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MIZUHO

WEEK AHEAD

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Building the future with you

12-Dec-2022

Economic Calendar

•Survey results from Bloomberg, as of 9 Dec 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
12 Dec	JP	BSI Large Manufacturing/All Industry QoQ	4Q	-3.6%/0.7%	1.7%/0.4%
	JP	PPI YoY	Nov	9.3%	9.1%
	JP	Machine Tool Orders YoY	Nov P	--	-5.5%
13 Dec	**US**	**CPI/Core YoY**	**Nov**	**7.3%/6.1%**	**7.7%/6.3%**
	EZ	ZEW Survey Expectations	Dec	--	-38.7
	GE	ZEW Survey Current/Expectations	Dec	-57.0/-25.7	-36.7/-64.5
14 Dec	EZ	Industrial Production WDA YoY	Oct	3.5%	4.9%
	JP	Tankan Large Non-Mfg Index/Outlook	4Q	16/16	14/11
	JP	Tankan Large Mfg Index/Outlook	4Q	6/7	8/9
	JP	Industrial Production YoY	Oct F	--	3.7%
	JP	Core Machine Orders YoY	Oct	--	2.9%
	US	**FOMC Decision**		**4.25-4.50%**	**3.75-4.00%**
15 Dec	US	Initial Jobless Claims	10 Dec	232k	230k
	US	Empire Manufacturing	Dec	-0.5	4.5
	US	Retail Sales Advance/Ex Auto & Gas MoM	Nov	-0.1%/0.1%	1.3%/0.9%
	US	Industrial Production MoM	Nov	0.1%	-0.1%
	US	Philadelphia Fed Business Outlook	Dec	-9.7	-19.4
	EZ	**ECB Main Refinancing Rate**		**2.50%**	**2.00%**
	JP	Trade Balance	Nov	--	-¥2166.2b
	JP	Tertiary Industry Index MoM	Oct	--	-0.4%
16 Dec	EZ	Mfg/Services PMI	Dec P	47.1/48.5	47.1/48.5
	EZ	**CPI/Core YoY**	**Nov F**	**10.0%/5.0%**	**10.0%/5.0%**
	JP	Mfg/Services PMI	Dec P	--	49.0/50.3

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
12-20 Dec	CH	FDI YTD YoY CNY	Nov	--	14.4%
12-15 Dec	CH	Aggregate Financing/New Yuan Loans CNY	Nov	2.1T/1.4T	0.9T/0.6T
12 Dec	**IN**	**CPI YoY**	**Nov**	**6.4%**	**6.8%**
	IN	Industrial Production YoY	Oct	1.3%	3.1%
	MY	Industrial Production YoY	Oct	7.7%	10.8%
13 Dec	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.75%**	**2.75%**
	PH	Trade Balance	Oct	-$4994m	-$4821m
14-17 Dec	**PH**	**Overseas Cash Remittances YoY**	**Oct**	**3.3%**	**3.8%**
14 Dec	IN	Trade Balance	Nov	-$26050m	-$26911.7m
	IN	Wholesale Prices YoY	Nov	6.3%	8.4%
	KR	**Unemployment rate SA**	**Nov**	**2.9%**	**2.8%**
15 Dec	CH	Fixed Assets Ex Rural YTD YoY	Nov	5.6%	5.8%
	CH	Industrial Production YoY	Nov	3.7%	5.0%
	CH	New Home Prices MoM	Nov	--	-0.4%
	CH	Retail Sales YoY	Nov	-3.7%	-0.5%
	CH	Property Investment YTD YoY	Nov	-9.3%	-8.8%
	AU	**Employment Change/Umeploy. Rate**	**Nov**	**19k/3.4%**	**32.2k/3.4%**
	AU	**Consumer Inflation Expectation**	**Dec**	**--**	**6.0%**
	ID	Trade Balance	Nov	$4150m	$5670m
	IN	BoP Current Account Balance	3Q	--	-$23.9b
	PH	**BSP Overnight Borrowing Rate**		**5.50%**	**5.00%**
16 Dec	SG	Non-oil Domestic/Electronics Exports YoY	Nov	-6.5%/--	-5.6%/9.3%

