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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 11 Feb 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
15 Feb	US	Empire Manufacturing	Feb	10	-0.7
	EZ	GDP SA QoQ/YoY	4Q P	0.3%/4.6%	0.3%/4.6%
	JP	Industrial Production YoY	Dec F	--	2.7%
	JP	GDP SA QoQ/Annualized SA QoQ	4Q P	1.5%/6.0%	-0.9%/-3.6%
	GE	ZEW Survey Current Situation/Expectations	Feb	-7.0/55.0	-10.2/51.7
16 Feb	US	Industrial Production MoM	Jan	0.4%	-0.1%
	US	Retail Sales Advance MoM/Ex Auto, Gas	Jan	2.0%/1.0%	-1.9%/-2.5%
	EZ	Industrial Production WDA YoY	Dec	-0.5%	-1.5%
	JP	Tertiary Industry Index MoM	Dec	0.3%	0.4%
17 Feb	US	FOMC Meeting Minutes	17-Feb	--	--
	US	Initial Jobless Claims	12-Feb	220k	223k
	US	Philadelphia Fed Business Outlook	Feb	20.0	23.2
	JP	Trade Balance	Jan	-¥1613.9b	-¥583.3b
	JP	Core Machine Orders YoY	Dec	0.9%	11.6%
18 Feb	US	Leading Index	Jan	0.2%	0.8%
	EZ	Consumer Confidence	Feb A	-8.0	-8.5
	JP	CPI YoY/Ex Fresh Food Energy YoY	Jan	0.6%/-1.0%	0.8%/-0.7%

Asia — Actual Data Release

Date	Country	Event	Period	Survey*	Prior
14-16 Feb	CH	1-Yr Medium-Term Lending Facility Rate		2.85%	2.85%
14 Feb	IN	CPI YoY	Jan	6.0%	5.6%
15 Feb	AU	RBA Minutes	15-Feb		
	ID	Trade Balance	Jan	--	$1020m
	IN	Trade Balance	Jan	-$17975.0m	-$21678.0m
	PH	Overseas Cash Remittances YoY	Dec	--	5.1%
16 Feb	CH	CPI/PPI YoY	Jan	1.0%/9.5%	1.5%/10.3%
	KR	Unemployment rate SA	Jan	3.7%	3.8%
17 Feb	SG	Non-oil Domestic Exports YoY	Jan	11.7%	18.4%
	AU	Employment Change	Jan	0.0k	64.8k
	AU	Unemployment Rate/ Participation Rate	Jan	4.2%/66.1%	4.2%/66.1%
	PH	BSP Overnight Borrowing Rate	17-Feb	2.00%	2.00%
18 Feb	SG	GDP YoY	2021/4Q	7.3%/6.2%	7.2%/5.9%
	SG	Singapore 2022 Budget Release			
	PH	BoP Overall	Jan	--	$991m

