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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 19 Dec 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
19 Dec	GE	IFO Current Assessment/Expectations	Dec	93.5/82.0	93.1/80.0
20 Dec	US	Housing Starts	Nov	1400k	1425k
	JP	BOJ Policy Balance Rate/10-Yr Yield		-0.10%/0.00%	-0.10%/0.00%
23 Dec	US	Durable Goods Orders/Non-def ex Air	Nov P	-1.0%/0.2%	1.1%/0.6%
	US	PCE/Core Deflator YoY	Nov	5.5%/4.7%	6.0%/5.0%
	JP	Natl CPI/Ex Fresh Food, Energy YoY	Nov	3.9%/2.8%	3.7%/2.5%
27 Dec	JP	Retail Sales YoY	Nov	--	4.4%
	JP	Jobless Rate	Nov	2.6%	2.6%
28 Dec	JP	Industrial Production YoY	Nov P	-1.2%	3.0%
4 Jan	US	JOLTS Job Openings	Nov	--	10334k
	US	ISM Manufacturing	Dec	48.5	49.0
5 Jan	US	FOMC Meeting Minutes		--	--
6 Jan	US	Change in Nonfarm Payrolls	Dec	223k	263k
	US	ISM Services Index	Dec	55.0	56.5
	EZ	CPI/Core YoY	Dec	9.6%/--	10.0%/5.0%

Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
20 Dec	CH	1-Year/5-Year Loan Prime Rate		3.65%/4.30%	3.65%/4.30%
	AU	RBA Minutes of Dec. Policy Meeting			
22 Dec	ID	Bank Indonesia 7D Reverse Repo		5.50%	5.25%
23 Dec	SG	CPI/Core YoY	Nov	6.5%/5.0%	6.7%/5.1%
	SG	Industrial Production YoY	Nov	6.5%	6.7%
	MY	CPI YoY	Nov	--	4.0%
25 Dec	VN	GDP YoY	4Q	3.5%	13.7%
	VN	CPI YoY	Dec	4.8%	4.4%
29 Dec	KR	Industrial Production YoY	Nov	-4.9%	-1.1%
30 Dec	KR	CPI/Core YoY	Dec	5.1%/--	5.0%/4.8%
31 Dec	CH	Mfg/Non-mfg PMI	Dec	48.3/--	48.0/46.7
5 Jan	SG	Retail Sales/ Ex Auto YoY	Nov	--	10.4%/14.3%
	TH	CPI/Core YoY	Dec	6.0%/3.3%	5.6%/3.2%

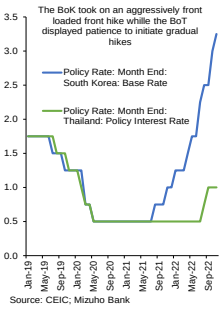
Week-in-brief: The 'R' Word

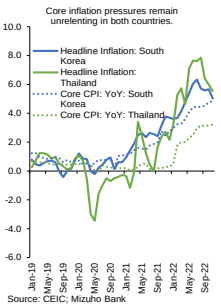
- No, it is **not "rally"** - whether triggered by a jolly man in a red suit or not - **but recession**.
- Admittedly, after such a horrid year for equities and risk assets, **markets' desire to pursue a** *"Santa rally"* is predictable. And has **shown up as a continuation of October rallies since November**.
- But this **has faltered as** the **Fed's and ECB's hawkish rhetoric underpins** "*higher for longer*" **global policy rates**; **as more policy tightening** by global central banks **remains on the table**.
- And the culmination of sustained policy tightening, even as supply shocks destroy demand in Europe and burn through household savings in the US, suggests mounting pipeline risks of a global recession as the lagged effects of policy tightening bites.
- It is **not lost on markets that over the past 5 decades** (if not more), **the global economy has almost always been crash-landed by aggressive policy tightening looking to ground inflation**.
- And so, looking past the **BoJ's contrarian dovish stance expected to be maintained this week**, which is however inconsequential for global policy and financial conditions, the threat of recession risks beginning to supplant cyclical COVID recovery is one that cannot be dismissed.
- What's more, **elevated global rates and a defiaatly belligerent USD**, even if it is likely to have peaked, **pose a silent threat to EM Asia FX and macro-stability**. And it is against this backdrop that BI's policy rate hike ought to be appreciated; as a necessary backstop, not spent move.
- All said, the **'R' word that markets will fret, if not obsess, about is Recession risks**. But equally, **one other 'R' words may contribute to two-way volatility/distortions** - Fed 'Response". Specifically, **whether Fed/global central banks will blink, and aggressively ease in response to recession risk**.
- **If so**, it could **set the stage for a perverse outcome of market rebound amid an impending economic downturn**. And then it will remain to be seen if policy hopes get ahead of economic realities.

