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MIZUHO

WEEK AHEAD

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11-Apr-2022

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Economic Calendar

•Survey results from Bloomberg, as of 8 Apr 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
11 Apr	JP	Machine Tool Orders YoY	Mar P	--	31.6%
12 Apr	**US**	**CPI YoY/MoM**	**Mar**	**8.4%/1.2%**	**7.9%/0.8%**
	US	Core CPI YoY/MoM	Mar	6.6%/0.5%	6.4%/0.5%
	EZ	**ZEW Survey Expectations**	**Apr**	**--**	**-38.7**
	JP	PPI YoY/MoM	Mar	9.2%/0.9%	9.3%/0.8%
13 Apr	US	PPI Final Demand MoM/YoY	Mar	0.9%/10.6%	0.8%/10%
	JP	Core Machine Orders MoM	Feb	-1.5%	-2.0%
14 Apr	US	U. of Mich. Sentiment	Apr P	58.8	59.4
	US	**Retail Sales Advance/Ex-Auto MoM**	**Mar**	**0.5%/0.8%**	**0.3%/0.2%**
	EZ	**ECB Main Refinancing/Deposit Rate**	**14-Apr**	**0.00%/-0.50%**	**0.00%/-0.50%**
15 Apr	US	Industrial Production MoM	Mar	0.4%	0.5%
	US	Empire Manufacturing	Apr	2.0	-11.8

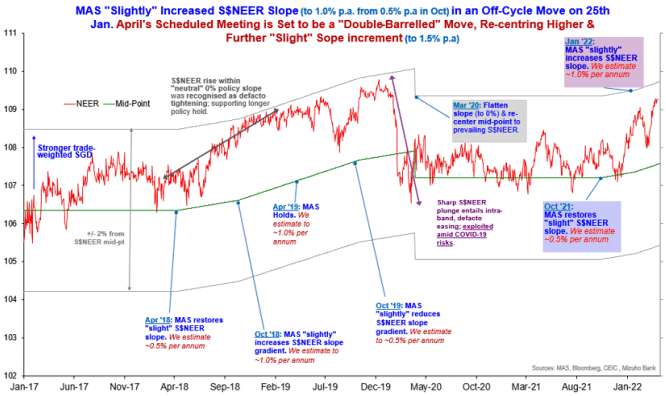
Asia

Date	Country	Event	Period	Survey*	Prior
11-15 Apr	CH	Aggregate Financing CNY	Mar	3639.7b	1192.8b
11 Apr	MY	Industrial Production YoY	Feb	3.8%	4.3%
	CH	**CPI/PPI YoY**	**Mar**	**1.5%/7.7%**	**0.9%/8.8%**
12 Apr	AU	NAB Business Confidence/Conditions	Mar	--	13/9
	IN	**CPI YoY**	**Mar**	**6.4%**	**6.1%**
	IN	Industrial Production YoY	Feb	3.0%	1.3%
13 Apr	CH	Trade Balance	Mar	$22.40b	$94.38b
	CH	Imports/Exports YoY	Mar	8.4%/13%	19.5%/20.9%
	CH	**1-Yr Medium-Term Lending Facility Rate**	**15-Apr**	**2.78%**	**2.85%**
	KR	Unemployment rate SA	Mar	3.0%	2.7%
14 Apr	**AU**	**Employment Change**	**Mar**	**30.0k**	**77.4k**
	AU	Unemployment Rate	Mar	3.9%	4.0%
	IN	Trade Balance	Mar	-$18600m	-$20877.7m
	KR	**BoK 7-Day Repo Rate**	**14-Apr**	**1.25%**	**1.25%**
	PH	Overseas Cash Remittances YoY	Feb	4.3%	2.5%
	SG	**GDP YoY/GDP SA QoQ**	**1Q A**	**3.3%/0.8%**	**6.1%/2.3%**
	SG	**MAS Monetary Policy Statement**	**Apr**		