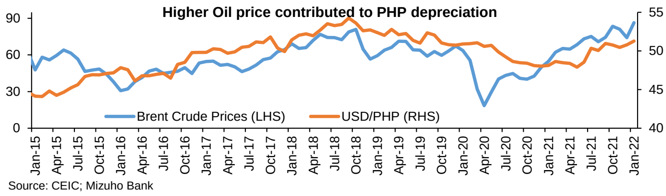
Week-in-brief: All's Fair in Love & War

- **Fears of a war breaking out in Ukraine** (leading to a proxy hotspot for the US-Russia cold war) are **competing with the love for hawkish Fed bets** following the 40-year high in US inflation.
- This has knocked **10Y yields back below 2%** (after the post-CPI surge last week), **reflecting the desire for safe-haven demand**, for USTs (pushing up price and dragging yields).
- That saying that "**all's fair in love and war**" ... well, it **should not be mistaken for equitability of** outcomes. In fact, quite **unambiguously**, it turns out to be **deleterious for EM** (including EM Asia).
- **Investors fall out of love with EM** as a whole, no matter how removed from war risks, as safe-haven demand drives capital into USTs, JPY, CHF and USD; often to the detriment of EMs.
- **Infatuation with returns gets supplanted by aversion to inflation** as energy prices soar; as is often the case with conflict risks. And *certainly in this case, with the involvement of Russia.*
- *And so, unsurprisingly,* **energy prices got much love too**, as the prospects for disruption in energy supply given Russia's involvement has sent Brent crude surging past $95.
- This **renders the sharp policy trade-offs** (amid central bankers worried about inflation) **even more exquisitely painful** as the **tussle between downside growth risks** from the fallout from conflict and **upside risks to inflation** (from supply disruptions) are **driven to greater extremes**.
- **FOMC Minutes (Wed) will probably take a backseat** as **dynamic Fed hike pricing** has now **moved past to the Minutes of Jan FOMC**. Admittedly, **U of Michigan consumer sentiments falling sharply** to more than a decade's low **may not be loved by Fed hawks**. ***But* with the infatuation with inflation, markets remain smitten with the idea of "sooner faster" tightening**.
- As a corollary, this should backstop the USD, and RBA minutes will fall short of reversing tendencies for AUD buying to start swooning at the thought of passionate Fed hawks.
- The **BSP's likely hold** this week (Thu) **could also lead to PHP being swept off its feet**; especially if geo-political risks pile on to policy divergence pressures on PHP.
- **Until global policies converge to a united tightening, USD stands tall** In the mesmerising magic of ***Def Leppard's* 'When Love and Hate Collide'**, *"I got your number on my wall but I ain't gonna make that call | **When divided we stand, united we fall**."* Just substitute "we" for 'USD".
- Elsewhere, **Singapore's Budget 2022 is likely to show a small surplus** once investment returns and infrastructure capitalization are accounted for. The 2%-pt GST hike to 9% may not quite be the stuff that melting hearts are made of. But the S$6bn Assurance package promises to take the bite out to lower income households and resist the otherwise regressive effects.

RBA Minutes: Sweet Nothings?

- **Hawks looking to see how much ground RBA doves concede in the Minutes must contend with lingering "patience"** and caution in favour of growth instead.
- To be sure, the Feb MPC statement already conceded shifting growth-inflation dynamics consistent with foreseeable normalization (including cessation of bond purchases).
- And since then, **Governor Lowe's remarks** that "*it is certainly plausible ... that an interest rate increase will be on the agenda sometime later this year*" have clearly **crossed that hawkish bridge;**
- which leaves this week's **Minutes likely a tad stale, if not** seeming like **sweet nothings**.
- Moreover, **AGB yields have already lifted off**, with *10Y up at over 2.2% from below 1.9%* after the last RBA MPC (1 Feb), and *3Y AGBs have gone from ~1.3% levels to 1.66%.*
- With *bond purchases (QE) ceased as of 10 Feb,* the **next milestone will be in May when the RBA is set to decide whether or not to reinvest maturing bonds (**due July). In other words, the **May MPC will mark the decision around initiating balance sheet run off**.
- *Until then,* AUD looks relatively more subordinated to far a more unambiguously hawkish Fed.

BSP - Peso Takes One for the Team



Source: CEIC; Mizuho Bank

- We expect **the BSP to keep policy rates on hold this week**, as such the **PHP will take one for the team,** in support of ongoing economic recovery.
- While 2021 Q4 growth outturn at 7.7% appears stellar at the onset, a comparison with pre-Covid times reveals that **economic activity levels have yet to fully recover.**
- Private consumption recovery is kept up by resilient remittances growth while net exports are being **supported by import compression rather than robust export demand.**
- BSP will continue to be supportive of growth as Governor Diokno has emphasized at recent interviews as they look likely to **continue intervening at USD/PHP 51.5 level for now**.
- We flag out risks in the form of **macroeconomic instability stemming from attendant inflation risk and debt sustainability worries**, engendered from continued PHP depreciation.
- PHP depreciation **worsens the situation of higher oil prices weighing on the goods balance** compounding on their already **lagged exports recovery compared to regional peers**.
- While current levels for USD/PHP remain manageable and **also managed by BSP participation in the FX market**, quick turn of real policy rate differential with the Fed will inflict greater depreciation pressures on the PHP.
- Moreover, **available room to signal tightening via increase of the reserve requirement ratio** with excess liquidity in the markets evidenced by the untouched rediscount facility last month.
- But, such signalling may be cold comfort for the PHP as it **merely reduces demand pull inflation to maintain or prevent real returns from being eroded.** Against the Fed's impending rate hike, these backstops **are weak restraints of continued PHP weakness.**

