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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 13 May 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
16 May	**US**	**Empire Manufacturing**	**May**	**11.6**	**24.6**
	JP	Machine Tool Orders YoY	Apr P	25.0%	30.2%
	JP	PPI YoY	Apr	10.0%	9.5%
17 May	US	Capacity Utilization	Apr	78.5%	78.3%
	US	**Retail Sales Ex Auto/Advance MoM**	**Apr**	**0.4%/1.0%**	**1.4%/0.7%**
	US	Industrial Production MoM	Apr	0.50%	0.90%
	EZ	**GDP SA QoQ/YoY**	**1Q P**	**0.2%/5.0%**	**0.2%/5.0%**
	JP	**Tertiary Industry Index MoM**	**Mar**	**1.1%**	**-1.3%**
18 May	US	Housing Starts	Apr	1760k	1793k
	EZ	**CPI/Core YoY**	**Apr F**	**7.5%/3.5%**	**7.4%/3.5%**
	JP	**GDP SA QoQ/Annualized QoQ**	**1Q P**	**-0.4%/-1.8%**	**1.1%/4.6%**
	JP	Industrial Production MoM/YoY	Mar F	--/--	0.3%/-1.7%
	JP	GDP Deflator YoY	1Q P	-1.1%	-1.3%
19 May	US	Existing Home Sales	Apr	5.63m	5.77m
	US	Initial Jobless Claims	14-May	200k	203k
	US	**Philadelphia Fed Business Outlook**	**May**	**16.5**	**17.6**
	US	Leading Index	Apr	0.0%	0.3%
	JP	Trade Balance	Apr	-¥1201.9b	-¥414.1b
	JP	Core Machine Orders MoM/YoY	Mar	3.8%/3.3%	-9.8%/4.3%
20 May	EZ	Consumer Confidence	May A	-22.0	-22.0
	JP	**CPI/Ex Fresh Food, Energy YoY**	**Apr**	**2.5%/0.7%**	**1.2%/-0.7%**

Asia

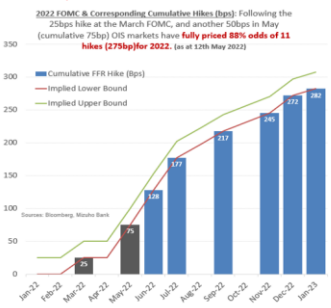
Actual Data Release

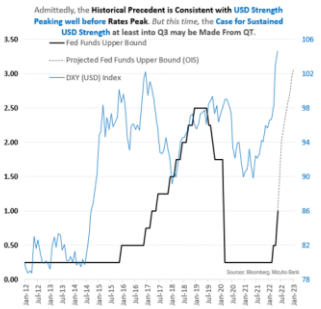
Date	Country	Event	Period	Survey*	Prior
16 May	CH	Fixed Assets Ex Rural YTD YoY	Apr	6.8%	9.3%
	CH	Industrial Production YoY/YTD YoY	Apr	-2.9%/4.0%	5.0%/6.5%
	CH	Retail Sales YoY/YTD YoY	Apr	-11.1%/-0.2%	-3.5%/3.3%
	CH	1-Yr Medium-Term Lending Facility Rate	15-May	2.85%	2.85%
	PH	Overseas Cash Remittances YoY	Mar	3.2%	1.3%
17 May	SG	Non-oil Domestic Exports YoY	Apr	6.8%	7.7%
	ID	Trade Balance	Apr	$4232m	$4529m
	IN	Wholesale Prices YoY	Apr	14.8%	14.6%
	TH	**GDP SA QoQ/YoY**	**1Q**	**0.6%/1.7%**	**1.8%/1.9%**
18 May	**AU**	**Wage Price Index YoY**	**1Q**	**2.5%**	**2.3%**
	PH	BoP Overall	Apr	--	$754m
19-26 May	**SG**	**GDP YoY**	**1Q F**	**3.5%**	**3.4%**
19 May	AU	Emp. Change/Unemployment Rate	Apr	30.0k/3.9%	17.9k/4.0%
	MY	Trade Balance MYR	Apr	21.0b	26.70b
	PH	**BSP Overnight Borrowing Rate**	**19-May**	**2.00%**	**2.00%**
20 May	CH	5-Year Loan Prime Rate	20-May	4.60%	4.60%
	CH	1-Year Loan Prime Rate	20-May	3.65%	3.70%
	ID	BoP Current Account Balance	1Q	$918m	$1400m
	KR	PPI YoY	Apr	--	8.8%

