

Economic Calendar

*Survey results from Bloomberg, as of 14 Jan 2022. The lists are not exhaustive and only meant to highlight key data/events.

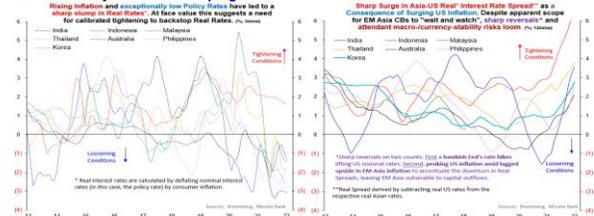
Date	Country	Event	Period	Survey*	Prior
17 Jan	JP	Core Machine Orders YoY	Nov	7.7%	2.9%
	JP	Tertiary Industry Index MoM	Nov	1.0%	1.5%
18 Jan	US	Empire Manufacturing	Jan	26.0	31.9
	JP	Capacity Utilization MoM	Nov	--	6.2%
	JP	Industrial Production YoY	Nov F	--	5.4%
	JP	BOJ Policy Balance Rate	18-Jan	--	-0.10%
	GE	ZEW Survey Expectations/Current	Jan	36.0/-	29.9/-7.4
20 Jan	US	Existing Home Sales	Dec	6.45m	6.46m
	US	Initial Jobless Claims	15-Jan	--	230k
	US	Philadelphia Fed Business Outlook	Jan	23.0	15.4
	EZ	CPICore YoY	Dec F	5.0%/2.6%	4.9%/2.6%
	EZ	ECB Account of Dec 21 MPC			
21 Jan	US	Leading Index	Dec	0.8%	1.1%
	EZ	Consumer Confidence	Jan A	-8.7	-8.3
	JP	CPI/Ex Fresh Food, Energy YoY	Dec	0.9%/0.6%	0.6%/0.6%

Date	Country	Event	Period	Survey*	Prior
17 Jan	CH	Fixed Assets Ex Rural YTD YoY	Dec	4.8%	5.2%
	CH	GDP YoY	4Q	3.3%	4.9%
	CH	Retail Sales YoY	Dec	3.8%	3.9%
	CH	Industrial Production YoY	Dec	3.8%	3.8%
	ID	Trade Balance	Dec	\$3175m	\$3510m
	SG	Non-oil Domestic Exports YoY	Dec	18.4%	24.2%
19 Jan	PH	BoP Overall	Dec	--	-\$123m
20 Jan	CH	1-Year/5-Year Loan Prime Rate	20-Jan	3.80%/4.65%	3.80%/4.65%
	AU	Employment Change	Dec	60k	366.1k
	AU	Unemployment Rate	Dec	4.5%	4.6%
	KR	PPI YoY	Dec	--	9.6%
	MY	BNM Overnight Policy Rate	20-Jan	1.75%	1.75%
	ID	Bank Indonesia 7D Reverse Repo	20-Jan	3.50%	3.50%
21 Jan	MY	CPI YoY	Dec	3.0%	3.3%
	TH	Customs Exports/Imports YoY	Dec	--	20.5%/24.7%

Week-in-brief: Dissonance

- The **dissonance** associated with the juxtaposition of higher UST yields and a softer USD stemming from the underlying hawkish Fed divergence (vis-a-vis the ECB and BoJ) but reveals the many tensions that dwell beneath. For one, there is some **dissonance** from the Fed's hawkish dial-up amid raging Omicron risks in the US. Moreover, far weaker than expected US retail sales for December to also points to some **dissonance** in demand-pull and inflation expectations.
- And all of these are potential for abrupt market reactions/adjustments. We just don't know when.
- To be sure, a March hike almost appears to be a done deal for the Fed, and consensus has moved past the three rate hike from the Dec FOMC 'Dot Plot' to price in 4-5 hikes instead.
- Which now casts a glare on the BoJ (Tue) as reports of higher costs in Japan hitting households and businesses alike confronts policy makers. We expect the BoJ to unwaveringly stay committed to policy accommodation given that demand destruction is the greater risk. The **dissonance** of tightening into weak demand and eroding purchasing power/margins is not lost on the BoJ.
- In Asia, **BNM and Bank Indonesia (Thu)** will probably maintain a hold at this week's policy meeting.
- But underlying policy dilemma is mounting; amid **dissonance** between still fragile/nascent recovery and the need to tighten on account of a hawkish Fed.
- Setting the tone for EM Asia this week though may be China's Q4 GDP release later today, where a slump in growth is expected as activity "air pockets" from the the power crunch is exacerbated by COVID/Omicron disruptions. But backward looking risks will not monopolize the narrative.
- Instead, the unambiguous shift to policy stimulus for 2022 may be the silver lining that markets could come around to; that is, if **dissonance** between stimulus outlined by the top policy body and on-going property market/tech sector crackdown may be reconciled.

