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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 1 Apr 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
04 Apr	EZ	Sentix Investor Confidence	Apr	-9.4	-7.0
	US	Durable Goods/Nondefence Ex Air	Feb F	-2.2%/--	2.2%/-0.3%
05 Apr	US	Trade Balance	Feb	-$88.6b	-$89.7b
	US	ISM Services Index	Mar	58.6	56.5
	JP	PMI - Svcs/Comp.	Mar F	--/--	49.3/48.70
	JP	Labor Cash Earnings YoY	Feb	0.4%	0.9%
06 Apr	EZ	PPI MoM/YoY	Feb	--	5.2%/30.6%
	US	FOMC Minutes	Mar	--	--
07 Apr	US	Initial Jobless Claims	02-Apr	200k	202k
	EZ	Retail Sales MoM/YoY	Feb	0.6%/0.2%	0.2%/7.8%
	JP	Leading Index CI/Coincident Index	Feb P	100.9/95.5	102.5/95.6
	EZ	ECB Publishes Account of March MPC			
08 Apr	JP	BoP Current Account Balance	Feb	¥1488.5b	-¥1188.7b
	JP	Eco Watchers Current/Outlook SA	Mar	--/--	37.7/44.4

Asia

Date	Country	Event	Period	Survey*	Prior
05 Apr	AU	RBA Cash Rate Target	05-Apr	0.10%	0.10%
	KR	CPI/Core YoY	Mar	3.8%/--	3.7%/3.2%
	TH	CPI YoY	Mar	5.6%	5.3%
	PH	CPI YoY	Mar	3.6%	3.0%
	SG	Retail Sales/Ex-Autos YoY	Feb	4.8%/--	11.8%/15.8%
06 Apr	CH	Caixin China PMI Composite/Services	Mar	--/49.8	50.1/50.2
07 Apr	AU	Trade Balance	Feb	A$11.70b	A$12.89b
	PH	Unemployment Rate	Feb	--	6.4%
08-Apr	IN	RBI Repo Rate	08-Apr	4.00%	4.00%
	AU	RBA Financial Stability Review			
	KR	BoP Current Account Balance	Feb	--	$1810.9m
	PH	Trade Balance	Feb	-$4767m	-$4696m
	TH	Consumer Confidence Economic	Mar	--	37.2

Week-in-brief: Hawks & Holds

- **Fed hawks rule the roost** with the **stellar drop in US jobless rate** (to 3.6% from 3.8%) and **unrelenting inflation worries**. So ahead of FOMC Minutes mid-week, markets are inclined to either price in hawkish shifts since March FOMC or embellish hawkish shades in the Minutes.
- This should **underpin front-end UST yields**, **possibly entrenching UST yield curve inversion**.
- Although it is **premature to declare enduring inversion**; *certainly not infer imminent recession.*
- Point being, **regardless of hawkish bets,** markets may need to **hold horses on over-extending** projection of hawks inadvertently crashing the economy. Fact is, *outcomes may be somewhere between these extreme swings from over-heating to hard-landing.*
- Meanwhile, with **US deploying strategic reserves of crude to hold off Oil bulls**, **both** the **RBA and RBI are set to be on hold**. But despite the similarity of the hold, the RBA and RBI are **poles apart in terms of policy options and the latitude to exploit accommodation still in place**.
- For the **RBA** (Tue), the **rate hold at this meeting may be extended yet for a few more meetings** ; at least **into the later part of 2022**. Mainly *as* the *RBA still has to contend with an uneven recovery* (with the non-resource sector in particular lagging) amid a *lack of worrying wage-price spirals risks.*
- Especially **in the context of balance sheet stimulus that has been revoked**; taking the pressure off the RBA to begin normalization. Finally, **AUD's significant rally** since Russia-Ukraine conflict also **pushes back against the need for imminent tightening**.
- As for the **RBI** (Fri), the **hold is a tenuous one**; with **inflation having already exceeded the RBA's 6% ceiling and set to climb** even higher as food and energy prices.
- What's more, **apart from higher and stickier inflation, deterioration of the twin deficits could also pose a threat to macro-stability**; which in turn **intensifies the urgency for the RBI to begin policy tightening**. This *underlines our call for a 100bps of catch-up hikes starting mid-2022.*