Singapore Budget: Of Consolidation & Costs

- Coming off large outlays in 2020 and 2021, **Budget 2022 is set for fiscal consolidation**; the *optics of which will be most prominent in* the **impending 2%-pt GST hike to 9%**.
- After unprecedented "COVID deficits", **we have pencilled in a small budget surplus after** accounting for **NIRC** (net investment and returns contribution) and **infrastructure capitalization**.
- But that is not to be confused for tightening. Instead, the **budget's main theme will surround inclusivity and sustainability** (fiscal, environment and infrastructure) **for the future**.
- While headline increase in GST is a given, its precise implementation is less clear.
- **We expect "one and done" 2%-point hike to be implemented in Oct** (rather than a phased approach) to perhaps minimize adjustment/administrative costs and reduces risks of profiteering.
- That said, while we acknowledge the **first stage mechanical one-off GST impact on inflation**, **worries on subsequent *inflation* passthrough** and *second round effects involving smaller businesses grappling with price uncertainty* ***is biased to the upside.***
- **And so, while the $6billion Assurance package via cash transfers ($100-$300) tiered on type of residences to mitigate welfare impact on low-income households, the inconvenient trade-off is that these transfers complicate inflationary impact.**
- Given the state of economic recovery, *Budget 2022 will also likely raise the carbon tax rate* (from prevailing S$5 per tonne) to S$10-S$15 which will only **take effect from 2024.**
- On the expenditure, the **launch of SINGA bonds to finance long term infrastructure**, sets the stage of announcements of infrastructure projects such as **the North South Corridor.**
- **Alongside SGS (Infrastructure) bond issuances, fiscal consolidation dovetails with likely MAS tightening which will underpin SGD appreciation.**

Singapore Budget 2022 - Table of Key Estimates

S$bn	Actual		Budget	Mizuho Est.	
	FY 2019	FY 2020	FY 2021	FY 2021	FY 2022
Operating Revenues	74.3	64.6	76.6	78.4	86.6
% of GDP	14.5%	13.8%	14.7%	15.1%	15.6%
Income (I/C) Tax*	32.5	30.6	34.5	34.5	37.5
Asset Taxes^	4.8	3.1	4.7	4.7	5.1
Tax on MV	2.4	2.2	2.5	2.6	2.8
Customs & Excise	3.3	3.5	3.8	3.9	4.3
Betting Taxes	2.6	1.8	2.4	2.4	2.7
Stamp Duties	4.2	3.7	4.3	4.8	5.2
GST	11.2	9.9	11.3	11.5	14.1
COE	2.9	2.3	2.3	3.1	3.5
Others**	10.4	7.5	10.8	10.8	11.5
Total Expenditure	75.3	94.1	102.3	101.7	104.0
% of GDP	14.8%	20.1%	19.7%	19.5%	18.7%
Operating Expenses	58.7	77.6	82.5	82.5	84.1
Development Expenses	16.7	16.4	19.9	19.3	19.9
Primary Balance	-1.1	-29.4	-25.7	-23.4	-17.4
% of GDP	-0.2%	-6.3%	-4.9%	-4.5%	-3.1%
Less Special Transfers	15.1	53.6	4.9	7.1	5.8
Add: NIRC***	17.0	18.1	19.6	20	22
Overall Balance	0.8	-64.9	-11.0	-10.5	-1.5
% of GDP	0.2%	-13.8%	-2.1%	-2.0%	-0.3%
Add: Capitalisation of Significant Infrastructure				0.6	2.4
Overall Fiscal Position		-64.9	-11.0	-9.9	0.9
% of GDP	0.0%	-13.8%	-2.1%	-1.9%	0.2%

* includes Corporate Tax, Personal Income Tax, Witholding Tax and Statutory Board Contribution
^ Predominantly Property Tax
** includes Other Tax, Fee & Charges and Other Receipts
*** Net Investment Returns Contribution
Source: CEIC, MoF, Mizuho Bank