EM Asia Policy Tensions: Keeping it Real



- As the Fed plots a hawkish plot, central banks of EM Asia economies, many of struggling with subpar and tentative recoveries, are facing risks associated with sharp policy trade-offs.
- Trouble is, the usual gauges of policy prognostication are neither aligned, nor time consistent.
- On one hand, **sharp drop-off in real policy rates** - as inflation start rising more emphatically and policy rates remain at or near record lows - makes the **case for rate tightening to prevent excessively sharp falls in already negative real rates** (except for Indonesia).
- But on the other, the **surge in real rates spreads** (vs. US real rates) suggests relatively tight policy that ostensibly **buys time for EM Asia CBs** to maintain accommodation.
- The **danger** though is that the Fed's hiking course will erode real spreads very quickly. Crucially, **peaking US inflation against elevated/rising EM Asia inflation heading into 2022** threatens to **amplify a sharp/abrupt downturn in real spreads**. In turn, accentuating risks of capital outflows.
- Hence, macro-/FX-stability issues will increasingly invade policy calculus for EM Asia's central banks.
- And **'keeping it real'** is a necessity if US-Asia inflation differentials turn sharply.

Why China's Q4 GDP May Miss the Point

- Despite modest sequential pick-up in Q4 GDP from subpar Q3 QoQ momentum, underlying annual pace of growth will underwhelm, given power crunch and COVID setbacks.
- But splitting hairs over China's precise Q4 GDP (1.7% Jan release) misses the wider point.
- For one, notwithstanding these fractional differences, there is wide-spread agreement that full-year 2021 growth will be 8.0% (we do not differ from the consensus).
- Second, and as sceptics will allege, the margin of error typically associated with the veracity of official data drowns out the variance across the market spectrum.
- Crucially, with the monumental pivot to policy stimulus revealed at the CEWC (Beijing's annual economic summit for top-down economic policy direction) the nuts and bolts of backward-looking Q4 GDP data subject to COVID distortions loses relevance.
- Instead the balance and execution of economic/regulatory policies amid tensions between cyclical-obtuse forces (stimulus to boost growth vs. containing risks to financial stability) as well as some obvious conflict between objectives (growth boost vs. "common prosperity") will be the fluid, and sometimes confusing, development to watch for China.
- In particular, of utmost importance is how the on-going pressures (defaults and restructuring) in the property sector is managed; as local government construction may only alleviate but not fully offset worse-case property wobbles. Anti-monopolistic regulations on tech is another potential pain point. Finally, how Beijing's stimulus interacts with a hawkish Fed is the defining factor yet for 2022 outcomes. The nuances of which are inevitably lost to Q4 GDP.

BOJ: Unequivocally Dovish

- The BoJ is set to maintain an unequivocally dovish stance, unencumbered by the Federal Reserve's increasingly hawkish pivot. And this is despite emerging worries about inflation.
- To be sure, the BoJ is neither denying nor dismissing the challenges of rising cost-push.
- Most worryingly, inflation poses a threat to household consumption as brutal cost increases undermine purchasing power of households; already struggling with economic soft spots.
- But the wider point is that in its current form, **cost-push inflation unleashed by COVID is ultimately deflationary**; whether due to the adverse impact on household purchasing power, margin squeeze of businesses or supply-chain disruptions setting back activity recovery.
- And so, for the BoJ, the solution to cost-push cannot be policy tightening that compounds economic pain. Instead, it ought to be unwavering policy stimulus to ensure intact recovery.
- What's more, the far more entrenched experience of chronic deflation suggests that in the BoJ's case, greater "patience" may be warranted, in contrast to the Fed.
- Upshot: The BoJ is unlikely to even hint at "exit" despite the Fed's marked hawkish shift.

