

Economic Calendar

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

Date	Country	Event	Period	Survey*	Prior
15 Mar	US	Empire Manufacturing	Mar	8.0	3.1
	EZ	Industrial Production WDA YoY	Jan	-0.5%	1.6%
	GE	ZEW Survey Expectations/Current	Mar	5.0/-22.5	54.3/8.1
16 Mar	US	Retail Sales Advance/Ex-Auto MoM	Feb	0.4%/0.8%	3.8%/3.3%
	JP	Trade Balance	Feb	-¥124.1b	-¥2193.5b
	JP	Industrial Production MoM	Jan F	--	-1.3%
	US	FOMC Rate Decision		0.25%-0.50%	0.00%-0.25%
17 Mar	US	Initial Jobless Claims		220k	227k
	US	Philadelphia Fed Business Outlook	Mar	15	16
	US	Industrial Production MoM	Feb	0.6%	1.4%
	EZ	CPI/Core YoY	Feb F	5.8%/2.7%	5.1%/2.7%
	JP	Core Machine Orders YoY	Jan	8.7%	5.1%
		US	FOMC Rate Decision		0.25%-0.50%
18 Mar	US	Leading Index	Feb	0.3%	-0.3%
	JP	CPI/Ex Fresh Food, Energy YoY	Feb	0.9%/1.0%	0.5%/1.1%
	JP	Tertiary Industry Index MoM	Jan	-1.0%	0.4%
	JP	BOJ Policy Balance Rate		-0.10%	-0.10%
		US	FOMC Rate Decision		0.25%-0.50%

Date	Country	Event	Period	Survey*	Prior
14 Mar	IN	CPI YoY	Feb	6.0%	6.0%
	PH	Overseas Cash Remittances YoY	Jan	4.0%	3.3%
15 Mar	CH	1-Yr Medium-Term Lending Facility Rate		2.85%	2.85%
	CH	Retail Sales YTD YoY	Feb	3.0%	12.5%
	CH	Industrial Production YTD YoY	Feb	4.1%	9.6%
	CH	Fixed Assets Ex Rural YTD YoY	Feb	5.0%	4.9%
	AU	RBA-Minutes			
	ID	Trade Balance	Feb	\$2100m	\$930m
	IN	Trade Balance	Feb	-\$20700.0m	-\$17420.0m
16 Mar	KR	Unemployment rate SA	Feb	3.6%	3.6%
17 Mar	SG	Non-oil Domestic Exports YoY	Feb	16.9%	17.6%
	AU	Emp. Chg/Unemployment Rate	Feb	40.0k/4.1%	12.9k/4.2%
	ID	Bank Indonesia 7D Reverse Repo		3.50%	3.50%
18 Mar	MY	Trade Balance MYR	Feb	20.5b	18.4b
	PH	Unemployment Rate	Jan	--	6.6%

Week-in-brief: Bracing

- Markets are bracing for two diametrically opposed forces, which will obfuscate the picture. One is geo-political uncertainty that may leash fresh convulsions of "risk off" and the other, a hawkish Fed that is poised to hike by at least 25bps.
- Admittedly, the market pressures on, and the associated dilemma posed to, the Fed have been alleviated; as OIS markets have dramatically scaled back from 80% odds of a 50bps hike at the FOMC this week (Wed) to overwhelming odds of a 25bps hike instead.
- But the bigger picture of a Fed caught between having to "catch up" with inflation risks and yet cautious of demand destruction from stagflation-type pressures is unchanged.
- Meanwhile, as Russia-Ukraine crisis oscillates between hopes for talks to reach a resolution on one hand and growing concerns about a descent into more unhinged attacks (with Russian President Putin's allegation of chemical weapons in Ukraine raising alarm about an escalation) on the other, it is best to be braced for dislocations amid uncertainty.
- And that aspect of uncertainty and potential for dislocations necessarily means that the "back-up" parachute, which is the USD, is more likely to be preferred deployment of choice.
- Which is to say that usual "haven" currencies such as JPY and CHF may be compromised; especially if oil prices start bubbling again, as neither inflation dynamics nor Current Account dynamics will favour naked long positions in JPY and CHF.
- How aggressive the Fed's hawkish guidance is, especially with regards to the 'Dot Plot' and balance sheet run off plans (timing and pace) will further contour FX markets;
- with an emphatically dovish BoJ (Fri) to underpin a buoyant USD/JPY despite geo-political risks.
- Crucially, the Fed could also have equity markets bracing for some headwinds from the implied rise in financing costs and liquidity drainage.
- In Asia, Bank Indonesia (Thu) is set to hold, allowing phased RRR hikes to filter through.
- But as AUD found out rudely, commodity buffer alone may not be sufficient to head off macro- and IDR stability risks. And so, Bank Indonesia is likely to open up to rate hikes as it braces for geo-political and Fed headwinds to conspire.
- Bracing for worsening Russian attacks and a hawkish Fed (rearranging the deck chairs), pre-existing fault lines are aggravated. Market turmoil is as such a non-negligible risk.