Patient RBI & Impulsive Inflation Raise Stakes

- The **RBI's dovish insistence**, leaving policy on hold **last week** citing **lingering downside risks to growth** (amid COVID "variant" risks) alongside **expectations of peaking inflation** (in Q1 2022) **is a high-stakes, leveraged policy bet**; *with a narrow window for course correction.*
- To be sure, the RBI is **not wrong in worries of incomplete and uneven recovery**.
- ***But*** trouble is, the **RBI appears too sanguine about inflation risks**.
- **Especially given elevated and escalating oil prices** amid worrying geo-political risks.
- Against this backdrop, **inflation is poised to test, if not exceed the 6% upper limit** (RBI target: 4%+/-2%-pts) **in Jan**. And **inflation may not just be sticky, but may accelerate** on a conspiracy of hard-to-predict energy market volatility, commodity cost-push and global supply-chain kinks.
- Admittedly, **real rate spreads buffer macro stability**. But ***exceptional inflation differential inversion*** *(US CPI exceeding India's) and resultant policy buffer are on borrowed time.*
- Crucially, **a far more gradual glide-path to fiscal consolidation**, and the resultant jump in public debt alongside its attendant debt financing obligations, **amplifies macro- and rupee stability risks** (particularly as it resonates via credit and exchange rate channels).
- Upshot being, the **RBI's intentional inaction**, *subordinating inflation risks to growth recovery,* **comes at the cost of much sharper macro-stability trade-offs**.
- Particularly if the **myopic desire to anchor debt financing costs** (by holding down policy rates) **backfires rudely in the event of capital outflows** amid surging global rates.
- All said, risk is, the *slower the initiation of "lift off", the greater the amplitude of hikes the RBI will be forced to undertake to compensate.* Accordingly, with the **RBI slipping behind the curve**, we lift out **rate outlook from 75bps to 100bps of cumulative hikes for 2022**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	115.42	0.160	0.14%	114.80	~	116.60
EUR/USD	1.135	-0.0099	-0.86%	1.128	~	1.156
USD/SGD	1.3471	0.001	0.10%	1.3390	~	1.3580
USD/THB	32.738	-0.242	-0.73%	32.30	~	33.50
USD/MYR	4.1897	0.009	0.22%	4.176	~	4.210
USD/IDR	14347	-33	-0.23%	14,320	~	14,420
JPY/SGD	1.1666	-0.001	-0.12%	1.148	~	1.183
AUD/USD	0.7137	0.006	0.92%	0.699	~	0.729
USD/INR	75.38	0.683	0.91%	74.7	~	75.8
USD/PHP	51.33	0.205	0.40%	51.0	~	51.6

^ Changes are on weekly basis

FX: USD Romance

- An **increasingly hawkish Fed is now all but baked in**; **with >150bps of hikes priced in by end-2012,** and with **almost 100bps** of this tightening seen **by the June FOMC**.
- Consequently, that **begs the question of Love for the USD**. Specifically, **whether** market's **infatuation with the USD** from much earlier this year is **waning with the thrill of anticipation** ... **and the chase**.
- To some extent, ECB chief Lagarde's **emphasis on a *"gradual"* tightening**, **tempering the hawkish shock from the post-ECB press conference** that revealed the possibility of a rate hike this year, has taken some steam out of the EUR pick-up. Arguably, the risk of **passions blowing out into conflict at the Russia-Ukraine borders** have *dented the EUR* .. accentuating the USD's haven allure.
- Equally, and putting aside geopolitical passions, **real interest rates (differentials) are also going to be a critical part of the how smitten markets may be with the USD**.
- And here's the thing. **Despite fairly steep rate hikes by the Fed** being priced ***real rates eroded by record inflation* means that Fed's initial *hawkish overtures* runs the risk of *unrequited love***.
- Meanwhile, **discerning between swoon to headlines** and the experienced execution adds to the complexity of USD-Fed relationship. And as with all romance, the old flames (ex-es) leave as much of a mark as do new crushes make the heart (and USD?) leap.. or not. At the end of the day, **inflation differentials may be the over-looked game-changer in the tryst between Fed Hawks and the USD**.
- For EM Asia FX, while the CNY may provide a shoulder to lean on (checking downside), it is critical to remember that for all appearances, **USD remains "the one" when geo-politics and "risk off" sweep** market off their feet. So, **fading EM Asia gains into the end of the week may be a defensive move**.
- All said, **what's unclear this week is whether USD will be "King"** as Fed Hawks dominate.
- There are no guarantees to be sure. But it appears that the stars are aligned so that USD will be loved
- As "the King" (Elvis Presley) put it ...

"*Take my hand, take my whole life too. For I can't help falling in love ...*"

JPY: Safe Haven Spike Risks

- Despite the odds of a 50bps move in March appears to have been tempered - at least partly by softer US consumer confidence data - hawkish Fed inclinations remain intact.
- Accordingly, the **backstop in UST yields is helping to keep the USD/JPY buoyed**.
- and while FOMC Minutes may not have another emphatic hawkish leg left, it appears that yields and Fed inclinations **could keep USD/JPY biased to the upside**.
- That said, **a key risk to that outlook is Russia-Ukraine geopolitical risks**.
- As the **odds of conflict remain non negligible**, so do a sudden **spike in safe haven demand for JPY**. And this means that USD/JPY may now be more cautious about unwaveringly take out the 116 handle and surge further still.
- For now, we expect USD/JPY to be traded in the 14 to mid-116; with a slide under 114 is noppt being ruled out; should a worse case iteration of Ukraine-Russia conflict breaks out.