FOMC: Why We Are Less Hawkish than Markets

2022 FOMC Meetings	27-Jan	16-Mar	04-May	15-Jun	27-Jul	21-Sep	02-Nov	14-Dec	Cumulative Hikes 2022
	Q1		Q2		Q3		Q4		
Mizuho	0.00-0.25%	0.25-0.50%	0.75-1.00%	1.00-1.25%	1.25-1.50%	1.50-1.75%	1.50-1.75%	1.75-2.00%	
Hikes	--	25bps	50bps	25bps	25bps	25bps	--	25bps	175bps
OIS Priced Hikes*			44.9bps	43.8bps	38.9bps	37.4bps	27.1bps	24.5bps	242bps
FOMC 'Dot Plot' (Mar)									175bps

- **FOMC Minutes** are likely to be **pored over for even greater hawkish tendencies** than already revealed in 175bps of cumulative rate hikes for 2022 suggested in March FOMC's 'Dot Plot'; as the **Fed's rhetoric since has been *consistent with a bias to tighten more and sooner***.
- ***Especially with the solid job market;*** most recently expressed via the larger than expected pullback in the jobless rate to 3.6% (consensus: 3.7%; Feb: 3.8%).
- Admittedly, **red hot inflation and a tight job market conspire to fan Fed hawks to overshoot**.
- Nonetheless, **we are less hawkish than the (OIS) rates markets** (See Table above), and in line with the March 'Dot Plot'; as we deem markets have gone too "linear" with the rate hike bets.
- For one, even as **inflation** is bound to remain above 2%, it's **set to distinctly peak in H2 2022**.
- Accordingly, the **same momentum of hikes is not required**; as *directionality of inflation dynamics take on greater currency for policy calculus.*
- This step-down in the momentum of rate hikes is also **faithful to the desirability of "Kokomo" approach** of "*getting there fast*" precisely because it will allow the Fed to "*then take it slow*".
- Crucially, **impending** (as soon as May) **initiation of balance sheet run-off (QT)**, insofar that it accentuates the tightening impact, **should also temper the amplitude of rate hikes required**.
- *Admittedly,* there are **many moving parts with geo-politics** and extent of price shocks vs. demand destruction) and limited visibility (e.g. on QT details); and these **unknowns and variables increase uncertainty**, keeping **all upcoming FOMC outcomes remain "live"**.
- Nonetheless, all said, **our rate hike trajectory** (175bps of tightening) , while less hawkish than the OIS, is without a doubt **still an exceptionally aggressive tightening path** to embark upon during a fragile recovery in an uncertain global climate.

Oil: Why US Strategic Reserves Don't Guarantee a Durable Decline

- *To be sure,* President Biden's **significant and sustained oil release** (of ~1MBpD for six months, totalling 180 million barrels) **from US strategic reserves** *to attain "lower gas prices at the pump for American families"* **could have an appreciable dampening effect on global crude** prices.
- *But* it is **still too premature to declare a durable decline in oil** prices from the triple-digit territory.
- First, as alluded to above, **Russia-Ukraine conflict risks** are **not quite melting away imminently**. **Nor will attendant geo-political energy price shocks**.
- Second, the **OPEC+ incentives are to only gradually restore crude supplies**. And **China's COVID lockdown** now **provides the perfect cover for OPEC**'s **phased restoration** of crude.
- Finally, **US strategic reserve deployment**, if so decided, will **be mainly reserved for the US** (given domestic political pressures); thereby with **fairly limited impact on global prices**.
- And this means that **global demand-supply dynamics amid lingering geo-politics will resist durable declines in crude/energy prices**.
- To be sure, **our view remains that global crude will peak and decline more durably in H2**.
- *But* hopes of **imminent relief from Russia-Ukraine "peace talks"** or **US strategic reserves are premature**; while **bets on** emphatic **OPEC supply response are outright misguided**.