Bank Negara Malaysia: Accommodating Recovery

Units	Q1 2021/March 2021	Q2 2021/June 2021	Q3 2021/Latest
GDP SA	98.1	97.1	93.7
Industrial Production	102.3	99.1	106.3
Current Account: Goods Balance	112.1	124.5	126.1
Current Account: Services Balance	377.5	384.2	379.3
Credit card outstanding balances: >6 mths	286.4	317.5	338.9
PMF (<50 = contraction, >50 = expansion)	49.9	39.9	62.8

Source: Bloomberg; CEIC; Mizuho Bank

Legend: Incomplete Recovery Healthy Recovery

- Economic activity on most counts have yet to fully recover to levels which warrants any monetary policy tightening. The BNM will be expected to keep an accommodative monetary policy environment and allow borrowing cost to remain low.
- First, GDP recovery still incomplete especially after the sharp Q3 contraction, despite industrial production holding up in recent months, retail and services sectors are still beset with Omicron challenges induced social distancing restrictions place a ceiling on their recovery.
- Reflecting this, deficit in services balance rose by ~3 times compared to pre-Covid levels.
- Second, relatedly, consistent underperformance of GDP represents damaged household balance sheet in some segments of the population as evidenced by a 2 fold jump in overdue credit card balances (admittedly small in magnitude) and drawdown of EPF retirement savings.
- Third, the above implies that fiscal policy will continue to play the main role to bolster households and repair hard hit sectors while monetary policy remains the supporting cast.
- Despite the record expenditures under Budget 2022 incurring a fiscal deficit of 6.6% of 2019 GDP (including MYR 23bn Covid-19 fund) which underscores the importance of fiscal support while the further need for PM Muhyiddin led National Recovery Council to begin formulating National Recovery Plan 2.0 illustrates the depth of these economic issues.
- That said, the fiscal policy space available may limit the extent of ambitious spending as gap between public debt and its associated 65% fiscal debt ceiling remains thin.
- Fourth, while headline inflation averaging 2.4% (Jan-Nov 2021) will continue to remain elevated into 2022 but within moderate and acceptable range in BNM's perspective especially with core inflation likely to remain benign with the substantial slack in the economy.
- On the FX front, to buy time for a more entrenched recovery amid Fed hawkish headwinds, BNM

Bank Indonesia - Holding On

Units	Q1 2021/March 2021	Q2 2021/June 2021	Q3 2021/Latest
GDP SA	98.8	100.2	98.5
Consumer Confidence	79.6	84.6	90.0
Current Account: Goods Balance*(Relative to 2019 overall)	869.9	950.7	1713.6
Current Account: Services Balance*(Relative to 2019 overall)	-177.4	-194.4	-190.2
MFG PMF (<50 = contraction, >50 = expansion)	53.2	53.5	53.5

Source: CEIC; Mizuho Bank

Legend: Incomplete Recovery Healthy Recovery

- While Bank Indonesia (BI) is also likely hold policy rates constant as growth starts to broaden across the economy and multiplier effects of boosted exports to pass through, BI has more room to maneuver monetary policy especially with regard to ensure IDR stability.
- GDP in 2021 has been close to pre-Covid levels and PMIs reflect healthy manufacturing expansion despite various Covid variant risks, though not yet broad-based. Reflecting this, consumer confidence despite ticking up, remains low.
- Externally, goods balance in the CA, boosted by coal exports, enjoys a more than 16 times increase in surplus and continues to more than offset tourism drag on services balance.
- The importance of coal was brought to the forefront as multiple trading partners from Japan, South Korea, Philippines had called on Indonesian authorities to relax export restrictions.
- At the same time, inflationary pressures remain low reflected in headline inflation still trailing BI's 2-4% target range affords the BI time to allow export benefits to filter through to households.
- As rollout of booster shots commences, the BI remains in a sweet spot to allow accommodative