Week-in-brief: Beware Policy Squalls & Turbulence

- *Policy squalls* and *consequent market turbulence are fair game* with bunched up, hard-hitting central bank meetings; led by the Fed on Wed, *flanked by the ECB, BoE* (Thu) and *framed by US CPI* (Tue).
- For a start, *CPI may not provide the requisite comfort to extend Fed pivot "risk on",* and **a hawkish shift in the 'Dot Plot'**; based on Fed Powell's allusion to *higher than previously expected "terminal" rate* complemented by the wisdom of "keeping at it". Both of which **underpin every aspect of** *"higher for longer"* **Fed**, which could challenge market bets on a pivot (discounting Fed persistence).
- And so, the **assumption of equity markets rallies, a clean inflection in yields and uninterrupted Greenback slide are at peril** of being checked **by** a Fed may well maintain **a hawkish flex**.
- As a corollary, this may *crimp scope for EUR surge;* regardless of hawkish overtones accompanying a widely anticipated 50bp hike. Similarly the **BoE's 50bp hike may not be a huge GBP boost**.
- In EM Asia, BSP is set to follow-through with a large rate hike; whether 50bp or 75bp. But more upsized tightening is certainly on the menu to avert unexpected assaults from USD resurgence.
- Elsewhere, India's CPI is not likely to distract from the bias for more tightening.
- Admittedly, *China re-opening cheer and whispers of further property sector support may boost CNY complex and EM Asia indirectly*. **But** these will **not be sufficient to override caution ahead of the Fed or structural China risks** (such as Asia being roped into chip export curbs to China).
- The upshot is that po**licy risks converging with such force and in sheer numbers may make for rolling bouts of turbulence**. *Having played the "half-full" glass (on Fed pivot and China re-opening cheer), markets are justifiably cautious to trim excessive optimism ahead of Fed and China uncertainty.*

Inflation & the Fed: The Good, the Bad & the Ugly ...

- To be sure, all the **G4 central banks** have **their policy meetings** within the next two weeks, so there is **potential for a whole load of volatility** in markets; especially given the **palpable tensions between inflation risks and fears of policy-induced recession**.
- But it appears that the **Fed may steal the show** for the simple reason that it will perhaps have the **most emphatic and enduring impact** on markets; putting aside knee-jerk reactions.
- But between intent and interpretation there is an entire expanse of "*the good, the bad, and the ugly*".
- First off, and at face value, the *"good news"* appear to be that **expectations are for further moderation in US inflation**; which should, by and large show up in headline and core numbers.
- But the *bad news* is that the **declines**, **both in the levels and the make-up of inflation**, **may not be sufficient to soften the Fed's stance**.
- Fact is, **core services may remain uncomfortably sticky** even as core goods inflation eases.
- And that will be a **cause of concern for the Fed that remains worried about wage-price spirals**.
- Here is the *ugly part* about inflation dynamics**. Upside risks to inflation expectations will remain a bugbear**, and it *may well take a hard-ish landing for inflation concerns to be put to sleep.*

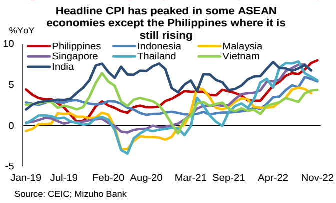
... What to Watch for the FOMC

- For now though, the critical thing is that **markets are eager to correlate any inflation pullback with an impending "Fed pivot"**; the bar for which varied from a slower pace of tightening to a pause to a reversal of hikes. And therein lies what may **potentially be the greatest expectations gap**.
- But let us back up a bit first. The December FOMC is likely a non-event for rate hike action.
- Consensus is for a 50bp hike. Non-accelerating inflation alongside some early signs of soft spots allow the *Fed to deliver on a well-telegraphed dial-back from exceptionally aggressive 75bp hikes to a 50bp hike.* So Fed Fund rates of 4.25-4.50% is the outcome expected after a 50bp hike.
- Whereas, at this late-stage of policy tightening**, pace (of hikes) is less importan**t.
- Instead, **"peak"** (how high rates go) **and "persistence"** (how long rates stay high) **assume policy prominence**. And in that respect, the **'Dot Plot' and Fed rhetoric** (particularly the post-FOMC press conference) will **command far greater interest**.
- There is a **risk of a hawkish jolt** *given that markets have stretched the "pivot" bet* a tad too far.
- Especially with regards to the messaging on "keeping at it .. until the job is done" that may be conveyed with far less rate reductions for 2024 than markets are predicting.

