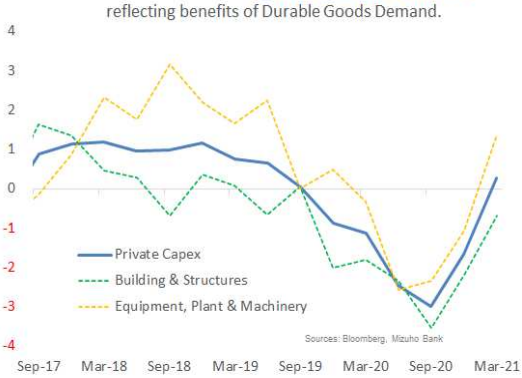
Growth: Australia's **strong economic recovery/rebound** is of course **owed to unflinching fiscal** and **monetary stimulus**. But equally, the **pandemic's unique feature** of **boosting demand for durable goods** is indirectly providing an added **fillip to the reso sector** – led by iron ore and copper – **via production**, **terms of trade** and **investment** channels. While **Australia's out-performance**, accentuated by solid containment efforts earlier, has not surprised, the more pertinent question is **how durable** this will be **given subsequent COVID waves**, and **fading fiscal** (and monetary**) stimulus**. All said, underlying momentum will probably be robust at 4.5-5.0% in 2021 moderating, not collapsing, to ~3.5% in 2022.

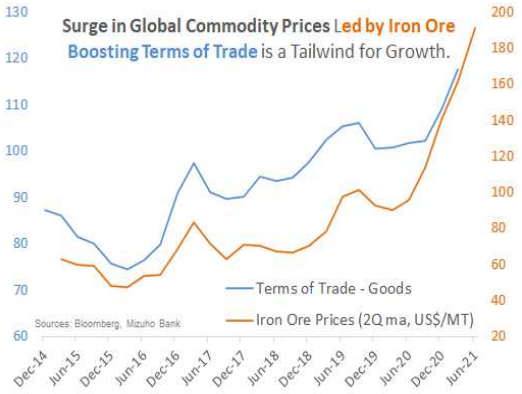
Industry: With global **vaccinations** getting underway alongside **major infrastructure plans** (and sustained durable goods demand), Australia's **industries are well positioned to benefit from the commodity market surge**. Not only in terms of production and exports, but also as evidenced in the **stronger- and quicker-than expected upturn in private capital expenditure**. This not only emerges as a line item that boosts GDP, but also speaks to rising corporate confidence, which in turn could contribute to a virtuous economic cycle. The caveat being, subsequent COVID waves do not throw a spanner in the works.

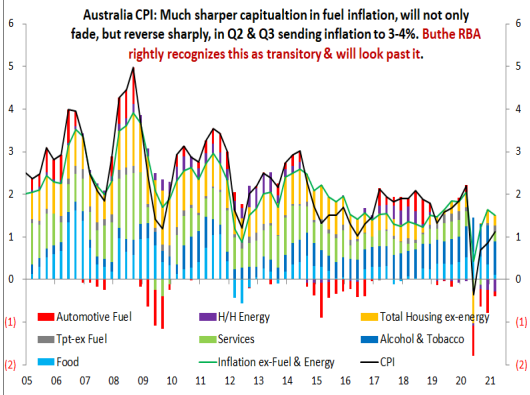
Growth dynamics: Like a microcosm of the global economy, Australia's **recovery will also be rather uneven** across sectors**. Mining appears to be on a solid footing**, **primed to exploit reflation led demand for commodities** as durable goods demand remain in vogue amid global infrastructure plans. **Buoyant commodity prices translating into positive terms of trade** will be a **wide platform for investment and credit multipliers** to kick in. But that said, **as fiscal support fades**, the **durability of solid retail recovery** will have its **feet held to fire**. And **household savings ratio on a steady decline over 2020, into 2021**, ***warns of some bumps rather than unbridled boost from all cylinders***.

Inflation: **A spasm of cost-push inflation is fully expected,** and quite rightly, **wholly discounted**. Admittedly, **higher energy/commodity costs** conspiring with **capacity constraints** (e.g. semiconductors, shipping) exerting upstream cost pressures. Hence, **not only will the base effects push up fuel and energy inflation**, but may result in broader **sequential price pressures – lifting CPI to 3.0-4.5% in Q2/Q3**. Nevertheless, **build-up of cost-push** pressures are **likely to be transitory** as lingering **slack in the domestic services** economy **keep wage pressures in check**; which in turn suggests demand-pull pressures are will not be unleashed despite the sharp drop in the jobless rate. Essentially, the **RBA expects a flatter Phillips Curve and faster inflation fade**. We concur.

