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17-Jan-2022

Economic Calendar

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

G3

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	**CPI/Core 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%**

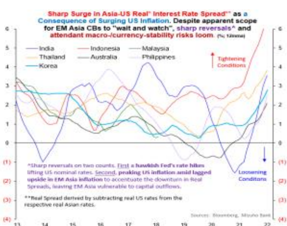
Asia — Actual Data Release

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 reals spread 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 (17th 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-structural 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	2019=100*	99.1	97.1	93.7
Industrial Production		102.3	99.1	106.3
Currrent Account: Goods Balance		112.1	124.5	126.1
Currrent Account: Services Balance		-372.5	-384.2	-379.3
Credit card outstanding balances: >6 mths		286.4	317.5	338.9
PMI* (<50 = contraction, >50 = expansion)		49.9	39.9	52.8
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	2019Q4=100*	98.8	100.2	99.8
Consumer Confidence		79.6	84.6	90.0
Currrent Account: Goods Balance*(Relative to 2019 overall)		869.9	950.7	1713.6
Currrent Account: Services Balance*(Relative to 2019 overall)		-177.4	-194.4	-190.2
MFG PMI* (<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 unwavreingly 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 (%)

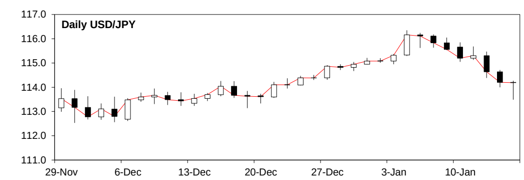
14-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	0.967	10.5	1.784	2.2	Flattening
GER	-0.593	1.1	-0.050	-0.3	Flattening
JPY	-0.084	2.1	0.131	0.0	Flattening
SGD	0.879	0.1	1.743	-2.3	Flattening
AUD	0.685	3.0	1.845	0.1	Flattening
GBP	0.782	-2.7	1.147	-2.8	Flattening

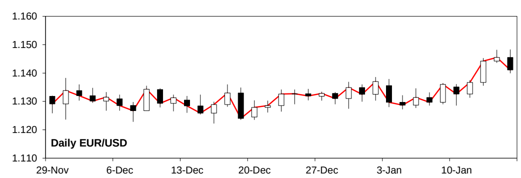
Stock Market

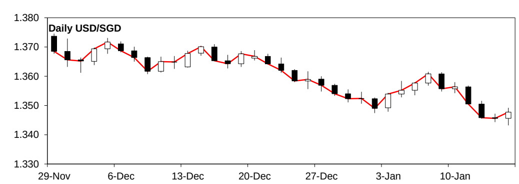
	Close	% Chg
S&P 500 (US)	4,662.85	-0.30
Nikkei (JP)	28,124.28	-1.24
EuroStoxx (EU)	4,272.19	-0.78
FTSE STI (SG)	3,281.97	2.39
JKSE (ID)	6,693.40	-0.12
PSEI (PH)	7,261.34	3.57
KLCI (MY)	1,555.33	0.79
SET (TH)	1,672.63	0.91
SENSEX (IN)	61,223.03	2.47
ASX (AU)	7,393.86	-0.80

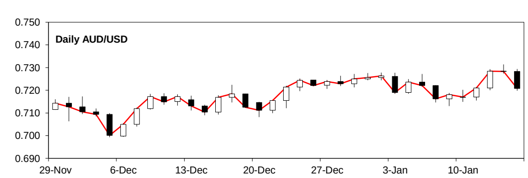
US Treasuries: Anticipation

- 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 spanner 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 ascendency 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, **anticpation of a hawkish FOMC next week may already start building up**.









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