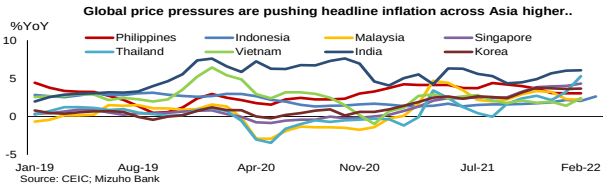
RBA: Nonchalant, But on Notice

- At the RBA meeting on 5th April (Tue), expect no change whatsoever. And to express this as the **RBA's nonchalance to an aggressively hawkish Fed** is not inaccurate.
- At least relative to other G10 central banks, the **RBA appears to have the greatest fundamental resistance to the Fed's sway**. Three reasons why.
- First, despite the stellar terms of trade boost to the economy from surging commodity prices, the **recovery outside of the resources-related sectors remain uneven**;
- which underpin the RBA's stance of rate accommodation for relatively longer.
- Second, and in any case, the **RBA** has only recently in the past few months **removed balance sheet accommodation**; *both in terms of QE and YCC.* And as such, effectively bought time on further normalization; specifically in the form of rate "lift-off".
- Finally, since the Russia-Ukraine conflict, the **AUD has surged ~ 4.6%** (>5% since Feb 2022), which has effectively tightened overall monetary conditions.
- Arguably, this buys the RBA even more space. **But nonchalant as the RBA may be, it is on notice** (with regards to rate "lift-off") nonetheless.
- Especially as **overheating risks begin to build as enduring price shocks feed into further activity/jobs recovery** alongside a *bumper pre-elections budget;*
- which **extends an expansionary fiscal position**.

RBI: Thin Ice & Hot Oil

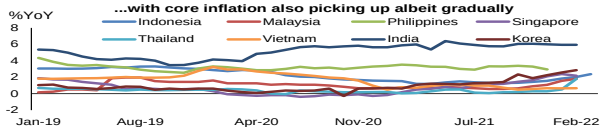
- As alluded to recently (*Mizuho Chart Speak - India's Shifting Growth Risks, 1st March 2022*) **fading downside risks from the pandemic are now supplanted by geo-political risks**; **led by oil**.
- Not unlike the policy dilemmas imposed by the pandemic, **surging oil prices from geo-political risks** also **impose the tyranny of demand destruction** *alongside* **sharply higher inflation**.
- However, **oil's impact on inflation may be more pervasive and profound** compared to supply-chain disruptions. **Crucially**, Oil's surge **simultaneously triggers deterioration of the "twin deficits"**; that's to say, enlarging both the C/A deficit and the fiscal deficit at the same time.
- What this means is that the **RBI's patience on inflation may prove to be policy mis-calculation** as inflation is not only *likely to overshoot the RBI's overly-sanguine projections*; but could *pick up even more emphatically above the 6% ceiling* (of the 4+/-2% threshold), persisting higher for longer.
- Crucially, this is **a risk that is accentuated by a hawkish Fed colliding with deteriorating "twin deficits"**; both of which, **expose the RBI and rupee to macro-stability risks**.
- In other words, **with the risks amplified by "hot oil"**, the **RBI is skating on thin ice** as it drags its feet on the non-negotiable rate hikes. The payback required from a hold this time will be a hike no later than in June, with at cumulative 100bps of tightening to follow in 2022.

Asia's (ex-China) Inflation: No Signs of Letting Up



Source: CEIC; Mizuho Bank

- With sharp increase in global prices, from food to fuel to logistics, **the broad build-up in inflationary pressures across Asia (ex-China) is no surprise.**
- And the March headline inflation prints for Korea, Philippines and Thailand will indicate as much.
- **Even though core inflation across the region has lagged the headline increase** (as tends to be the case), it is fast catching up as the demand recovery begins in earnest.



Note: For most countries core inflation excludes food and fuel components; for SG, it excludes private road transport and accommodation costs. Source: CEIC; Mizuho Bank

- **Looser (or the complete removal of) social restrictions and greater travel mobility in most countries will invigorate sectors stamped out by the pandemic.**
- Notwithstanding 'demand destruction' risks from runaway inflation, the relatively lagged increases in core inflation reflecting weak demand pressures, has to some extent afforded central banks in the region some breathing room in terms of either starting (or expediting) monetary policy normalisation.
- That room, however, is fast receding and **the increasingly binding trade-off between FX depreciation, more broadly, macroeconomic stability concerns, and accommodative monetary policy makes the need for policy normalisation more apparent.**
- **At any rate, the pick-up in headline inflation across the region, while expected, will be concerning to regional central banks which have continued to show varying degrees of reluctance regarding monetary policy normalisation.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	122.52	0.470	0.39%	120.20	~	124.00
EUR/USD	1.1043	0.0060	0.55%	1.098	~	1.116
USD/SGD	1.357	-0.001	-0.08%	1.3450	~	1.3630
USD/THB	33.465	-0.121	-0.36%	33.15	~	33.75
USD/MYR	4.2122	0.003	0.06%	4.188	~	4.233
USD/IDR	14370	24	0.17%	14,300	~	14,420
JPY/SGD	1.1072	-0.005	-0.46%	1.085	~	1.134
AUD/USD	0.7496	-0.002	-0.25%	0.738	~	0.758
USD/INR	75.79	-0.418	-0.55%	75.3	~	76.5
USD/PHP	51.67	-0.478	-0.92%	51.3	~	52.4