Week-in-brief: Compulsions, Confidence and Pace

- As we had alluded to last week, an aggressively hawkish Fed invokes **compulsions** across the global monetary space as **worries surrounding a hard landing mount**.
- CPI inflation in the US exceeding expectations certainly did not help as core inflation's upside surprise lent credence to sticky inflation and reduces confidence to steering for soft landing.
- Reactions to inflation abound, as ECB's Lagarde signalled for **July rate hikes**. Nonetheless, EUR's reaction to continue plunging toward 1.04 is telling of the **lack of confidence on the growth** outlook and the **differential pace** between Fed and ECB's policy outlook.
- This week's Eurozone growth estimates will unlikely be a soothing one as the Q1 growth reveals the extent of damage **initial impact** brought about by Russian-Ukraine conflict.
- Given a **fuller impact of the sanctions and energy/food prices being felt in Q2**, an extrapolation of the Q1 growth estimate will bring no comfort as the pace of inflation picks up.
- As such, the **ECB will be expected to bite the bullet in July** and focus on their inflation mandate.
- Some compulsion was also evident in EM-Asia last week, **BNM hiked rates by 25bps**, in line with our expectations but surprising consensus.
- In particular, the BNM highlighted that several **global central banks** are adjusting monetary policy at a faster pace, **thereby cognisant of the threat of capital outflows and associated pace.**
- This week for EM-Asia, the attention will turn to **the BSP (Thurs) as they face similar external threats.** With growth posting above expectations while inflation continues to stay elevated above target, the case to proceed with policy normalisation is also compelling and justifiable.
- While in **Thailand, relatively lagging pace of growth looks to** continue being **a key worry for the BoT as growth risks are asymmetric** with upside data surprises dampened by a weak outlook as China's Covid-Zero policies delaying a fuller tourism recovery.
- While initial normalisation in EM-Asia monetary policy space are seen, they remain in the realms of **compulsions rather than confidence surrounding the feedback loop between the pace of hikes and growth**, **posing occasional fading bouts of resistance** against USD strength.

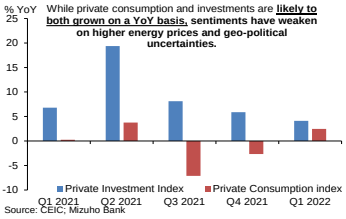
Fed: Why 50 is the New 25

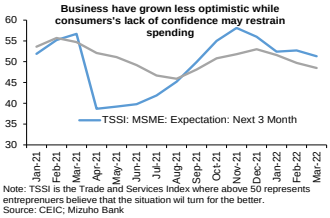




- The **starting point** for the title proposition is that **inflation has hijacked the policy agenda**, and the **Fed need to walk the talk on its** "*sooner and faster*" **mantra on tightening**.
- **With just five meetings left for 2022**, and policy rate of 0.75-1.00% (after the 50bp May hike) quite some way off the 2.50-3.50% neutral rate that the Fed wants to get to quickly, **the necessity for doubling down with 50bp move is evident**.
- Especially given that **front-loading is a critical part of the policy strategy** to tame 40-year high inflation. And possibly the need to overshoot on the hikes given real rates will remain deeply negative with inflation (now at 8.3%) likely to remain elevated (4-6%) into year-end.
- Accordingly, **OIS markets are now pricing in 50bp hikes at the next three FOMC meetings** (*June, July* and even *September*), *making for four successive 50bp hikes starting May;* and it appears that **"50 is the new 25" for the Fed's rate hike path**.
- This provides context, as well as validation, for our view that **Fed Chair Powell talking down** the likelihood of, or the necessity for, a **75bp hike is no reason for a dovish relief**.
- Fact is, with **back-to-back mid-year FOMC meetings** (May, June July) providing **opportunity for a fairly quick series of hikes**, there is **no sense in sensationalism**.
- Whereas **a series of "steady-handed" series of 50bps hikes are arguably optimally suited to convey the same inflation-taming chops price pressures**. And crucially, **avert the risk of suddenly having to dial-back aggressive hikes and step down a 75bp rate hikes (**to a 25bp hike or even a pause) resulting in sub-optimal policy signals.
- And with 50 the new 25, a 25bp hike in June or July – or possibly even September – could feel like rather dovish outcomes; with pullback in front-end yields and the USD par for the course, if so.