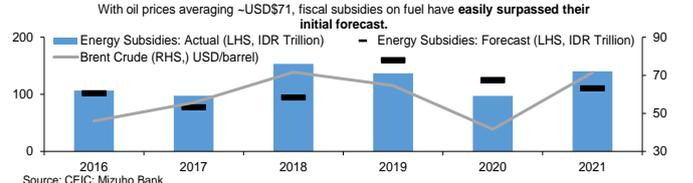
FOMC: Rearranging the Deck Chairs

- The "rearranging the deck chairs on the Titanic" allusion here is not meant to invoke despair.
- Rather it is meant to convey a sense of inevitability of the Fed's tightening cycle ahead.
- Not just with regards to a hike at the March FOMC meeting, but a series of hikes to follow such that the rate path (as implied by the OIS markets) is consistent with;
 - 100bps of tightening by mid-2022 (June/July) and;
 - no less than a 150bps of tightening by year-end.
- In this regard, the question of whether March will be a 25bp or a 50bps hike is somewhat less relevant. Merely "rearranging the deck chairs" as it were, in the grander scheme of the Fed's tightening plans; which, all else equal, continues to emphatically, if not exceptionally, hawkish.
- Instead, the policy issues of far greater pertinence and importance are;
 - i) the quarterly 'Dot Plot' of the FOMC to see if it lines up with the 6-7 rate hikes (of 25bps increments) markets are betting on by end-2022/start-2023 (from 3 hikes as of Dec 'Dot Plot); and;
 - ii) any guidance on the likely timing (of initiation) and pace of balance sheet run-off (QT);
 - iii) as well as "neutral" B/S size.
- Meanwhile, February's 7.9% headline inflation (core: 6.4%) reinforces the view that rate tightening cannot be delayed.
- And that the work that needs doing is to anchor inflation expectations and to "get ahead of the curve"; after being wrong-footed by earlier assertions of "transitory" inflation.
- Which is to say, despite demand destruction elements of stagflation risks amplified by geo-political energy/commodity shocks (from Russia-Ukraine); the Fed has little choice but to, at least for the time being, stay its rate tightening course. And debating the relative dovishness of a 25bps hike, in comparison to a 50bps hike, is but "rearranging the deck chairs"

Turmoil: Making Sense of Chaos

- Trying to square headlines of Iran's missile attacks on Northern Iraq, as it "unilaterally and temporarily" suspended talks with Saudi, with softer in Brent crude (sub-\$112) is a hard.
- After all, the attack, described by the US as "an outrageous violation of Iraq's sovereignty" ostensibly raises the hurdles to (re-)inking a nuclear deal with between US and Iran.
- Which in turn suggests that prospects for Iranian supply to add to global supply (with the lifting of sanctions), and therefore dampen price shocks, are significantly diminished.
- So, softer oil (compared to peaks of \$130 rather than in absolute terms) is in fact at odds with what the Iran headline on its own ought to suggest.
- Arguably, this is because oil markets are driven by a far wider and more chaotic collision of conflicting factors. And amongst these, there are two particular dampeners for Oil at this juncture, which appear to be muting the bullish Iranian trigger.
- First, some parts of the market are seduced by prospects of Russia striking a deal with Ukraine, in which case, the uncertainty premium attached to oil due to Russia supply risks may be expected to diminish significantly.
- Second, and perversely, Iran nuclear deal being torpedoed may increase the likelihood of Saudi and the UAE ramping up supply, given that Saudi's opposition to the Iranian deal was earlier seen as an impediment to concerted global supply response to mitigate Russia risks.
- But the oil situation continued to be as fluid as it is volatile. And until clarity on Ukraine is achieved, upside risks to Oil price will continue to dominate.