^ Changes are on weekly basis

Bond Yield (%)

1-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.456	18.6	2.382	-9.1	Flattening
GER	-0.084	6.9	0.550	-3.1	Flattening
JPY	-0.041	-0.7	0.213	-1.7	Flattening
SGD	1.842	15.3	2.352	6.4	Flattening
AUD	1.798	24.8	2.820	0.1	Flattening
GBP	1.357	-4.0	1.606	-8.7	Flattening

Stock Market

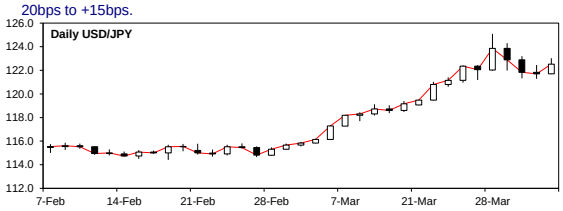
	Close	% Chg
S&P 500 (US)	4,545.86	0.06
Nikkei (JP)	27,665.98	-1.72
EuroStoxx (EU)	3,918.68	1.32
FTSE STI (SG)	3,419.11	0.16
JKSE (ID)	7,078.76	1.09
PSEI (PH)	7,152.88	0.39
KLCI (MY)	1,602.41	-0.06
SET (TH)	1,701.31	1.46
SENSEX (IN)	59,276.69	3.34
ASX (AU)	7,493.80	1.18

FX: USD Backstopped by Hawkish Expectations

- In the context of **drummed up hawkish expectations ahead of FOMC** and following **a sharp decline in US unemployment rate**, the **Greenback is likely to be backstopped**.
- To be sure, the **Greenback has eased off** the peaks in recent weeks;
- as **JPY weakness has abated** (partly from declining Oil prices) while **EUR is also on a somewhat steadier footing** at mid-1.10 from sub-1.10 pressures (although knocked back from mid-1.11).
- With **risk sentiments being re-assessed, and possibly repaired**, the **case for haven USD demand is arguably not altogether compelling**.
- Thus, **extended upside in the Greenback may not be the base case**; despite hawkish expectations.
- Point being, **despite a collective incentive** for markets **to perceive hawkish inklings in the FOMC Minutes**, the **bar for sustained USD surge is rather high**; **especially given already rather aggressive rate hike expectations** for 10-11 hikes (250-275bps).
- And so, **given March FOMC 'Dot Plot' median for 175bps** of cumulative rate hikes for 2022, the **additional required hawkish impetus to** would have to be discovered in the FOMC Minutes **to trigger a hawkish shock is daunting to say the least**.
- That said, **with the stellar US jobless rate that accentuates overheating risks**, the **forward-looking Fed-G10 policy divergence narrative** staying intact means that the **Greenback ought to be backstopped** at the very least; ***if not*** perhaps ***buoyed***.
- Elsewhere, the **knock-back in oil/energy prices from unprecedented US strategic reserve release** plans could **take some wind out of commodity currencies**.
- The **hawkish Fed expectations will probably rule the FX roost**; but in terms of backstops amid consolidation rather than aggressive bullish or bearish one-way bets.