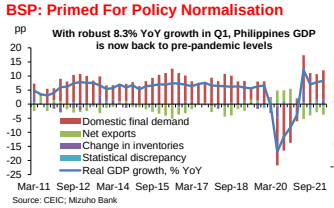
Thailand GDP: Slowing Growth

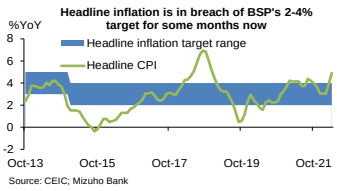




- Q1 GDP YoY growth is expected to slow from the 1.9% in Q4 as **economic activity is expected to take a leg down**. Although the slowdown may not be severe, **tail risks exist on both ends**.
- On the upside, monthly indicators for private investment and consumption show continued expansion on a year-on-year basis given the depressed base in Q1 from social restrictions.
- With the continued easing of Covid controls, and with more provinces opening up or subject to fewer restrictions, both consumption and investment spending will get some boost.
- However, these may be capped by other building concerns.
- The recovery in investment spending seems more tentative as **business face higher costs and greater geo-political uncertainties**, denting confidence and capital expenditure plans.
- On the consumption front, rising price pressures (Q1 headline inflation: 4.7% YoY) will likely eat into disposable income and weigh on the recovery.
- The **lack of a convincing export recovery** will contribute to downside tail risks. In Q1, we expect net exports to remain a drag mainly from net services exports staying in a large deficit from still lacklustre tourism. That said, a significant boost from gold exports in March (at 7 times of 2021 monthly average) may have limited the drag from net exports in Q1.
- However, given the temporal nature of gold exports, **sufficient caution should be applied to any such upside surprises. As such, we see the growth recovery in Thailand remaining lacklustre**.

BSP: Primed For Policy Normalisation





- **Recent data make a compelling case for the hike to be brought forward to the 19 May meeting**, even if Governor Diokno indicated that BSP would "consider" a rate increase in June.
- With Q1 GDP growth at 8.3% YoY from an upwardly revised 7.8% in Q4, **economic activity is now back at pre-Covid levels.** This clearly dents the argument that ultra loose monetary policy, necessitated by the pandemic, is still needed to support growth.
- **Importantly, the recovery at least on the domestic front is looking less uneven. Domestic final demand,** supported by private consumption and investment spending, **contributed 10.3 percentage points (pp) to headline GDP growth**. Consistent with this, strong import growth led to net export abstracting 3pp while inventory restocking added 1.7pp.
- **This trend was also underscored on the supply side** as growth in the manufacturing and services sectors were solid, more than offsetting weaker agriculture output.
- **The improving growth picture alongside above target headline inflation puts pressure on the BSP to normalise policy sooner rather than later** and to BSP's credit, it has acknowledged this by bringing forward its timeline on rate hikes from H2 to H1.
- **However, there is no material information between the May and June meeting that will change BSP's mind in terms of policy direction, in our view.**
- **The additional data points** will be **May CPI** (releasing on 7 June) and the **April unemployment rate** (10 June); the latter came down sharply in March to 5.8% from 6.4% in February pointing to a normalisation even within the labour market. **May CPI will likely confirm BSP's view on building price pressures but global cues should already validate this trend.**
- As such, **we expect BSP will commence its policy normalisation on 19 May with a 25bp rate hike. We expect another 50bp in hikes in H2 with the risks of more hikes rather than less.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	129.22	-1.340	-1.03%	127.00	~	132.00
EUR/USD	1.0412	-0.0139	-1.32%	1.020	~	1.060
USD/SGD	1.3929	0.008	0.56%	1.3790	~	1.4100
USD/THB	34.783	0.438	1.28%	34.20	~	35.10
USD/MYR	4.3987	0.032	0.74%	4.320	~	4.400
USD/IDR	14613	116	0.80%	14,450	~	14,780
JPY/SGD	1.078	0.017	1.57%	1.045	~	1.110
AUD/USD	0.694	-0.014	-1.92%	0.680	~	0.720
USD/INR	77.45	0.515	0.66%	77.0	~	78.2
USD/PHP	52.457	-0.040	-0.08%	51.8	~	53.1