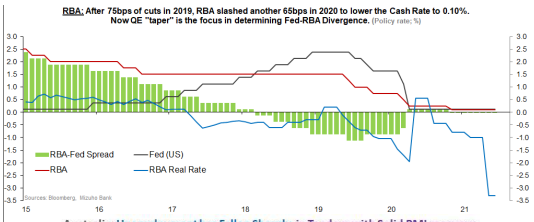


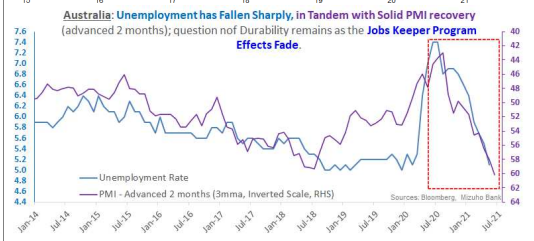




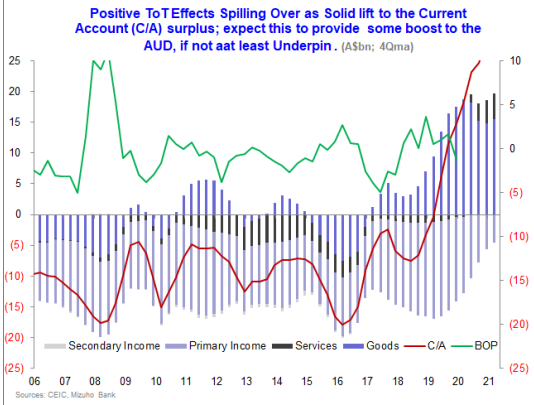


Policy: Despite fresh lockdowns, the **RBA kicked off "taper", *albeit gently***, at the July MPC; **by reducing both pace** (from A$5bn/wk to A$4bn/wk) **of QE** and **duration of its pre-committed purchase** (Sep to mid-Nov from 6-mth purchase windows previously). But to be sure, the **RBA's message was one of cautious calibration** based on considerable economic/job market improvement. ***Crucially***, the **RBA** also **emphasised** that its **base case of no change to rates at least until 2024** was **state-dependent**, and not a calendar commitment. This clarifies the RBA's stance to be less dovish. And makes **room for YCC to be unwound in 2022 if the recovery remains robust**. That said, **near-term downside risks mean that more work on anchoring yields** as well as **expanding QE remains on the cards**. More so if AUD is underpinned by perceived RBA shift.

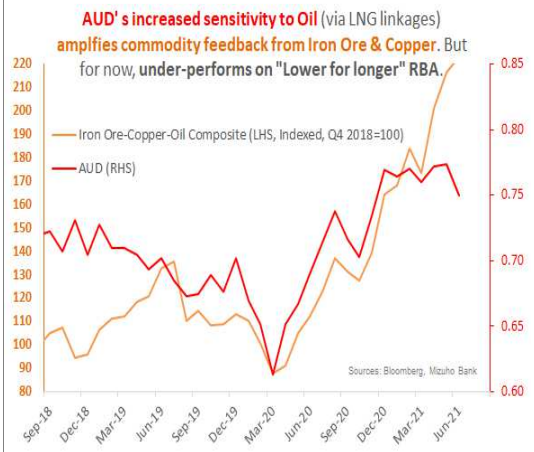




External Position: Another direct benefit of the **positive terms of trade** is that the **C/A gets a boost from a significantly larger Good balance –** *thanks to the price boost to copper and iron ore*. What's more, Australia's LNG exports are also expected to get a leg up from recovering capacity that had been under maintenance and disrupted by COVID. As a result of which, the C/A could also be boosted. But on the other hand, **China's pushback on commodity prices** and reports of delays at Chinese ports on Australian commodities – presumably a manifestation of the diplomatic spat – suggest that some shine could be taken off prospects for further C/A boost.



FX: Despite positive terms of trade and corresponding fillip to the C/A surplus, **AUD has taken a knock of recent week**; under-performing what commodities might otherwise suggest. A **resurgence of COVID** provides **fair warning that AUD catch-up to commodities may not be realized in a rush**. Meanwhile, **friction with China also casts a shadow on AUD**. Finally, and perhaps most importantly, ***despite the gentle "taper"***, the **RBA's rate guidance** is seen **far more dovish than the Fed**.; relegating AUD to continued under-perform as global monetary policy shifts are digested. But the caveat is **once the RBA is deemed *as* state-dependent** as the Fed, AUD has some potential for catch-up; including tests above 80-82 cents when "taper" risks clear.



	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022
GDP (% y/y)	8.2%	5.3%	4.2%	3.9%	3.4%	3.2%
CPI (% y/y)	3.4%	2.3%	1.9%	2.1%	1.7%	1.9%
Policy Rate (%)	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
AUD/USD*	0.749	0.765	0.806	0.782	0.748	0.780
	0.747-0.789	0.718 - 0.795	0.769 - 0.871	0.725 - 0.817	0.710 - 0.788	0.745 - 0.817

Note: Values in black are historical whereas those in blue represent forecasts.

* Point forecast is for end-period. Q2 2021 ranges are from Bloomberg and only indicative.

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