Bank Indonesia - On Pre-Planned RRR Route

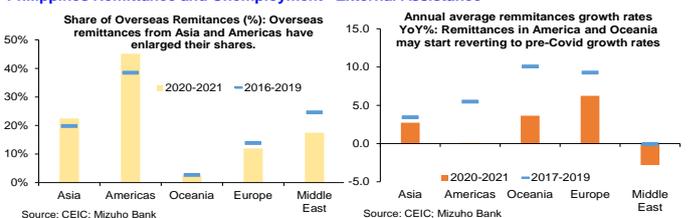


- Bank Indonesia will continue to hold on policy rates at their meeting this week as they continue to be on pre-planned course to follow their reserve requirement ratio RRR hikes which will be front loaded (150bps in March, 100bps in June, 50bps in Sept).
- This will serve to mop up excess domestic liquidity and keep demand pull inflation in check.
- Headline inflation in Feb printing at 2.1% painted a deceiving picture of the underlying built up in inflationary pressures.
- On the supply side, with food and energy making up a combined ~40% weight in the CPI basket, the surge in commodity prices will exert upward pressure on inflation.
- Pressure points has clearly built on multiple fronts:
 1. To ensure self-sufficiency, domestic obligations for palm oil was raised from 20% to 30%.
 2. While some unsubsidised gas prices have increased, the government is also considering raising petrol prices as they warned of huge losses on the books of Pertamina.
 3. Fiscal subsidies on energy has easily surpassed initial forecast for 2021 as oil prices averaged US\$71. (See chart above). With Brent prices averaging ~US\$96 for the first 2 months in 2022, energy subsidies will balloon and worsen fiscal deficits in the months ahead.
- The dangers from these pressures also portend current account outflows as export revenue is curtailed, which will be worsened if coal exports are restricted in the weeks ahead.
- In turn, IDR stands to bear the brunt of inflation damage as BI bides time on normalisation.

India CPI Masks Risks

- The consensus for India's Feb headline CPI to be effectively unchanged from Jan's 6% is not to be misconstrued as a validation of peaking inflation. It is quite the opposite reality.
- Fact is, there should be no illusions about relief about "non-accelerating" inflation printing within the RBI's target range of 4%+-2%-pts; as this would tantamount to misguided comfort based on irrelevant backward-looking factors and erroneously aligning inflation trajectory to the RBI's overly sanguine forecasts for inflation to peak in H1 and moderate in H2.
- Instead, what's glaringly overwhelming is that the surge in energy prices, conspiring with rising risks of global food supply shocks, inevitably entrench inflation risks to the upside.
- And all else equal, this will force a re-assessment of inflation trajectory and risks by the RBI.
- Crucially, this sets the stage for the RBI to dial back on its dovish bias.
- Not because worries about weak demand recovery have faded, but in spite of the fact that the sharp surge in Oil has arguably accentuates risks of demand destruction.
- Sharper policy trade-offs are however inevitable as the RBI now faces more pressing risks to macro-stability brought about by global "risk off".
- In particular, dangers of capital outflows amid falling real returns feeding into, and off, rupee sell-off, is best averted pre-emptively as costs of containment after the fact may be exorbitant.

Philippines Remittance and Unemployment - External Assistance



- Alongside global economic activity recovery and wage pressures abroad, Philippines remittances will continue picking up in January from their 3.3% YoY growth in Dec 2021.
- Remittances from America look likely to continue reverting back towards pre-Covid growth rates while Asia remains a steady source of fund inflows into the Philippines.
- These inflows in January would have come in handy to support household consumption as Omicron induced social distancing restrictions were in place which would have imparted a mild hit on the labour market recovery.
- As such, the decline in unemployment rate from the 6.6% in Dec is likely to be smaller than without the restrictions.