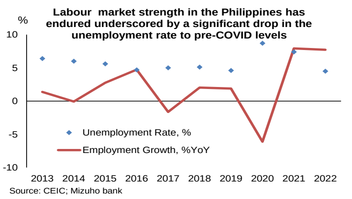
ECB: (Tightening) Money On My Mind

- **The debate around the magnitude of the appropriate rate hike** (i.e. 50bp or 75bp) **seems to have been settled even before ECB's meeting on 15 December**; **the consensus amongst board members has tilted towards a 50bp hike.**
- But **what remains hotly debated is the timing and size around the scale back of bond purchases, i.e., Quantitative Tightening (QT).**
- While QT was discussed at previous ECB meetings, **the persistence of inflationary pressures within the EU has catapulted the issue to front of the line,** even ahead of the the rate hikes.
- **ECB's redemption profile suggests that €29bn of bonds, on average, mature every month.**
- **The ECB has numerous options available**, in terms of allowing the entire amount or part of the amount of expire without re-investment**. It also has the flexibility to choose when to begin the process next year and over what duration it will reduce its €3.3bn balance-sheet**.
- **Not unlike most of ECB's decisions, the biggest hurdle to cross will be reaching a consensus on the timeline, duration and pace of QT.**

Bangko Sentral ng Pilipinas: 50bp Over 25bp as Inflation Persists



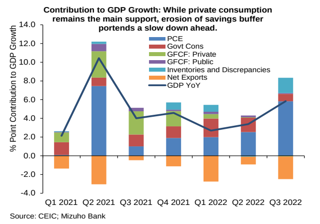
Source: CEIC; Mizuho Bank



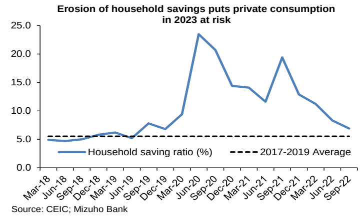
Source: CEIC; Mizuho bank

- **BSP will not be faulted for dialling back the magnitude of policy rate hikes from 75bp to 50bp**, ***but it will be held accountable (possibly punished by markets) for a dial back to 25bp.***
- **This is because, unlike regional peers, inflationary pressures have shown little to no signs of abating in the Philippines.** On the contrary, headline inflation has continued to rise to 8% YoY in November from 7.7% in October. **Core inflation jumped to 6.5% YoY in November from 5.9% in October** underscoring the stickiness of price pressures.
- While on the one hand, **persistent inflationary pressures speak to underlying economic strength**; on the other hand, it **also signals that there is a non-negligible risk of setting in motion an inflationary spiral;** a risk BSP has categorically stated it will guard against.
- Indeed, **the strength of the labour market has endured, with employment growth rising** 7.7% YoY in 2022 from 7.9% in 2021 **and the unemployment rate falling to below pre-COVID levels at 4.5%** from 7.4% in 2021 (average 2016-19: 4.9%).
- **To that end, dialling back rate hikes to 25bp from 75bp will send a more sanguine message on inflationary pressures than intended.**
- Importantly, **USD/PHP has been relatively well supported over the past few weeks on the presumption that BSP will remain hawkish to combat inflationary pressures;**
- *A wavering of this expectation will hurt PHP and exacerbate elevated imported inflation.*

Australia Employment: Increasing Worries



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- The **labour market situation may need to begin responding to slowing economic conditions**.
- Flattered by base effects, Australia's Q3 GDP release at 5.9% YoY was in line with our expectations although below market consensus. Growth continued to be driven by private consumption along with the recovery in the tourism sector as accommodation and food services continued their strong expansion.
- Travel is certainly a two-way affair. Imports posted a large drag due to a **substantial increase in outbound travel services**, **sequential growth momentum slowed** to 0.6% QoQ from Q2's 0.9%.
- Admittedly, the labour market has remained resilient in recent months. Nonetheless, **household savings ratio returned to pre-pandemic levels in Q3 despite strong growth in compensation of employees at 3.2% QoQ**, this erosion of savings buffer tells of likely confluence of factors.
- Strong private consumption are increasingly being funded out of savings and the rising mortgage payments are increasingly biting on household budgets.
- In the immediate term employment in the immediate term may experience an uptick in the medium term as workers fill up available vacancies in the service sector. Sooner rather than later, we expect an increase in labour participation rates as workers return to the work force as well as a slowdown in hiring as consumption slows.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	136.56	2.250	1.68%	132.00	~	139.00
EUR/USD	1.054	0.0005	0.05%	1.030	~	1.060
USD/SGD	1.3539	0.002	0.17%	1.3400	~	1.3850
USD/THB	34.798	0.033	0.09%	34.20	~	35.40
USD/MYR	4.404	0.016	0.36%	4.300	~	4.550
USD/IDR	15583	155	1.00%	15,350	~	15,900
JPY/SGD	0.9918	-0.015	-1.52%	0.964	~	1.049
AUD/USD	0.6795	0.000	0.07%	0.660	~	0.690
USD/INR	82.28	0.960	1.17%	81.0	~	83.0
USD/PHP	55.375	-0.390	-0.70%	55.0	~	56.5

