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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 15 Apr 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
19 Apr	JP	Industrial Production YoY	Feb F	--	0.2%
20 Apr	US	Existing Home Sales	Mar	5.80m	6.02m
	EZ	**Industrial Production WDA YoY**	**Feb**	**1.0%**	**-1.3%**
	JP	Trade Balance	Mar	-¥70.0b	-¥669.7b
21 Apr	**US**	**Initial Jobless Claims**	**16-Apr**	**180k**	**185k**
	US	**Philadelphia Fed Business Outlook**	**Apr**	**20.0**	**27.4**
	US	Leading Index	Mar	0.3%	0.3%
	EZ	**CPI/Core YoY**	**Mar F**	**7.5%/3.0%**	**7.5%/3.0%**
	EZ	Consumer Confidence	Apr A	-20.0	-18.7
	JP	Machine Tool Orders YoY	Mar F	--	30.2%
22 Apr	EZ	Manufacturing/Services PMI	Apr P	54.7/55.0	56.5/55.6
	JP	Manufacturing/Services PMI	Apr P	--	54.1/49.4
	JP	CPI/Ex Fresh Food,Energy YoY	Mar	1.2%/-0.8%	0.9%/-1.0%

Asia

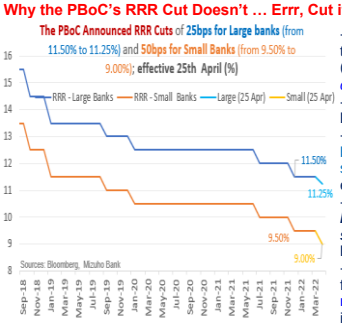
Actual Data Release

Date	Country	Event	Period	Survey*	Prior
18-23 Apr	PH	BoP Overall	Mar	--	-$157m
18 Apr	CH	Fixed Assets Ex Rural YTD YoY	Mar	8.4%	12.2%
	CH	Industrial Production YoY	Mar	4.0%	4.3%
	CH	**GDP YoY**	**1Q**	**4.3%**	**4.0%**
	CH	Retail Sales YoY	Mar	-3.0%	1.7%
	SG	**Non-oil Domestic Exports YoY**	**Mar**	**7.7%**	**9.5%**
	ID	Trade Balance	Mar	$3044m	$3820m
	IN	Wholesale Prices YoY	Mar	13.3%	13.1%
	MY	Trade Balance MYR	Mar	22.45b	19.8b
19 Apr	AU	RBA-Minutes			
	ID	**Bank Indonesia 7D Reverse Repo**	**19-Apr**	**3.50%**	**3.50%**
20 Apr	**CH**	**1Year/5-Year Loan Prime Rate**	**20-Apr**	**3.60%/4.55%**	**3.70%/4.60%**
21 Apr	KR	PPI YoY	Mar	--	8.4%
22 Apr	**MY**	**CPI YoY**	**Mar**	**2.30%**	**2.2%**
	TH	Customs Trade Balance	Mar	-$241m	$123m

Week-in-brief: Of Talks and Actions

- Last week, Fed speakers **continue talking up a 50bps hike in March** with Fed's Waller putting up considerations of multiple 50bps hikes.
- Despite that, signs of US core inflation momentum slowing (Mar: 0.3% vs Feb: 0.5%) enable the shorter end USTs to avert another week of selloff as 2Y yields fell 5.8bps last week.
- Nonetheless, 10Y yields were sent soaring as **worries of sustained longer term inflation were renewed**; with **Brent crude prices climbing 8.6% last week to end above $111/barrel.**
- The **ECB stuck to their plans to end-APP and did not undertake hastening action** for early termination of APP or rate hike, **in light of growth concerns** from the Russia-Ukraine conflict.
- Faced with inflation worries, **EM-Asia central banks were in hawkish action last week**: the BoK hiked policy rate by a further 25bps while the MAS, as we expected, with their emphatic hawkish bias, delivered a 'double-barrelled' tightening move: re-centring the mid-point of the policy band to the prevailing S$NEER and "slightly" increasing the S$NEER slope.
- While the PBoC's reserve requirement cut of 25bps (50bps for smaller lenders), their **monetary easing may be too little action** which followed **from much talk** from the State Council and leaders on need for stimulus to support growth.
- Without a policy interest rate cut, **freeing up reserves may not lead to liquidity relief** as **lending action may be constrained by willingness and confidence issues**. (See below for more.)
- **This week, while US data leans on the quiet end, Fed Chair Powell's communication (Thursday) will continue to echo the Fed's hawkish stance** to ensure that his signals are well received before the Fed's blackout period.
- With Ukraine-Russia **talks reportedly at dead end**, **offensive action being ratcheted up** may see some risks of resurgence of **safer haven demand** for UST and USD.
- Meanwhile in China, upside on GDP print will be tempered by on-going lockdowns while downside surprises will continue to set the stage of **more action on expected cuts in loan prime rates**.
- While the BoJ plicy hold remains a given, end week CPI **release may spark chatters of rate hike, though appreciation action on JPY may be lacking** given upward commodity price action.
- In EM-Asia, while our base case is for **Bank Indonesia to keep its policy rate unchanged; we see a 40% probability that BI will surprise with a 25bp hike at this meeting.**
- **A strong case rate hikes sooner rather than later is building, despite BI's commitment to start normalising only in Q3**, with a more hawkish US Fed, tighter global liquidity conditions and domestic inflationary on the rise. The challenge for BI will be navigating a weaker growth backdrop and safeguarding against the reversal of the nascent economic recovery.