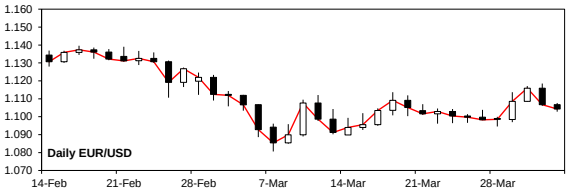
US Treasuries: Inverted

- The **UST yield curve (10Y-2Y) inverted more emphatically (7-8bps)** after flirting with passing inversions during the week; with 2Y yields surging to above 2.45% with 10Y at 2.38%; the **30-5Y also inverted** (~15bps) with 5Y at 2.59% vs 30Y at 2.44%.
- **Earlier week's gentler inversion triggered by relative long-end pullback** on softening Oil was **reinforced by a surge in front-end yields** motivated by a solid jobs report alongside Fed Daly's remarks about case for 50bps hike in May solidifying.
- The upshot is that **increasingly hawkish Fed rate hike expectations appear to be entrenching the UST yield curve inversion**. But there are two points worth noting.
- First, this is **not necessarily a one way, and sustained trend of deeper inversion** of the UST yield curve. Afterall, **Fed expectations remain fluid** with some push back from the likes of Fed Evans, who is ***anchoring the total quantum of hikes.***
- Second, and in any case, it is somewhat premature to conclude that a recession as inferred from an inverted yield curve, is a forgone conclusion.
- For now, we expect that the **FOMC Minutes may underpin** "*sooner and faster*" **rate hikes**. But it is unlikely to lead to significantly higher front-end rates outpacing longer-end yields. For now, we expect **10Y yields to consolidate 2.30-2.55%**; with 10-2Y yield spreads likely to be -20bps to +15bps.



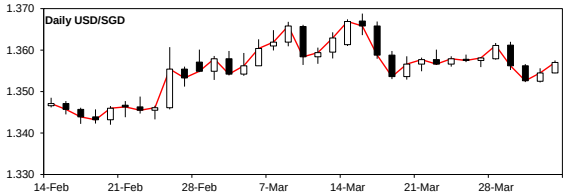
JPY: Consolidation, Not Rebound

- The **sharp capitualtion in JPY**, with USD/JPY surge testing 125 just last week, **has abated emphatically** to around 122-123; as overdone positions have dissipated.
- But this does not mean a full reversal (sustained JPY surge) in the form of sub-120 USD/JPY.
- Instead, **consolidation in the wider mid-120 to sub-124** (mostly amid the 121 to mid-123) range is more likley as FX markets incorporate the opposing forces of softer oil/rnrthy prices following the release of US stratetgic petroleum reserves (that will buoy JPY) and hawkish Fed expectations (that are likely to boost USD/JPY higher).
- And so, **with these cross-winds**, USD/JPY is likely to be marked by **a conspicuous absence of sustained moves in either direction**.
- In any case, JPY will not be a good gauge of risk averion amid these mixed cues.



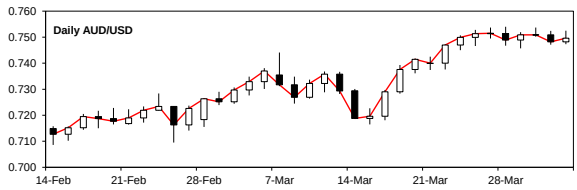
EUR: Searching For A Bottom

- EUR/USD consolidated around 1.107 levels by Friday as global oil price eased and gas supply concerns abated slightly.
- The week ahead does not have any major data releases for the Euro Area and, as such, the focus will remain on the Ukraine-Russia situation, which will continue to exert downward pressure on the pair.
- In addition, the elevated price pressures from global commodities ranging from oil to wheat will keep the EUR vulnerable to further sell-off.
- As such, any upside from 1.11 levels will likely be short-lived, with the pair clearly biased to the downside.



SGD: Double-Barrelled Buoyancy

- With EUR off the lows, neutral USD dynamics are likle to square with **downside bias in the USD/SGD** (**upside bias in the SGD**) as **expectations of further monetary policy tightehning** start to mount **ahead of the bi-annual scheduled policy meeting in mid-April**.
- In fact, we expect a "**double-barrelled**" tightening move comprising; i) **re-centring** of the **S$NEER mid-point higher**, and; ii) **"slightly" increasing S$NEER slope**; which in turn is likley **to inspire an immediate SGD appreciation** all esle equal.
- Of course broad-based USD trend will overwhelm USD/SGD moves.
- For now though, if the USD is relatively steady, USD/SGD consolidation lower to test mid-1.34 is par for the course; as wider consolidation amid sub-1.35-1.36 continues.



AUD: A Coin's Two Sides

- Demand conerns on lockdowns in China conspiring with the release of strategic Oil reserves by the US has been a dampener for Brent Crude prices and accordingly restrained AUD upside last week to below 0.75.
- The on-going conflict between Russia and Ukraine will also continue fuelling risk off demand for the USD, a prevalent headwind for the AUD.
- However, Brent Crude prices could quickly regain lost ground should markets discount the intended dampening effect (of the release of oil reserves), given that OPEC+ are did not up the ante with regards to increasing supply. Such a move could lift the AUD back above 0.75, though any momentum above mid-0.76 will fade against risk off demand for the dollar.

With acknowledgements of contributions from our Research Associate Matthew Ng

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