^Weekly change.

FX Outlook: Premature to Declare USD Bears Have It

- **While** there may be an **argument to be made that the USD could have peaked** (from mid-Sep to mid-Oct highs), as markets and the Fed alike converge on peak rates in the next 5-7 months, it **is too premature to declare that the USD is set for an emphatic down-trend** from here on.
- In fact, it is **more likely that there could bear resistance to the USD sliding materially** beyond Q2 2022 ranges that were mostly supportive of USD Index above a 100.
- And at the very least it is **unlikely that the risk-reward profile of being aggressively bearish on the USD makes sense** ahead of;

i) *US CPI* details, *where sticky components of inflation may still not provide sufficient (dovish) comfort* despite receding headline and core readings, followed by;

ii) *FOMC* decision on **not just a widely expected 50bp** hike, but crucially, an *upward adjustment in the 'Dot Plot'* to reflect a **"higher" peak** as well as possibly *restrictive rates for "longer"*.

- Point being, the potential for **hawkish jolts out of the Fed remains a distinct possibility**, despite a 50bp hike with expectations for further dial back in upcoming hikes being priced in.
- And that could get in the way of unimpeded Greenback slide.
- Admittedly, the possibility of **hawkish references in the language accompanying** (a now watered down) **50bp hike by the ECB may well be grounds for EUR traction**;
- which is critical *in underpinning a softer USD theme.*
- But we expect **cautious EUR gains rather than unbridled strength** given the policy dilemma and acute economic pain associated with rate hikes by the ECB.
- **Hopes that China is seriously expediting the lifting of Zero-COVID policies** appears to be a lingering sentiment. And **if that uplifts the CNH further, EM Asia FX could enjoy a further fillip**.
- We would however **prefer to trim AXJ gains from riding the CNH coat-tails ahead of the FOMC**;
- for it is ***premature to declare USD bears have it***.

Bond Yield (%)

9-Dec	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.344	7.2	3.578	9.2	Steepening
GER	2.122	3.9	1.923	7.7	Steepening
JPY	-0.026	0.9	0.239	-0.6	Flattening
SGD	3.164	9.0	2.924	-4.0	Flattening
AUD	3.028	4.5	3.290	0.1	Flattening
GBP	3.345	8.2	3.172	3.0	Flattening

Stock Market

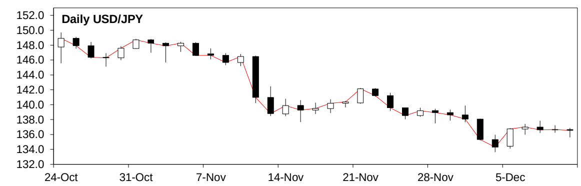
	Close	% Chg
S&P 500 (US)	3,934.38	-3.37
Nikkei (JP)	27,901.01	0.44
EuroStoxx (EU)	3,942.62	-0.89
FTSE STI (SG)	3,245.97	-0.40
JKSE (ID)	6,715.12	-4.34
PSEI (PH)	6,580.12	1.39
KLCI (MY)	1,477.19	-0.31
SET (TH)	1,623.13	-1.13
SENSEX (IN)	62,181.67	-1.09
ASX (AU)	7,213.18	-1.21