^Weekly change.

FX: Growth Weakness Comes Into Play

- From USD as King being the only game in town on the back of a hawkish Fed and attendant higher UST yields, **there seems some USD reprieve on the cards but for worrisome reasons.**
- **Growth concerns are now moving to the fore** with the latest economic data from the US to China pointing to weakness in economic activity.
- Initial FX market reactions to this was a sell-off in USD, which allowed other G10 currencies to gain with CAD, AUD and NZD leading the pack.
- **The more relevant questions, however, are whether this will persist and how will FX markets going forward factor in growth risks.**
- **We are inclined to stick to the view that USD strength will remain in play** as the underlying theme of persistent price pressures holds and if anything, remains broad based and are showing few signs of peaking. This is especially true for commodity prices.
- **When dealing with conflicting forces of slowing growth versus geopolitical (Russia-Ukraine) tensions, commodities have tended to swing towards the latter**. The upshot has been that oil, copper, coal and palm oil prices have tended to be bias upwards weighing on global inflation.
- Furthermore, **global liquidity will tighten significantly** in the coming months and with it financial conditions will tighten with USD supply being drained from the market.
- **The give in terms of USD strength may come from global central banks trying to rapidly reduce the divergence with the US Fed by raising rates.**
- A case in point is **ECB bringing forward rate hikes to as early as July**. Even Asian central banks from BNM to BSP (this week) will join in counterparts such as BoK and MAS in tightening monetary policy.
- **For the Fed itself, however, which is expecting a slowdown; the bar to shift away from aggressive near-term hikes is exceedingly high.**
- To that end, USD strength will likely stay the norm but with some bouts of weakness as growth concerns become more obvious.

USD/JPY: No Real Reprieve

- Even if a moderation in USD demand and UST yields helps USD/JPY edge lower, it will in all likelihood be temporary.
- We expect USD bulls to rule the roost and weigh on JPY, with an upward trajectory of USD/JPY likely to stay the course.
- Importantly, BoJ is not actively weighing against this trend in policy speak or action, essentially giving market forces a free pass.
- That said, with growth concerns increasingly becoming more prevalent, USD/JPY may get some reprieve.
- The range of trading may, therefore, we broaden to 127-132 for the week.

EUR: Hawish ECB Intentions

- Bringing forward a hike to July by the ECB has helped cement its hawkish intentions to tackle rising price pressures but also reduce the Fed-ECB divergence.
- Notwithstanding, geopolitical tensions from the Ukraine-Russia situation and its links to Europe's energy needs has the potential to flare up at any moment and pushing down EUR.
- As such, we see EUR/USD spot finding its way back to 1.05 levels but moves above this will be hard to sustain on more fundamental concerns.

SGD: Still Defering to USD

- USD/SGD breaking below 1.39 levels reflects mainly lower USD demand and is consistent with past week trends where the pair has defered to broad-based USD moves.
- Even so, the trade-weighted S$NEER remains on the strong side even as trade partners such as EUR and China gain versus USD.
- With intermittent dollar strength relief, USD/SGD could hold below 1.39 but a convincing down trend to mid-1.38 levels may still not be on the cards.