Forex Rate

	Close*	Chg [^]	% Chg [^]	Week Forecast	
USD/JPY	117.29	2.470	2.15%	114.00	- 118.50
EUR/USD	1.0912	-0.0016	-0.15%	1.070	- 1.120
USD/SGD	1.3629	0.002	0.18%	1.3480	- 1.3710
USD/THB	33.299	0.692	2.12%	32.60	- 33.50
USD/MYR	4.1958	0.018	0.43%	4.176	- 4.220
USD/IDR	14301	-86	-0.60%	14,250	- 14,420
JPY/SGD	1.1612	-0.024	-2.02%	1.138	- 1.203
AUD/USD	0.7293	-0.008	-1.04%	0.720	- 0.750
USD/INR	76.59	0.426	0.55%	75.5	- 77.1
USD/PHP	52.288	0.543	1.05%	51.8	- 52.8

[^] Changes are on weekly basis

FX: Havens Dismissed & Commodity Boost Compromised

- As mentioned last week, **assumption about safe-havens and complacency about commodity buffer** as drivers for FX moves are likely to come under siege; **certainly be stress-tested at the least**.
- And received wisdom about "haven currencies" have had their tires kicked; hard.
- USD/JPY has gone from sub-115 tests recently to surge towards a test of 118, suggesting that haven demand for JPY has been overwhelmed by the negative terms of trade impact from surging energy costs; which in turn is likely to dramatically elevate import burden (as well as erode incomes and profits).
- In addition, ahead of the FOMC this week, markets may also be bracing for Fed-BoJ divergence that could further underpin the USD/JPY.
- In any case, with the **Greenback surging** (using the USD Index as a proxy) towards COVID highs, the **conjecture of USD as the ultimate haven refuge amid elevated Russia-Ukraine geopolitical uncertainty certainly has currency** (no pun intended).
- Likewise, the **Swiss Franc also appears to be an abandoned haven** as it lost some 2% last week, **tumbling to align with the EUR complex**; amid widening Russia impact risks.
- Commodity currencies have also been subject to a round of risk calibration.
- AUD for one has been knocked back from early week tests above 74 cents to mid-0.72 despite iron ore prices holding up. Some of this may be due to oil coming off the peaks admittedly.
- But the elephant in the room is the risk sentiment that is probably belatedly being priced in.
- The wider point is that **markets bracing for both elevated geo-political risks due to Russia and a hawkish Fed** set to hike, and more importantly provide hawkish guidance, create the perfect storm for the **USD to rule the roost** as;
 - havens subject to Oil/Commodity headwinds are dismissed, and;
 - commodity tailwinds are compromised by uncertainty and (policy) divergence.

JPY: Oil & BoJ to Weigh

- Haven demand for JPY has now buckled under **pragmatic considerations of the huge C/A drag from imported energy costs** (that are soaring) as well as poignant policy considerations; whereby an unequivocally dovish BoJ (Fri) is set to dampen the JPY.
- With that, the **JPY has shed its "safe haven" cloak** (which accounted for the sub-115 USD/JPY dips the week before) to go on an enthused rally towards (but shy of) 118.
- This may be subject to bouts of checks along the way, as inflation fears provide the fine balance for JPY - between keeping industrial/exports buoyancy intact and staving off excessive imported inflationary impulses.
- A wider consolidation amid mid-116 to 119 is on the cards for now as the Fed is watched first mid-week before BoJ's rhetoric is dissected for JPY guidance cues.
- Excessive moves one way or another are not likely for the time being.

EUR: Evolving Assessment

- Against the backdrop of the Russia Ukraine conflict, the EUR gained 0.5% last week ending just above 1.09 after testing highs of 1.11 with support by ECB's hawkish stance.
- The ECB's hawkish stance encapsulated by their faster tapering of stimulus had contrasted with real UST yields being relatively unchanged.
- Despite the hawkish turn, EUR bulls will still continue to be weighed down by **the elusive end-game** between Russia and Ukraine which in turns restrain surge above 1.11.
- This week, the **CPI release on the upside could shed clarity** on the ECB's Q3 taper plans amid their need for **"evolving assessment"** and underpinning EUR's approach towards 1.10

SGD: Covid Vs Reopening?

- Last week, the SGD depreciated slightly with the USD/SGD staying near the lower half of mid-1.36 as CNY/CNH resilience bucked and regional peers (MYR, THB, PHP) weakened with the Fed looming and Brent crude prices remaining elevated above \$110.
- With the impending Fed hike, the SGD looks to continue deferring to the USD which means a continue testing of mid-1.36 and may stay above it for some time this week especially as CNH/CNY strength is test by rising Covid cases.
- Though sustainability above mid-1.36 will be weakened by the awareness of MAS tightening next month which will restrain attempts for the USD/SGD to take 1.37, barring geo-political concerns being heightened above already tense levels.
- Dip below 1.36 will hinge on further reopening plans of regional peers (without administrative hurdles of travel) to boost regional growth.