US Treasuries: Premature to Call UST Bears Retreat

- Last week, **UST bears ended strong** which allowed 2Y yields to stay above 4.3% and 10Y yields approaching 3.6%.
- This was **despite Uni. of Michigan 1 Year ahead inflation expectations coming in below market consensus** as well as the Fed's preferred recession indicator staying in inversion territory since late November.
- In fact, market based proxy for long term inflation, **the UST 10Y breakevens dropped ~18 bps last week**, implies even higher real US yield and is seemingly hinting at longer term growth worries as well.
- Perhaps, in some corners, belief in the Fed keeping at their job is still strong.
- As such, it may be premature to declare that UST bears are in retreat, especially with US CPI print and FOMC this week.
- Be wary of bears roaring back. All in we expect **heighten volatility** this week, 2Y yields may challenge 4.5% on US CPI persistence and allow 4.6% if the Dot Plot punctures pivot bets.
- Consequently, 10Y yields may lag on growth fears to trade in a wide range of 3.4-3.7%.

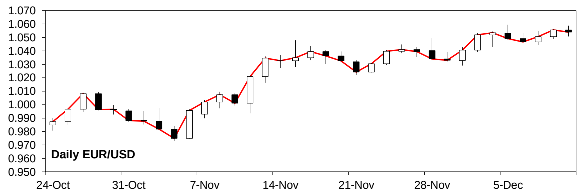
USD/JPY: Brace for Volatility

- Amid the **surging real US yields**, the USD/JPY headed upwards above mid-136.
- Given the US inflation print and FOMC this week, the pair will inevitably brace for **extreme volatility.**
- In normal times, the 12% plunge in oil prices would have assisted the JPY on a greater scale. For now, it will pose a marginal restraint for challenging 140 in the event of hawkish upside from FOMC.
- That said, the impact of oil prices may be asymmetric as a lower CPI print and surprise dovish Dot plot may allow the pair to dive below 133.



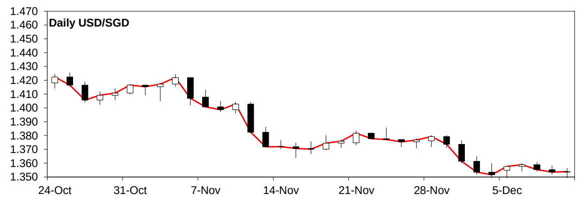
EUR: FED and ECB Dance

- While EUR traction this week may come from ECB hawkish references in spite of a step down to 50bp, the **case for unbridled strength remains unlikely** given the extent of policy dilemma in the Eurozone and rising fragmentation risks.
- Absent of hawkish references, the **ECB dancing to the Fed's tune for 50bp may end up a mis-step for the EUR** and hurt its prospects especially if the Dot plot reviews a higher peak in 2024.
- All in, amid slipping oil prices, we expect a wide trading range for EUR/USD from 1.03-1.06 for this week.



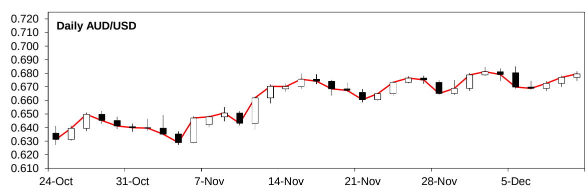
SGD: Cautious Consolidation

- As we pointed out earlier, **tailwinds from CNH may turn more limited**; if not outright strained as the US tightening the noose on Chinese chip imports hits closer to Asia.
- What's more, with the Fed poised for a hawkish revision of the 'Dot Plot', and potentially even re-calibrate market expectations on "keeping at it", the USD may have limited scope to be sold down further.
- And so the USD half of the USD/SGD may be less pliant in sliding lower.
- We expect that USD/SGD may consolidate mid-1.34 to 1.36 for now.
- But cautious consolidation, rather than cavalier path-finding may be the order of the day.



AUD: Restrained on the Upside

- As we anticipated last week, the AUD was supported, albeit not super-charged, by the RBA.
- And this week, it appears that the AUD will see further tensions.
- On one hand, news of further property markets support measures out of China alongside China re-opening cheer could boost the AUD;
- Not just via any boost to CNY (on proxy FX moves) but through the commodity demand channels that tend to bode quite well of AUD.
- However, with the FOMC mid-week, and the Fed likely to push through a more hawkish 'Dot Plot', we expect some two-way volatility with upside in AUD being checked.
- And so consolidation around sub-0.67 to sub-0.69 looks plausible.
- Sharper downside risks on a Fed hawkish jolt.



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