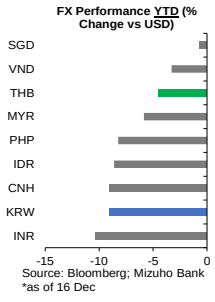
BoJ: Doves Undeterred

- The **BoJ's dovish positioning will be undeterred by** last week's **hawkish messaging from the ECB and Fed** alike; and is set to maintain a hold with rhetoric supporting policy accommodation.
- Admittedly this might entail some downside risks to the JPY. But nothing in the vicinity of JPY sell-off risks experienced in October. and in any case, nothing consequential for policy positioning.
- For the record, *despite stepping down from 75bp to 50bp hikes,* both *the ECB and Fed have warned that they are far from done with hikes*; and **have further to go**.
- But the **BoJ's position is ironically less at odds** with the Fed's and ECB's emphatic hawkish assertions for two reasons. First, **as markets shift focus to peak rates**, *incremental JPY pressures from policy divergence also peaks, if not wanes* if markets move in an anticipatory fashion.
- Second, and crucially, as **recession risks** begin to emerge more prominently, and at some point overtake, the **BoJ's dovish position may be less of a bugbear** *and more of a cushion for the JPY.*
- One way or another, we **expect BoJ doves to remain undeterred** for now.
- And even when the new Governor takes over next April, perhaps only measured calibrations rather than tectonic policy shifts will be required; as recession risks overtake (policy) divergence risks.

Korea and Thailand Inflation: Of Policy Starts and Ends







- In Aug 2021, the **BoK** kicked off policy normalisation and took on an **aggressive** rate hike path while **BoT** only initiated their **gradual** policy normalisation **a year later** in Aug 2022.
- Given the **same policy rate starting point at 0.5%** in 2021, their divergence paths are stark with **the BoK's rate now 225bps higher than the BoT's**. *Yet the KRW has underperformed.*
- This is partly as **Korea has had much higher core inflationary pressures** and so the core real rate differentials are somewhat less pronounced.
- Crucially, though, this **disparity is exaggerated by the fact that the THB has been under-performing for a much longer period** through COVID - down 14.3% since end-2019 compared to KRW that is down 11.5%. And so, it's decline this year is from a far lower base.
- In any case, the **inflation picture for both** South Korea and Thailand **remaining characterized by sticky core inflation despite declining headline** may entail further currency pressures.
- Although, **THB may be better poised to to outperform on China's reopening** despite lower policy rate, as **prospect of strong Chinese tourist arrivals** endow cyclical tailwinds.
- Whereas, KRW's support from Chinese tourists may be challenged by the **structural risk from chip embargo amid a semiconductor sector grappling with a cyclical downturn**.
- What this means is that the **extent of policy hikes alone do not determine the degree of currency buffer** as *evolving economic*, *(post-)pandemic* and *geo-political risks conspire.*

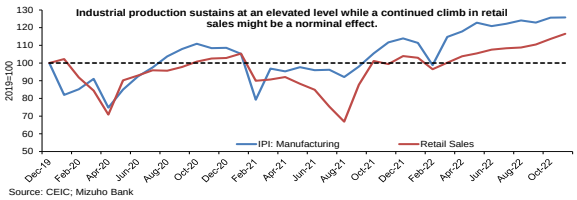
China: CEWC Aims to Rev Up Growth Engines

- The annual **Central Economic Work Conference** (CEWC), wrapped up last week, **declared a rather unambiguous desire to get economic growth purring on all cylinders**.
- Headline Growth: Reference to both *"quantity"* and *"quality"* of growth suggests that **after a dismal year** of growth threatening go sub-3%, importance is accorded to baseline quantum of growth; likely to restore growth to "around-5%". But **equally, the means matters too**. And so, *pulling all stops to revert back to mainly construction/housing driven gains will not be the play book either*.
- Consumption: Instead, it is telling that **boosting consumption gained notable prominence** on the economic policy agenda. Notably, boosting **consumption is the end-objective of** "*Common Prosperity*" and **critical to** (at least one half of the mechanism for) "*Dual Circulation*". But for now, the consumption focus is arguably to **ensure that confidence crushed by COVID is restored**.
- Exiting "Zero-COVID": And so, consumption boost objectives are *coupled with treatment-driven management of COVID;* rather than zero infections goals, which have come at hefty economic and social cost. The plan to "*optimize COVID policy in a timely way*" towards a "*new stage*" is **essentially alluding to exiting Zero-COVID policy to rebuild business/consumer confidence**.
- Restoring "Animal Spirits"?: Interestingly, despite "*Common Prosperity*" objectives **buried in the consumption, wage, property and social guidance**, **care to avoid express allusions** to the slogan speaks to sensitivities about the private sector fearing "anti-market" agenda. Instead, alongside, **assurance of supporting development of private sector and SOEs** the **desire to convey a market-friendly economic approach to reignite "animal spirits" is evident**. Moreover**, roping in tech/platform firms to boost employment and the economy** hints at a backdown from regulatory crackdown that had chilled confidence and investments) to the detriment of growth.
- Property Backstop, Not "Boom Town": That said, the adherence to "housing is for living, not speculation" refrain suggests that the 16-point plan alongside host of liquidity backstop for the property market is to avert a crash and manage a soft-landing; rather than ignite a boom that perils financial and wider economic stability. This is prudent, but nevertheless impedes buyer confidence.
- Confidence is Key, but Not a Panacea: All said, **confidence restoration** in the private sector via COVID, economic and regulatory channels is *as evident as it is welcome*. But while this is **critical**, it may **not** be **sufficient to completely heal the economy**; as confidence takes time to recover, while structural and geo-political challenges alongside near-term setbacks to COVID relaxations (given surging infections) continue to stifle capacity for unfettered economic rebound.