Week-in-brief: Rising to the Challenge

- **UST yields certainly did just that**, "***rising to the challenge***"; as *10Y yields surged to 2.7% last week (and 2.76% as we write)* and the *2Y climbing towards 2.6%* **amid a rash of hawkish signals**.
- With even **Fed Evans and Bostic**, both of whom were *typically at the dovish side of the spectrum*, have **talked up the need to get to "neutral" rates sooner rather than later**. Admittedly, there is some room for interpretation, but this **is consistent with at least ~2.50% Fed Funds rate soon**.
- And to be sure, **even the more measured Fed members** are **not just doubling down on** (rates) **rising to the challenge of inflation**, but more pointedly **flagging balance sheet run off at unprecedented pace** to neuter the underlying risks to inflation.
- And here's the deal, while **US CPI** (Tue) is **set up to be the prism through which to gauge US inflation risks**, it is set to be an **asymmetric diffraction of US inflation implication** for policy; with *markets/Fed only likely to see red from existing inflation pressures or pipeline price shocks.*
- Upshot being, **very few data points and outcomes,** if any, **can rise to challenge** the **near-term escalation in the Fed's hawkish inclination**.
- Perhaps **not even US retail sales** (Thu), where **perversely, declines attributed to surge in pump prices** may **only reinforce the Fed's hawkish bent**.
- On the flip side, both the **details of the last ECB MPC** (from last week) and **ECB comments to do** "*whatever it takes*" **to rise to the (inflation) challenge suggest ECB** (Thu) **hawkish turn** *to end APP earlier by June* and perhaps embark on *"lift-off" soon after or simultaneously.*
- Meanwhile, Singapore's MAS is set to rise to the challenge of large price shocks from geo-political triggers with more emphatic hawkish moves. We expect a "double-barrelled" tightening by;
  i) re-centring S$NEER mid-point higher (but not necessarily to prevailing S$NEER)
  ii) a third "slight" S$NEER slope increment (to 1.5% per annum appreciation pace).
- If we are right, then **SGD may rise distinctly in a fairly discrete move** on the announcement as an **instantaneously higher S$NEER policy ceiling** from re-centring higher kicks in. This may see SGD surge by anywhere between 0.8%-1.5% depending on specifics.
- Elsewhere the **BoK** (Thu), *with its solid 75bps of pre-emptive hikes under its belt,* **may not hike this time** as it awaits polictical and BoK leadership transition with sufficient buffer.
- But the warning is, **regardless of scope for EUR and SGD upside from policy**, the **case for all EM Asia to rise, is a challenge**; especially if expected to be sustained. This as **sharply rising food prices and UST yields** create a daunting environment that **challenge risk assets and risk pricing**.

MAS: Double-Barrelled Move

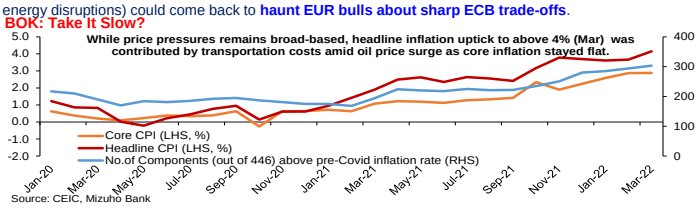


- With **geo-political cost shocks**, in the context of pre-existing inflationary pressures and growing wage-price spiral risks, **assessed to overshadow potential negative demand shocks**, **policy calculus is tilted to more front-loaded tightening sooner**. And so, at **the April policy meeting** we now expect the MAS to deliver a **"double-barrelled" hawkish** move comprised of;
  i) re-centring the S$NEER mid-point higher, but *below* the prevailing S$NEER, and;
  ii) "slightly" steepening the S$NEER slope (further to an estimated 1.5% per annum appreciation rate from 1.0% slope).
- Admittedly, the *rare, off-cycle tightening in January* (via a calibrated S$NEER slope increase) should, at the margin, have diminished the need for catch-up tightening.
- But **three overriding factors underpin** *further, emphatic* and *front-loaded tightening.*
- First, **January's off-cycle tightening** was only meant as a **timely but restrained calibration, not an aggressively conclusive hawkish posture**.
- In other words, the stage was set for more tightening to follow from the outset.
- What's more, **profound and pervasive cost-shocks from the war in Ukraine** has **blind-sided the world since** late-February; and this simply **could not have been accounted for in January's off-cycle calibration**.
- Crucially, **wage-price spiral risks have been accentuated** by a **perfect storm of cost-push** amid pre-existing supply kinks conspiring with **a broadening recovery** that has resulted in robust jobs recovery to the point of a hiring frenzy in some spots of the market.
- The **resultant "double-barrelled" tightening response sets** the **S$NEER** (and corresponding SGD) **up for appreciation in the immediate aftermath MAS tightening**; **although SGD outcomes beyond may have to defer to broader USD trend** amid *geo-political risks,* a *hawkish Fed* and *downside risks to China's growth.*