Why the PBoC's RRR Cut Doesn't … Errr, Cut it



- At the risk of sounding dismissive right off the bat, the **RRR cuts announced by the PBoC** on Friday (15th April) **may not quite cut it**; be it **through** *credit or confidence channels*.
- To be sure, the widely anticipated **RRR cut flagged by Premier Li**, **came through**.
- The PBoC announced RRR cut of 25bps for major banks (from 11.50% to 11.25%) and 50bps for smaller banks (from 9.50% to 9.00%) set to take effect on 25th April.
- Admittedly, some ***CNY530bn ($83bn) of additional liquidity expected to freed up in the banking system***, creates the **potential for an additional liquidity boost** for the economy.
- But there are three reasons why the RRR cuts may fall short. First, is the **inadvertent signalling of restraint** from **measured of RRR rates cuts**; which in the past has been larger at 50-100bps.

- Second, and crucially, the **opportunity for complementary easing via 1Y Medium Term Lending Facility (MLF) squandered**. This **1Y MLF signals disappointed both in price** (rate held at 2.85%) **and quantum** (MLF was held back at CNY150bn, below expectations for CNY250bn)
- Above all, **doubts about *access* to easier funding** remain **a bugbear despite headline easing**.
- Point being, **signs of lack of confidence** on the end of banks as well as businesses, exacerbated by on-going liquidity travails of developers, points to impediments to both credit demand and supply.
- And the **resultant restraints on actual lending** may mute intended stimulus.
- Upshot being, **China's risk with stimulus is too little, too late**. And for the record, **LPR** (policy loan prime rate) **cut later this week may begin to address, but far from abolish these fears**.

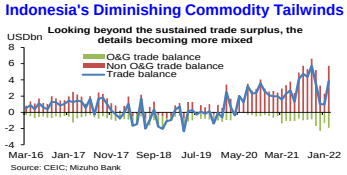
China Q1 GDP: Struggling for Traction

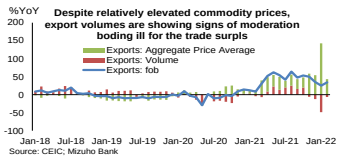
- **At odds with the ambitious 5.5% growth target** (even after accounting for the softened "around 5.5%" rendition of this target), **Q1 GDP is set to struggle for "escape velocity" from ~4% rate**.
- Arguably, base effects accentuate the slowdown. But there is **no denying that underlying activity has been hobbled by since late-2021**; as revealed in sharp Q4 2021 GDP deceleration to 4%.
- And **at least for H1 2022**, it appears that **there will be no meaningful relief in sight** from troubling headwinds; some of which are entirely self-inflicted, conspiring with external threats.
- For one, while there may be signs **of relief measures for the property sector crunch** coming through, it is a **long way off a resolution** that may restore confidence.
- And so, a quarter to 30% of the economy remains under significant strain. And despite efforts by LGFVs and other state-driven boost, this could remain a key impediment to a rebound.
- What's more, **COVID lockdowns in Shanghai following other cities** also **continue to impose supply disruptions** as well as **erode confidence**; both of which potentially pose a drawn out drag.
- Finally, the geo-political crisis in the form of the war in Ukraine also poses headwinds in the form of energy, food and industrial metal price shocks.
- The upshot being, without the coincidence exceptional stimulus and fortuitous relief from global price pressures, Beijing's 5.5% growth target appears a tad too ambitious for 2022. We therefore revise down our 2022 growth forecast to 4.5-5.0%.