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	114.19	-1.370	-1.19%	113.40	~ 115.60
EUR/USD	1.1411	0.0051	0.45%	1.129	~ 1.147
USD/SGD	1.3477	-0.008	-0.59%	1.3430	~ 1.3600
USD/THB	33.206	-0.404	-1.20%	33.05	~ 33.50
USD/MYR	4.178	-0.029	-0.70%	4.168	~ 4.218
USD/IDR	14296	-55	-0.38%	14,250	~ 14,380
JPY/SGD	1.1805	0.007	0.62%	1.162	~ 1.199
AUD/USD	0.7208	0.003	0.38%	0.709	~ 0.731
USD/INR	74.15	-0.154	-0.21%	73.6	~ 74.8
USD/PHP	51.115	-0.236	-0.46%	50.8	~ 51.5

* Changes are on weekly basis

FX: Will the Real USD Please Stand Up

- Last week's sharp drop in the USD (USD Index falling from over 96 to test sub-95 to only just regaining traction above the 95-figure) is at odds with a hawkish Fed.
- Especially given the increasingly hawkish rhetoric that appears to be doubling down on "sooner and faster" tightening across taper, rate hikes and QT.
- All else equal, this should spell sharp USD strength in tandem with the upswing in UST yields across the curve (although the UST curve bear flattened led by 2Y yields jumping 10-11bps last week).
- There are only three plausible fundamental reasons for the USD to be under-performing.
 - First, markets are not convinced about the Fed's hawkish pivot and so have not expressed that in the USD. This reason quickly falls apart when the brutal surge in UST yields are concerned.
 - Second, the Greenback is functioning at the left half of the 'USD Smile' conjecture, and so is under-performing amid "risk on". This may not be entirely implausible, but appears unlikely in a week of "risk off", entailing US and global equities sell-off.
 - Although the case for USD positions being adjusted from the sharp liquidation in US bonds and equities may go some way to explain the USD's under-performance.
 - Finally, sharper than expected US CPI pick-up could have undermined the US from a real rates perspective as markets fret that inflation may not have peaked yet. This theory also hold water.
- But the warning is that insofar that a hawkish Fed is augmenting inflation expectations lower, real UST yields have been climbing, catching up with, and potentially overtaking the rise in nominal yields.
- And if sustained, this lift in real rates should inspire USD traction, if not rebound.
- If indeed the real (rates) USD stands up, one-way bearish bets on USD will fumble.
- In any case, while USD volatility is primed to be elevated near-term, as tensions between higher inflation, hawkish policy bias and sell-off in US assets collide and conspire.
- And a hawkish Fed begin to flex, the case for USD bulls to dominate, especially against EM currencies, could easily re-emerge. For now, two-way bets on the USD will likely keep FX markets "noisy".

JPY: BoJ to Temper

- Last week's sharp USD sell-off combined with "risk off" reverberating through global markets was ostensibly reasons for USD to fall almost two big figures (from sub-116 to low-114).
- For now, sub-114 tests being rejected suggests that some backstop may be filtering through for USD/JPY as risk sentiments improve marginally; and higher real US yields helps to check the speed and extent of USD sell-off.
- The big event on watch though is BoJ policy (Tue). Expectations for an unwaveringly dovish stance, in stark contrast to an increasingly hawkish Fed, ought to square with more USD/JPY buoyancy at the margin. At the very least it should temper JPY strength from last week.
- So barring a major "risk off" trigger in global markets, we expect that USD/JPY should be contained in the mid-113 to high-115 range, with some bias to re-test 115.
- CPI data end-week may have some bearing on real rate differentials projected; but this will be more a marginal impact on, than a dominant driver for, JPY.

EUR: Reversion to USD Deference

- Against the backdrop of recent USD weakness, the EUR climbed beyond 1.14 mid-week.
- The minutes of the Dec 21 Policy Meeting are likely to reiterate the ECB's dovish stance and affirm Fed-ECB policy divergence, which remains a source of EUR weakness.
- However, bets against the ECB will look to likely high CPI inflation (Consensus: 5%) for support to pressure the ECB towards a hawkish pivot, a scenario not to be ruled out albeit having a low probability especially with surging COVID cases and geopolitical tensions.
- All things considered, the EUR will likely trade in the range of 1.13 to mid-1.14 with a gradual reversion to USD deference.