AUD: Bottom Search

- Considering its decline thus far, the AUD had a relatively flat week of trading last week, consolidating around 0.69 levels. High doses of hawkish expectations in the US (esp. on the back of higher than expected CPI inflation) continue to tip the scales against the AUD.
- Commodities were no allay to the headwinds as coal price surges were offset by softening of natural gas and iron ore prices. Indeed, the odds are not in favour of the AUD.
- Perhaps wage price and unemployment data due this week will kindle expectations for the RBA to embark on a more aggressive tightening path, which would see the **AUD put up some resistance against a continuing slide to sustain above 0.68.**
- All things considered, the range of possibilities remain long-tailed; and therefore as a logical extension, the range within which the AUD trades will be wide, our expectation ranges from 0.68-0.71 with the balance of risks tilted on the downside.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

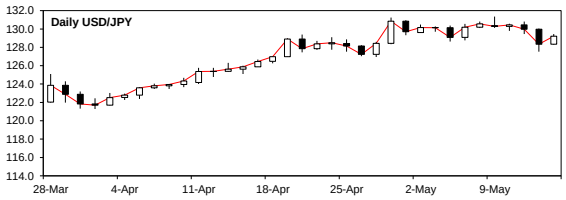
14-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.578	-15.3	2.919	-20.7	Flattening
GER	0.090	-21.5	0.940	-18.6	Steepening
JPY	-0.067	-1.4	0.235	0.3	Steepening
SGD	2.125	0.3	2.731	-3.4	Flattening
AUD	2.520	-20.3	3.395	0.1	Steepening
GBP	1.215	-25.4	1.741	-25.1	Steepening

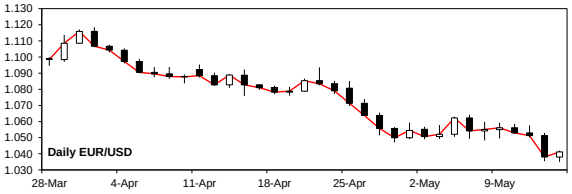
Stock Market

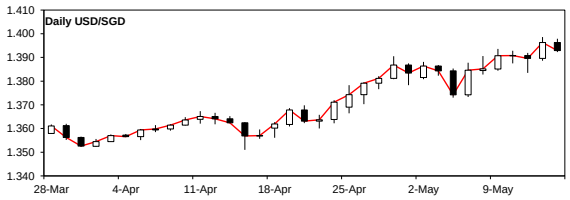
	Close	% Chg
S&P 500 (US)	4,023.89	-2.41
Nikkei (JP)	26,427.65	-2.13
EuroStoxx (EU)	3,703.42	2.05
FTSE STI (SG)	3,191.16	-3.06
JKSE (ID)	6,597.99	-8.73
PSEI (PH)	6,379.17	-5.63
KLCI (MY)	1,544.41	-1.27
SET (TH)	1,584.38	-2.77
SENSEX (IN)	52,973.84	-3.40
ASX (AU)	7,075.11	-1.81

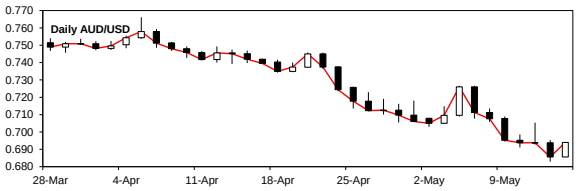
US Treasuries: Caution

- Last week, 2Y yields plunged ~15bps while 10Y yields fell a deeper ~21bps as UST bulls enjoyed some reprieve with the bull flattening of the yield curve.
- Admittedly, this was not the buoyant yields which we had expected especially given Powell, Mester and Daly's **support for 2 more 50bps hike in June and July**.
- Nonetheless, a look at the 13bps decline in 10 breakevens highlights **lower inflation expectations** and perhaps a whimper of confidence in the Fed getting inflation under control. Consequently, the **decline in real US yields is a much smaller one.**
- Though not much confidence emanates from the growth perspective, the decline in longer term yields signalling worries about the sustainability of growth and the Fed's ability to engineer a soft landing.
- A more cautious/optimistic perspective could also entail **some insurance/safety seeking behaviour** demanding UST's especially in the wake of the equities capitulation.
- This week, we expect 2Y yields to stay afloat of 2.5%, barring heightened safe haven needs while challenges towards 2.8% remain week.
- Meanwhile, 10Y yields looks to retake 3% on more Fed speak surrounding QT and outright sales of MBS.









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