ECB: Sharp Geopolitical Trade-Offs

- **The ECB is arguably in the most uneviable position of all global central banks amid sharp trade-off from the Ukraine war**; as an energy crisis threat imposes a dual demand-supply shock.
- **Following the March meeting**, prior to the worsening of the geopolitical tensions, **the ECB had indicated that it was ready to embark on policy normalisation** by ending its Asset Purchase Programme (APP) and then following up with rate hikes "some time after" and "gradual".
- **APP would be reduced through to June** (€40 billion in April, €30 billion in May and €20 billion in June) and **if the inflation trajectory remained elevated, it would cease in Q3 2022**.
- The minutes of the March meeting showed that **consensus was drifting towards the hawkish members of the Governing Council**, who were more **inclined to hike rates sooner rather than later** and possibly as early as Q3 2022.
- Net purchases under the Pandemic emergency purchase programme (PEPP) ended in March.
- **Key questions for the ECB will be around the timing** (whether to expedite the end of APP or not)**, pace** (potential for greater moves at each meeting) **and form of tightening**.
- And so, we expect that **expediting a termination of APP by June** is certainly fair game to be flagged at this meeting. In addition, openness to ***"fluid" rate response*** may also be conceded.
- And insofar that these hawkish inclinations confirm **some element of "catch-up" with the Fed**, the **EUR appears to be primed for a boost on ECB's hawkish shift**; all else equal.
- **But** the single currency's buoyancy around ECB meeting is **neither unconditional nor unbridled**.
- For one, the **Fed's talk of getting to neutral rates quickly is a high bar**, and EUR may fizzle after initial sizzle. Crucially, risks of adverse European demand impact from Russian **geo-political risks** (and energy disruptions) could come back to **haunt EUR bulls about sharp ECB trade-offs**.

BOK: Take It Slow?



- With real interest rates still excessively negative, the **BoK will be keen to raise policy rates by another 25bps to 1.5% in this quarter**, though **the choice between the upcoming 14 April** meeting or **25 May** is subject to a much **higher degree of uncertainty**.
- **The reason being that trade-off** between growth and inflation for the BoK has **turned much sharper** - inflation higher for longer contrasting with **fresh external growth worries from geo-political conflicts (not present at their last Feb meeting)** and global monetary tightening.
- **We put a 60% probability for the BoK to take it slow and hold policy at the meeting this week.**
- First, given the **pre-emptive nature of the BoK thus far** with 75bps of policy rate calibration since August 2021, **there is still space for further assessment of the effect of the base rate increases.**
- Second, **core inflation stayed flat in March despite surging headline inflation as transport costs propped up headline inflation.** To address this, fiscal authorities have lowered and extended fuel excise tax reduction to mitigate the impact from rising oil prices.
- Thirdly, with Governor nominee **Changyong Rhee not being confirmed before the meeting**, it is foreseeable that **the committee may adopt a more cautious approach** with the large bounds of **economic uncertainty being alluded to by Vice Governor Lee Seung-heon (acting chair)**.
- On the flip side, rising inflation expectations from consumer survey challenges a hold.
- The **BoK's upgraded expectations of headline inflation persisting above 4%** *for an extended period* will also **add to the case to act faster sooner**. All said, **while we expect a policy hold** at this meeting, **likely** ***dissent is also not ruled out given the dilemma*** facing the BoK.

Finer Points of the RBI's Gentle Nod to Normalization

- **Last week**, the **RBI managed to strike an almost impossible balance** between *retaining its accommodative stance,* but equally, *signalling a gradual fade of* its *exceptional accommodation.*
- This was by means of **upward inflation forecasts accompanied by the 3.75% Standing Deposit Facility Rate** being **introduced as the new LAF floor** (*supplanting the 3.35% reverse repo rate*).
- In effect, this may be considered a 40bps upward narrowing of the LAF corridor, whose policy ceiling rate of 4.00% remains unchanged. An **eventful and delicately nuanced hold,** if you must.
- But the **finer points of this** was *not just the execution* (which boast fine policy balance), but equally, in enacting **a mechanism better equipped to drain excess banking liquidity**.
- Especially with this **higher rate not requiring** the central bank to post **collateral**, and as a corollary *not encumbering banks' balance sheets with excess securities,* it may be **more effective and operationally expedient in mopping up excess liquidity**. As a result iof which, the **RBI is able to check inflation risks** at the margin **without unnecessarily tightening too much too soon**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	124.34	1.820	1.49%	122.50	~	126.20
EUR/USD	1.0877	-0.0166	-1.50%	1.070	~	1.116
USD/SGD	1.3636	0.007	0.49%	1.3450	~	1.3660
USD/THB	33.589	0.124	0.37%	33.25	~	33.85
USD/MYR	4.2213	0.009	0.22%	4.210	~	4.240
USD/IDR	14362	-8	-0.06%	14,310	~	14,420
JPY/SGD	1.097	-0.010	-0.92%	1.066	~	1.115
AUD/USD	0.7458	-0.004	-0.51%	0.737	~	0.758
USD/INR	75.91	0.116	0.15%	75.3	~	76.5
USD/PHP	51.585	-0.085	-0.16%	51.3	~	52.6

^ Changes are on weekly basis

FX: Can the ECB & MAS Blunt the USD?