EUR: Pushback on Multiple Fronts

- With pushback from several ECB Governing Council members, **the spectrum of views on policy tightening is once again on display** and reminder of these differences relative to the Fed.
- FOMC meeting minutes containing more surprises on QT may throw a spanner in the works for EUR ascendency.
- Likewise, **geo-political tensions are utterly taut** with German chancellor heading to Kyiv and Moscow to ease the situation.
- All in, the EUR is likely to struggle to make sustainable ground above 1.15 while slipping below 1.13 looks likely if diplomacy is perceived to lose efficacy.

SGD: Limited Upside

- With likely MAS tightening in April increasingly in focus, **firmer USD on hawkish Fed may see bouts of opportunistic SGD buying.**
- This week FOMC minutes reiterating hawkishness conflating with geo-political tensions triggering 'risk-off' may likely see testing of 1.35 as **CNY moves may allow mild concession**.
- On balance, given rich $NEER USD/SGD may exhibit tendency to be bouncy below mid-1.34 while attempts to stay above 1.35 will need considerable conspiring of factors.
- Given the S$NEER staying richly valued, significant outperformance remains unlikely.

AUD: RBA's Openness May Backstop

- Despite a stronger USD trend and RBA Governor Lowe reiterating his preparedness to tolerate inflation above target range, the AUD retained some mid-week gains to stay above 0.71.
- In his testimony, Governor Lowe expressed patience in his wait for lower unemployment and higher wage growth. Notably, he has kept his options open by explicitly stating "we haven't been saying rates won't rise this year" and he would like to see a couple of CPI's and thereby not ruling out a late 2022 hike.
- With this optionality, the AUD may continue to hover above 0.71 especially amid renewed increases in commodity prices as well as the re-opening of borders.
- While the re-opening of borders may lift the AUD, federal-state divergences may persist and restrain these gains.
- The RBA's optionality may backstop the AUD below 0.70 while we may see more frequent testing of mid-0.72.

Bond Yield (%)

11-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.500	19.0	1.937	2.9	Flattening
GER	-0.345	-8.0	0.292	9.1	Steepening
JPY	-0.045	0.6	0.224	3.4	Steepening
SGD	1.171	17.2	1.937	18.1	Steepening
AUD	1.170	25.0	2.205	0.1	Flattening
GBP	1.400	15.1	1.542	13.4	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,397.94	-2.28
Nikkei (JP)	27,522.26	0.30
EuroStoxx (EU)	4,229.56	3.50
FTSE STI (SG)	3,294.86	-1.10
JKSE (ID)	6,726.37	-0.07
PSEI (PH)	7,293.52	-2.18
KLCI (MY)	1,527.06	0.28
SET (TH)	1,652.73	-1.28
SENSEX (IN)	59,037.18	0.67
ASX (AU)	7,175.81	0.78

US Treasuries: Flattening?

- UST bulls suffered **another week of trampling** led by the Fed's Bullard along with the US inflation exceeding expectations **with bulk of the action late last week.**
- Admittedly, Bullard's views emphatically reversed other Fed officials' earlier (the week before) pushback on 50bps (though they did not have the benefit of the CPI print).
- With Bullard's 100 basis point by July 1, 2Y yields shot up ~19bps to end at 1.5% as **expectations for a 50bps March rate hike rose to 80%.** Last week, the yield curve flattened, as 10Y yields rose a modest ~3bps as **geopolitical tensions ratchet up and supported haven demand.**
- Bullard's preference to see **the balance-sheet runoff start in the second quarter** could imply more hidden dangers of another mauling of UST bulls.
- Amid haven demand starting to emerge, the **base case this week will be for 2Y yields to attempt buoyancy above 1.5% and 10Y yields may test 2% again.**
- The devil in the details of **FOMC minutes especially on balance sheet** may start complicating or even bolster UST yields if supportive of Q2 runoff. One would caution against another all out flattening.
- Though given current great hawkish expectations, a dovish pushback will amplify the relief for UST bulls, albeit temporarily.