Bank Indonesia: Rising to the Challenge? Not Just Yet

- **BI is expected to maintain its policy rate at 3.50% at its 19 April meeting**; with Governor Perry Warjiyo indicating a preference in addressing the loose liquidity in the banking system before shifting gears to rate hikes.
- *To that end, the Rupiah Reserve Requirement (RRR) hikes (announced in January) and implemented from March-September of a cumulative 300bp remain an important tool.*
- **For outright policy rate hikes, a pre-committed timeline by BI suggests that these will only commence from Q3.**
- Given the volatile market and inflation backdrop, **such pre-commitments expose BI to falling 'behind the curve' and exacerbating vulnerabilities around IDR and macrostability**. The very same concerns that BI has repeatedly maintained that it will shield against.
- With **domestic inflationary pressures on the rise**, from higher retail fuel prices (for some categories of fuel), a VAT rise (effective from 1 April), potential electricity rate hikes and temporary food price increases on account of Ramadan and the Eid holidays, **BI may be pushed to advance its rate hike timeline into Q2 (as is our base case). We expect they will indicate as much as the 19 April meeting.**
- **The issue for BI is that the growth outlook is looking worse for wear** as the tailwinds from higher commodity prices fade. Notwithstanding, fewer social restrictions and the resumption of tourism activities will provide buffer enough to safeguard against a reversal of the nascent recovery.
- **At any rate, BI's challenge is clear**: it is biting the bullet on rate hikes against a backdrop of higher inflation, tighter global liquidity and unambiguously hawkish global central banks (two hawkish surprised from MAS and BoK last week) while (ideally) keeping the nascent growth recovery intact.
- ***From the looks of it, BI still wants some runway to rise to the challenge. Even so, we assign a non-negligible 40% probability that BI will surprise with a 25bp hike at this meeting.***

Indonesia's Diminishing Commodity Tailwinds





- Despite the headline optics of a sustained trade surplus since the start of 2022, **the details are now turning more mixed.**
- **Export volumes have turned negative since November 2021** with elevated global commodity prices (i.e. positive price effects) holding up overall export growth.
- Meanwhile, import volumes, particularly of non oil & gas imports, remain low underscoring anaemic domestic demand **even as oil imports volumes rise amidst sharply higher global oil prices.**
- **At the margin, these indicate that the commodity price tailwinds from late last year are diminishing** and will, in time, lead to a narrowing trade surplus.
- Moreover, higher global oil prices are translating into higher retail fuel and (potentially) electricity prices, which will further weigh on domestic demand.
- **While the slower growth trajectory complicates the situation for BI, the potentially narrower external cushion** (from a lower trade surplus) **makes it imperative for BI to prioritise macrostability and policy rate hikes.**

RBA: Up, Up But Not Quite Away

	Policy Rate	2022								
		Q2			Q3			Q4		
		April	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
RBA	New	0.10%	0.10%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%
	Old		0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.25%
	OIS		0.14%	0.37%	0.62%	0.91%	1.22%	1.53%	1.84%	2.04%

- Given the rather relatively substantial shifts alluded to in the monetary statement, **upcoming minutes** will be more of the same to **stress policy emphasis with likely additions surrounding the impact of interest rate increases.**
- **The emphasis:** With the seasonally adjusted **unemployment rate at a very low 4%** in March on the back of rising participation rates, full employment objective being met will not be in doubt.
- With headline inflation already at 3.5% in Q4 2021, the fresh geo-political price shocks threatens to persistently exceed the RBA's preferred 2-3% range.
- These supply side worries conspire with **domestic services inflation from economic growth and wage feedback loops, in turn worsening price pressures** in the coming months as the labor market remains tight.
- **The likely additions:** On **debt servicing** issues from higher interest rates, allusion to **strong household savings** relative to incomes looks be **balanced by worries on the high level of household debt eroding spending power and tail risks from borrowers with low liquidity buffers/income.**
- We also expect an exposition surrounding risks from property price declines due to adverse shocks by **larger than expected increase in interest rates.**
- **Policy Shifts:** Given the known 6-months lag of monetary policy transmission, normalising faster will reduce the risks of falling behind the curve.
- As such, we now **bring forward our first hike (a measured 15bps to lift the RBA cash rate from 0.10% to 0.25%) to June**, with two more hikes in H2 taking the cash rate to 0.75% by end-2022.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	126.46	2.120	1.71%	124.00	~	127.00
EUR/USD	1.081	-0.0067	-0.62%	1.070	~	1.110
USD/SGD	1.357	-0.007	-0.48%	1.3450	~	1.3660
USD/THB	33.606	0.017	0.05%	33.25	~	33.85
USD/MYR	4.2355	0.014	0.34%	4.215	~	4.260
USD/IDR	14381	19	0.13%	14,310	~	14,410
JPY/SGD	1.0734	-0.024	-2.15%	1.059	~	1.102
AUD/USD	0.7395	-0.006	-0.84%	0.730	~	0.758
USD/INR	76.18	0.279	0.37%	75.3	~	76.3
USD/PHP	52.183	0.598	1.16%	51.3	~	52.6