- The **Greenback has both of its monetary engines fired up to accentuate strength**.
- First is **increasingly aggressive Fed speak on rates** that is converging to getting to neutral rates (likely understood to be 2.40% from the 'Dot Plot') sooner rather than later.
- The other is markets **bracing for fairly brutal balance sheet run-off** at an unprecedented *$95bn/mth* as indicated by the FOMC Minutes; but possibly with scope to step up to be brisker if need be.
- And so the **race higher in UST yields**, although with a huge leg-up at the long-end thanks to QT, is keeping USD buoyant, even if the rallies in the USD Index appears to have peaked last week.
- And so, against this backdrop, the question is **whether the ECB's forced hawkish hand** with a "*whatever it takes* " *aim at inflation* **will be enough to durably challenge the Greenback** this week.
- Our best case is that there may be **enough** in the tank **to mount a challenge around the ECB meeting**, *but* perhaps **insufficient conviction amid geo-political risks** (from a still precarious Russia-Ukraine situation as well as the **upcoming French elections uncertainty to retain and extend traction**.
- The upshot is that with **hawkish ECB expectations** (between early APP termination in June and openness to rate hikes soon after), FX markets could see some volatile bouts of EUR buying (and attendant USD slippage as a consequence). But this may not be an enduring trend to chase.
- And that takes us to **legitimacy bullish SGD based on hawkish MAS bets**; especially with our hawkish call of a "double-barelled" move notably including a re-centring of the S$NEER mid-point higher.
- *If we are right about* the **S$NEER mid-point recalibration higher**, also *revealingly referred to as a "step appreciation",* then the **S$NEER is poised for some 50-150bps of instantaneous upside** depending on the details of *how the shift is executed* and *how hawkish* the *accompanying remarks/guidance are.*
- Admittedly, this **may correspond to ~0.8-1.5% upside in the SGD** (vs.USD) *potentially accentuated* further if indeed a *hawkish ECB* subdues the Greenback.
- But again, this is not the abandonment of two-way volatility of a still ascendant USD backed by an increasingly hawkish Fed. "Wait and watch" ought to be applied as necessary.

JPY: US Yield Reins

- The JPY continued to be subjected to the pull of higher UST yields as the USD/JPY ended last week above 124 despite softer oil/energy prices.
- This week, the **trajectory of US yields will continue to dictate and buoy the pair above 124** and challenge 125 as sustained decline in oil prices remain in doubt.
- Barring US inflation downside surprise, dips below mid-123 remains unlikely as current account worries accumulate.
- JPY's geo-political safe haven demand remains absent for now.

EUR: Hawkish ECB Challenged

- Last week, the EUR deferred to wider USD strength as the aggressive Fed QT kept the USD buoyant and was pressured below 1.09.
- This week, with hawkish ECB expectations (between early APP termination in June and openness to rate hikes soon after), opportunistic buying may be seen on sharp dips.
- However, **geo-political risks and uncertainty surrounding French elections will mean that bulish EUR bets on hawkish ECB may not form an enduring trend**.
- As such, the EUR will look at test 1.10 but the rally will likely fizzle. Consolidation between 1.08 and 1.10 remains the base case with downside bias below 1.09.

SGD: Jump Prospects

- Our call for a **"double-barrelled" tightening** move at the **MAS meeting on the 14th of April** is poignant for the SGD insofar that the **S$NEER mid-point re-centring (higher)** half of the "double barrels" may **sets the SGD up for an instantaneous jump**.
- To be clear, this is only if we are right about the "double-barrelled". And specifically, as a bare minimum right about the S$NEER mid-point being re-centered higher.
- Fact is, a **steeper S$NEER slope**, even with hawkish guidance, could struggle to add immediate upside potential for SGD, given; i) no immediate impact on the policy band ceiling and; ii) an already rich S$NER (~150bps above the mid-point). So perhaps 20-30bps of lift.
- Whereas **re-centring the S$NEER mid-point higher** (depending on the specifics of execution), **could add up to 150bps of instantaneous headroom**.
- And *even assuming a conservative restoration of relative S$NNER position within the bands,* this may give rise to a **corresponding 50-120bps of jump in SGD**; possibly more.

