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MIZUHO

WEEK AHEAD

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14-Mar-2022

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Economic Calendar

•Survey results from Bloomberg, as of 11 Mar 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 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%
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%**

Asia Actual Data Release

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 be **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: Rearanging the Deck Chairs

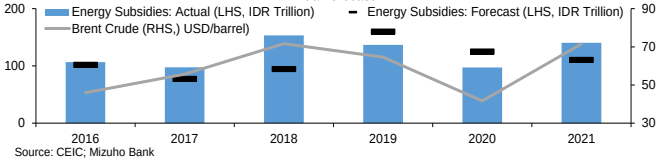
- The ***"rearranging the deck chairs on the Titanic"*** allusion here is **not mean to invoke despair**.
- **Rather it is meant to convey a sense of inevitability of the Fed's tightening cycle ahead**.
- Not just with regards to a hike at the March FOMC meeting, but a series of hikes to follow such that the rate path (as implied by the OIS markets) is consistent with;
  a) *100bps of tightening by mid-2022* (June/July) and;
  b) *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*"

Turm-Oil: 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 Ukarine**, 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 a 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

With oil prices averaging ~USD$71, fiscal subsidies on fuel have **easily surpassed their initial forecast.**



Source: CEIC; Mizuho Bank

- **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**:

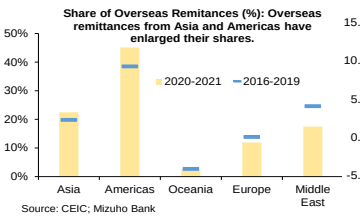
1. **To ensure self-sufficiency,** domestic obligations for palm oil was raised from 20% to 30%.
2. While some unsubsidised gas prices have increased, the government is also considering raising petrol prices as they warned of **huge losses on the books of Pertamina**.
3. Fiscal **subsidies on energy has easily surpassed initial official forecasts 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**.

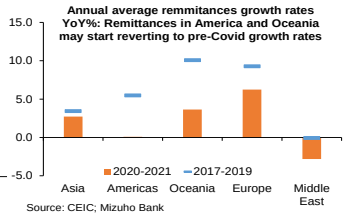
India CPI Masks Risks

- 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 really*.
- 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



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- 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 sources of fund inflows into the Philippines.
- These inflows in January would have came 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

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

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 beeen 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;

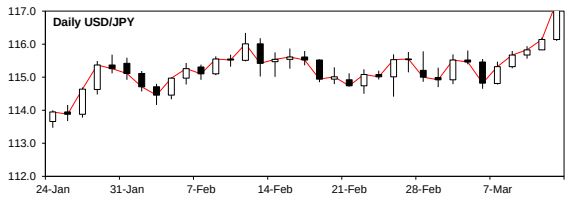
  i) **havens subject to Oil/Commodity headwinds** are **dismissed**, and;
  ii) **commodity** tailwinds are compromised **by uncertainty and (policy) divergence**.

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 stil being modestly flattened, background economic growth worries still very much lurking.**
- **Afterall, 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.

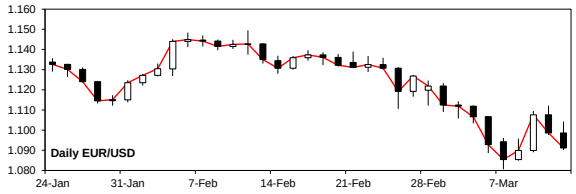
JPY: Oil & BoJ to Weigh

- **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 unequivoally dovish BoJ (Fri) is set t dampen te JPY.
- With that, the **JPY has shed it's "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 industial/exports buoyancy intact and staving off excessive imported inflationary impulses.
- A wider consolidation amid mid-116 to 119 isoin the cards for now as the Fed is watched first mid-week before BoJ's rehetoric is dissceted for JPY guidance cues.
- Excessive moves one way or another are not likely for the time being.



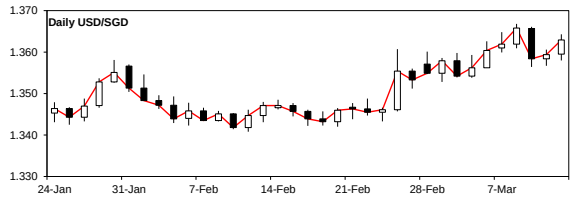
EUR: Evolving Assessment

- Against the backdrop of the Russia Ukraine conflcit, 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 wtih real UST yields being relatively enchanged.
- Despite the hawkish turn, EUR bulls will still continue to be weighed down by **the elusive end-game** betwen 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 assessement**" and underping EUR's approach towards 1.10



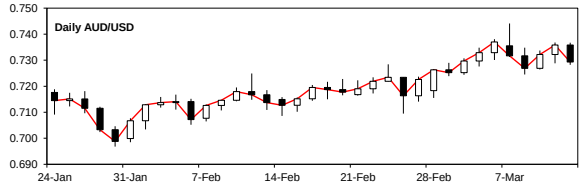
SGD: Covid Vs Reopening?

- 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 impendng Fed hike, the SGD looks to continue defering 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 weakend 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 heighten 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 ascendency took at 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 plausiblity of RBA's hike is likely one that is very much delayed for H2 2022 which in turn weakens any immeduate 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

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