^ Changes are on weekly basis

Bond Yield (%)

15-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.454	-5.8	2.827	12.7	Steepening
GER	0.029	-1.3	0.837	13.5	Steepening
JPY	-0.067	2.0	0.234	1.4	Flattening
SGD	1.784	-5.2	2.474	-3.1	Steepening
AUD	2.000	-10.8	2.965	0.1	Steepening
GBP	1.538	7.8	1.887	14.0	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,392.59	-2.13
Nikkei (JP)	27,093.19	0.40
EuroStoxx (EU)	3,848.68	-0.25
FTSE STI (SG)	3,335.85	-1.40
JKSE (ID)	7,235.53	0.34
PSEI (PH)	6,984.90	-0.47
KLCI (MY)	1,589.01	-1.14
SET (TH)	1,674.34	-0.69
SENSEX (IN)	58,338.93	-1.86
ASX (AU)	7,523.43	0.61

FX: Dollar Dominance

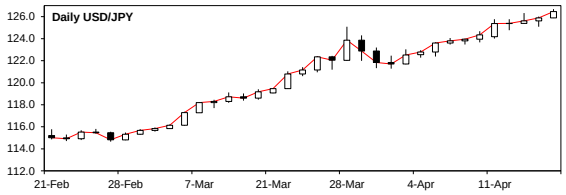
- Our conjecture last week that "double-barrelled" MAS and a hawkish turn by the ECB could lend to a bout of EUR and SGD strength that tempers the USD proved only partially right.
- **MAS delivered on the "double-barrelled" tightening** that triggered SGD strength (USD/SGD down as much as one big figure from low-1.36 to low-1.35).
- **But the ECB disappointed expectations for a more emphatic hawkish shift**; merely reinforcing previous guidance of ending APP and possible rate "lift-off" for Q3 rather than hastening the timeline APP termination and rate hikes to June.
- **Consequently, EUR build-up to past 1.09** on hawkish expectations pre-ECB **tumbled back** to 1.08 (even testing below) **abruptly post-ECB**. And with this, the USD index also regained broad-based strength (from sub-100 to above mid-100), eroding part of SGD pains.
- Having said that, the **ECB falling short of hawkish expectations** is **not** the overriding **driver of USD dominance**. *Rather,* it **merely removes the distraction from** a hawkish ECB.
- And with that, we expect that **USD dominance** is likely **to remain intact** as unequivocal (and growing) *hawkish noises from the Fed,* the attendant *rise in UST yields* and *signs of "risk off"* that tends to **favour the Greenback over EM and commodity currencies**.
- Especially as **soft Chinese growth** (and outlook) amid COVID lockdowns alongside underwhelming stimulus from the PBoC set the stage for worries about a decline in marginal demand for commodities.
- In turn, this is demand destruction worry at the margin is likely to dampen the likes of AUD, despite the rebound in energy price due to geo-political supply disruptions.

US Treasuries: Steepening

- While **headline inflation indeed exceeded expectations**, US core inflation slowed on a month ago basis as it printed below expectations, 2Y yields were knocked back sharply in the middle of last week.
- Any relief for UST bulls did not last long as **import price growth** (4.5% MoM) exceeding expectations (2.2%) **renewed worries on longer term inflation**.
- As a result, 2Y yields fell by a modest ~6bps while 10Y yields rose ~13bps resulted in a show of **UST yield curve steepening**.
- Similarly, 10Y breakevens reflected these inflation concerns with a small 3bps increase.
- On balance, with the Fed's laser focus to curb inflation, we expect downside on front-end yields to be limited as the Fed's policy course remains well-anchored and in turn for 2Y yields to trade in **the 2.25-2.45% range.**
- **In turn, we expect 10Y yields to remain buoyant in the 2.65%-2.90%.**
- All said, while China's RRR cut supports growth, the need for policy easing signalling underlying implications of slowing growth will be at the back of many minds and may restrain sustained climb in long end-yields.