AUD: Swimming Against The Tide

- A turbulent week of trading saw the AUD surge past mid-0.76 on Tuesday before sliding back below 0.75 levels.
- The Fed's hawkishness was accentuated on Tuesday by their minutes revealing aggressive Quantitative Tightening plans. Conspiring with the Fed was softer brent crude prices following the release of oil reserves by members of the IEA, thereby putting downward pressure on the AUD.
- However, fitful spikes in brent crude prices continue to be the base case amidst the on-going geopolitical crisis.
- Furthermore, not entirely lagging the Fed is the RBA who dropped "patience" in their statement and bolster bets for likely policy convergence in mid-2022. These two factors will help buoy the AUD above 0.74 levels, though any attempt to sustain momentum above mid-0.76 is unlikely to prove successful.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

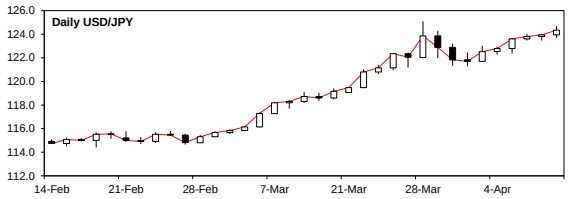
8-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.512	5.6	2.700	31.8	Steepening
GER	0.042	12.6	0.702	15.2	Steepening
JPY	-0.087	-4.6	0.220	0.7	Steepening
SGD	1.836	-0.6	2.505	15.3	Steepening
AUD	2.108	31.0	2.958	0.1	Flattening
GBP	1.460	10.3	1.747	14.1	Steepening

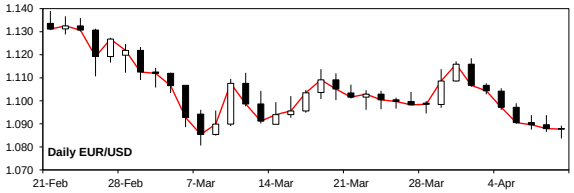
Stock Market

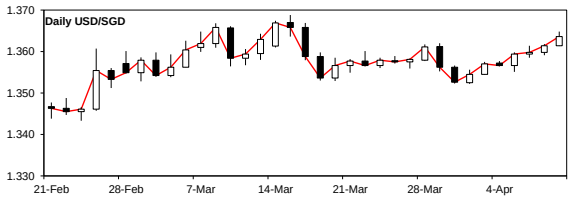
	Close	% Chg
S&P 500 (US)	4,488.28	-1.27
Nikkei (JP)	26,985.80	-2.46
EuroStoxx (EU)	3,858.37	-1.54
FTSE STI (SG)	3,383.28	-1.05
JKSE (ID)	7,210.84	1.87
PSEI (PH)	7,018.02	-1.89
KLCI (MY)	1,607.29	0.30
SET (TH)	1,686.00	-0.90
SENSEX (IN)	59,447.18	0.29
ASX (AU)	7,477.99	-0.21

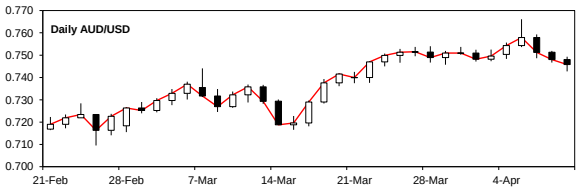
US Treasuries: Imminent Inversion Risk Abated?

- Last week, with the 2Y yield up a small ~6bps t0 2.51% compared to the **10Y yields shooting up a massive 32bps** to 2.70%, the **10Y-2Y yield curve invesion risk has abated for now with a ~19bps spread.**
- Without a doubt, the main driver of these moves was the **Fed's hawkish QT** *which was kicked of by Fed's Brainard comments* and followed up by the **FOMC minutes detailing the fast tracked $95bn monthly pace of balance sheet run-off**.
- Also, the **30-5Y inversion narrowed to a small smaller spread** of ~4bps compared to a 15bps difference the previous week.
- This week with US CPI print likely to continue rising**, front end 2Y yields** will continue to climbing and **challenge 2.6% and beyond given that inflation exceeding expectations is really not too remote**.
- Which in turn will keep aggressive rate hike bets alive and agitating.
- However, this **may not necessarily translate to deep inversions** as faster QT phase-in and sales of mortgage backed securities will then be contemplated.
- For now, we expect 10Y yield to consolidate around 2.60%-2.85%.









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