SGD: Weaker Peers

- Domestically, concerns may start mounting on Omicron surges but these should be kept in check by stable growth, while high booster shot rates keep healthcare system stresses away.
- Possible MAS April tightening may restrain excessive SGD weakness but unlikely to impart SGD strength for now.
- With weakness from regional neighbours and CNH resilience showing signs of buckling, moves below mid-1.34 may be shallow this week.
- All in, deference to USD trends may be stronger and headwinds from US CPI release may see the USD/SGD trading nearer the higher end of mid-1.34 towards sub-1.36.

AUD: Slippery

- With slight deference to USD last week amid commodities inability (even with Indonesia coal issues) to hold up the AUD, markets may start to look for signs of hastening RBA moves to prevent a further RBA-Fed divergence. However, these may be scant this week.
- On data releases, positive retail sales (for November) this week may be discounted with ongoing Omicron surges across various states reigniting growth concerns.
- Barring US CPI data revealing surprises, this week may see some AUD weakness and thereby

Bond Yield (%)

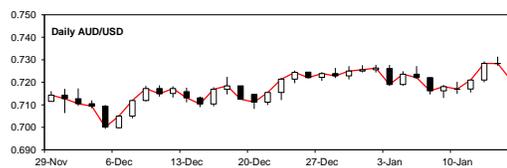
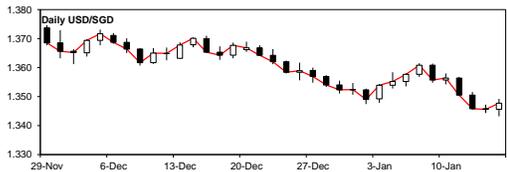
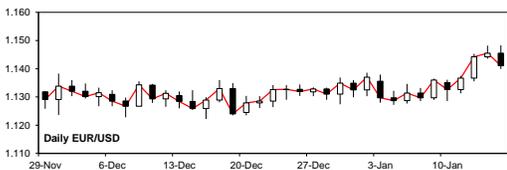
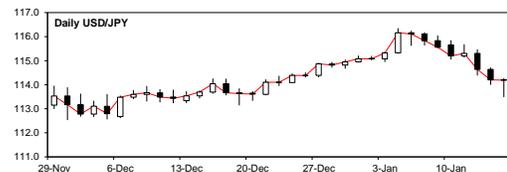
	14-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	0.967	10.5	1.784	2.2		Flattening
GER	-0.593	1.1	-0.050	-0.3		Flattening
JPY	-0.084	2.1	0.131	0.0		Flattening
SGD	0.879	0.1	1.743	-2.3		Flattening
AUD	0.685	3.0	1.845	0.1		Flattening
GBP	0.782	-2.7	1.147	-2.8		Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,662.85	-0.30
Nikkei (JP)	28,124.28	-1.24
EuroStoxx (EU)	4,272.19	-0.78
FTSE STI (SG)	3,281.97	2.39
JKSE (ID)	6,693.40	-0.12
PSEI (PH)	7,261.34	3.57
KLCI (MY)	1,555.33	0.79
SET (TH)	1,672.63	0.91
SENSEX (IN)	61,223.03	2.47
ASX (AU)	7,393.86	-0.80

US Treasuries: Anticipation

- After the hawkish jolt during the previous week, last week we continue to see 2Y yields up 10bps to above 0.95% while increase in 10Y yields was milder just up ~2 bps with some buy back in longer term USTs in mid week.
- Amid the hawkish testimonies of both Fed Chair Powell and Vice-Chair Brainard, the rise of front end yields is no surprise, short term rates are still the primary instrument to tackle inflation.
- On the longer end, the question should not be Can 10Y UST yields go higher? but it should be When will it go higher? A question of timing rather than possibility.
- The Fed rhetoric seem to convince markets as inflation expectations proxied by 10Y breakevens has decline around 5bps since the QT spinner to below 2.5%.
- This implies consequently higher real 10Y UST yields.
- While markets believe (a rather positive framing of) inflation tackling by the Fed last week, it is unlikely to be long before the actual impact of rate hikes and QT underpin the ascendancy of 10Y yields to test the 1.8%-2.0% range and start engaging bond bulls while the shorter end continues their march to test 1% though sporadic buybacks remain likely.
- For now, while the lack of US data release this week hints at measured movements, anticipation of a hawkish FOMC next week may already start building up.



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