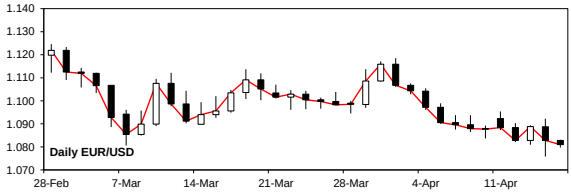
JPY: Buoyed

- Last week, the USD/JPY continued ascending and **reached two decade highs** which were last seen in 2002 as BoJ-Fed divergence continues to set the tone while energy prices pulled higher with Brent Crude ending the week above US$110/barrel.
- This week, as release of key US data is set to tone down, the USD/JPY may look to elevated consolidation above 125, rather than meaningful relief.
- In addition, as Russia's renewed offensive in Kyiv continues to highlight sustained complications surrounding oil and gas, the **elevated energy prices will worsen current account fundamentals and buoy the USD/JPY to challenge 127**.
- Downside risks for the pair may stem from the end of week CPI release in Japan as doubts surrounding BoJ's policy hold may creep in and allow dips testing 124.



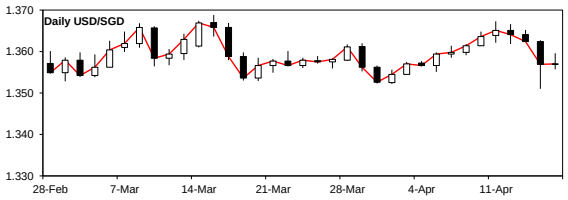
EUR: Disappointed by ECB

- ECB's meeting last week confirmed that the central bank would embark on normalising policy this year by bringing the asset purchase programme to an end in Q2 and start hiking rates by 25bp in Q3.
- However, the lack of details on specific dates and a mixed resolve led to EUR bulls being disappointed.
- EUR/USD fell to a low of 1.076 following President Lagarde's press conference and closed the week slightly higher at 1.082 levels.
- With a defacto embargo on Russia's gas imports into Europe likely to kick in, and US gas prices soaring on substitution effects, global commodity price pressures will continue weigh down EUR/USD this week. As such, 1.07-1.08 range will be par for the course.



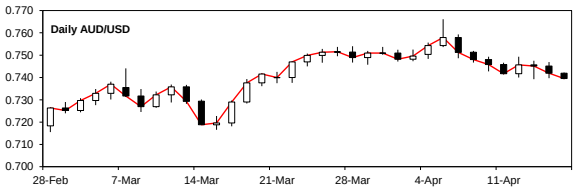
SGD: Jump on MAS Muted

- Our call for a "double-barrelled" move by the MAS indeed came through; as did the abrupt SGD gains in our "50-120bps" range flagged.
- But the drop in USD/SGD from low-1.36 (from a S$NEER already rih with anticipation) to mid-1.35, and then low-1.35 was not without some pushback along the way.
- This muted SGD upswing at the margin. was initially due to S$NEER upside being tempered by rich valuations pre-MAS benig stretched. Thereafter though USD bulls took over.
- With a jump in UST yields and correspondingly the USD, USD/SGD has partially retraced to high-1.35 levels and likely to consolidate through 1.35 to mid-1.36; depending on USD dynamics.
- As we have alluded to before, USD is likely to dictate wider trends from here.



AUD: Fed-Commodity Tug of War

- The AUD deppreciated some 0.30% and ended the week below 0.74 levels as the late week resurgence of UST yields overcame the steady climb in Brent Crude prices through the week.
- Closer to home, the Australian labour market performance came in milder as unemployment rate stagnated at a low of 4.0% which dials back excessive hawkish RBA bets.
- Continuous Fed talk on an impending 50bps rates in May will also weigh on the AUD while safe haven USD demand may start seeping in as well.
- All things considered, the AUD is likely to hold steady above 0.73 in view of fluid market conditions, with upside more likely than not to be capped below mid-0.75, barring surprises within RBA minutes this week.



With acknowledgements of contributions from our Research Associate Matthew Ng

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