AUD: Labour to Consolidate

- It was indeed a ride last week, as the AUD's ascendancy took a step back falling 0.3% as commodity prices such as Brent crude fell from \$130/barrel to levels just above \$110/barrel.
- The elevated oil prices will still be expected to backstop the AUD above 0.72 while the RBA's continued emphasis on optionality underpins with Governor Lowe's comment on **plausible** rate hikes this year.
- That said, the plausibility of RBA's hike is likely one that is very much delayed for H2 2022 which in turn weakens any immediate AUD bullish sentiments.
- All in, the **unemployment rate release** this week could continue to nudge for earlier RBA hikes and serve to **consolidate the AUD** in the 0.72 -0.74 range with bias on the upside.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

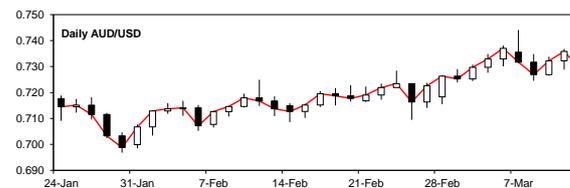
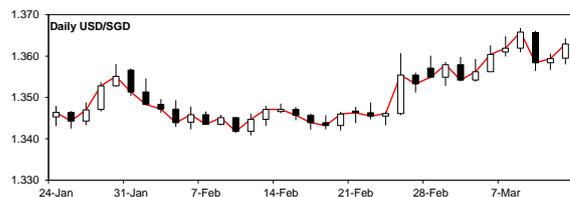
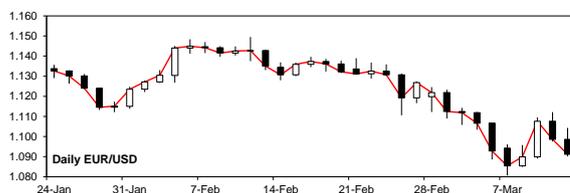
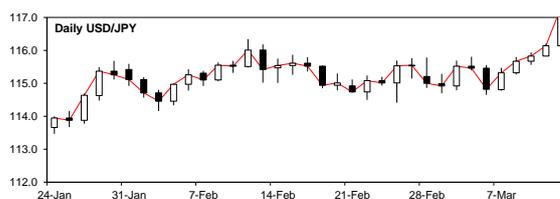
11-Mar	2-yr	Chg (bp) [^]	10-yr	Chg (bp) [^]	Curve
USD	1.748	27.2	1.992	26.1	Flattening
GER	-0.430	32.7	0.243	32.0	Flattening
JPY	-0.044	0.0	0.179	2.6	Steepening
SGD	1.318	14.6	1.895	7.1	Flattening
AUD	1.280	17.8	2.393	0.1	Flattening
GBP	1.290	24.9	1.487	28.2	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,204.31	-2.88
Nikkei (JP)	25,162.78	-3.17
EuroStoxx (EU)	3,686.78	3.68
FTSE STI (SG)	3,249.66	0.71
JKSE (ID)	6,922.60	-0.08
PSEI (PH)	7,112.19	-3.13
KLCI (MY)	1,568.22	-2.23
SET (TH)	1,658.01	-0.82
SENSEX (IN)	55,550.30	2.24
ASX (AU)	7,063.60	-0.66

US Treasuries: Real Changes?

- Last week, UST bulls were once again battered with 2Y yields went up ~28bps and 10Y yields up ~26bps went up steadily across the week.
- The constant sell-off across tenors was being reflective of the preparation for FOMC tightening this week being merely rearranging the deck chairs (see above) as greater emphasis should rightly be on **extent of tightening and the balance sheet runoff**.
- While we note that the Fed's tightening concerns have **overwhelmed safe haven demand and charged 2Y and 10Y yields** towards 1.8% and 2% respectively.
- Notably what is unchanged from last week is that the **yield curve is still being modestly flattened, background economic growth worries still very much lurking**.
- **After all, with US 10Y breakevens also up ~25bps telling a surge of inflation expectations, real yields remain similar to the last week**.
- For this week, while 2Y and 10Y yields **taking 1.8% and 2% respectively is a given, yield curve flattening while still certainly the base case, may not be so clear cut**.
- For one, indications of hawkish balance sheet run off on the long end may bolster 10Y yields towards even 2.2%. Meanwhile, possible short end yield surge will hinge on the number of rate hikes in H1 or where the 50bps deck chair is arranged.



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