Bank Indonesia: Smooth Sailing Back to 25bp Rate Hikes

- **BI's justification to dial back its magnitude of rate hikes from 50bp to 25bp will mirroring a dial back in the US Federal Reserve's rate hike magnitude to 50bp from 75bp.**
- **Domestically, BI has some ground to tame, but not eliminate, the hawkish bias**. Headline inflation eased further to 5.4% YoY in Nov (Oct: 5.7%) but not enough, and core is sticky at 3.3%.
- The hike in minimum wages for 2023 was also dialled back to ~5% from a previously touted 10%.
- Notwithstanding, **dialling back on hawkish is not a free pass for turning the hawkish corner.**
- **BI will need to remain vigilant of price pressures as inflation expectations and producer price inflation remains elevated; food prices remain above 2019 levels.**
- Importantly, **BI multi-pronged approach**, (calibrating liquidity, tweaking bond purchases in accordance with 'operation twist' and tapering primary market bond purchases), **will help address certain economic vulnerabilities allowing BI more leeway to maintain its overall hawkish bias.**
- As such**, we expect BI will keep it rates unchanged at 5.50% into 2023; the risk is that BI hikes by an additional 25bp-50bp to deal with undue external volatility.**

Vietnam GDP and CPI: High and Higher



- While base effects imply that **Q4 GDP YoY growth will step down** from the 13.6% high in Q3, we expect both **manufacturing and services activity** to remain firm.
- Despite moderation, industrial production remains robust in Q4. Looking ahead, reports of muted orders may spell slowly activity in 2023 especially for textile related industries. Inconveniently, slower growth in labor intensive sectors may result in **marginal labour redundancies.**
- Certainly, the **SBV also looks keen to alleviate pockets of weakness** and has stepped in to raise credit growth targets in the banking system. They hinted at allocation towards sectors in need such as the housing sector and prioritisation of banks which extend credit at lower interest rates.
- On the services front, **tourism** activity will continue to **underpin though inflationary erosion effects may being to seep in though not yet overwhelm at this juncture**.
- Specifically, for the last month of 2022, the broad picture where **core inflation exceeds headline inflation** looks to linger for longer. Despite the VND having enjoyed a wind of stability from a softer USD in recent weeks, the SBV will remain viligant of rising inflationary pressures in 2023.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	136.6	0.040	0.03%	132.00	~	138.00
EUR/USD	1.0586	0.0046	0.44%	1.030	~	1.065
USD/SGD	1.359	0.005	0.38%	1.3400	~	1.3850
USD/THB	34.975	0.177	0.51%	34.20	~	35.40
USD/MYR	4.4245	0.021	0.47%	4.300	~	4.550
USD/IDR	15598	15	0.10%	15,350	~	15,650
JPY/SGD	0.994	0.002	0.22%	0.971	~	1.049
AUD/USD	0.6685	-0.011	-1.62%	0.660	~	0.690
USD/INR	82.87	0.594	0.72%	82.0	~	83.2
USD/PHP	55.568	0.193	0.35%	55.1	~	56.2

^Weekly change.

FX Outlook: Caution, Not Causation

- As we warned last week, despite the argument being made for peak USD, there are...

"- Three reasons why spurts of USD strength could still catch markets on the wrong foot.

- First, Fed hawks appear to be discounted a tad too much. Admittedly, slower pace of hikes ... (expected). But there remains sufficient uncertainty around peak rate.

- Crucially, the persistence of elevated rates also appears to be under-accounted

- Second, these "risk on" markets are not being perpetuated in the absence of negative news. Notably (and amongst other risks), recession risks remain elevated.

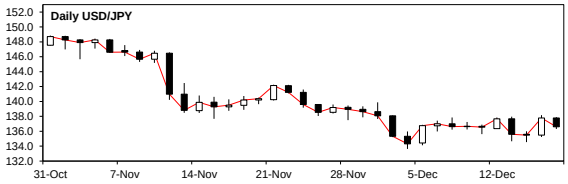
- And even if a strong USD is not the natural instinct into recession risks, EM Asia FX strength against the Greenback into a recession is even more absurd.

- Finally, the calculus of further tightening being far more deleterious for EZ and UK (than it is for the US) could also trigger fresh re-assessments of re-balancing away from USD into EUR, GBP and JPY; suggesting a bumpy ride to a durably softer USD."

- And so, with;
- i) a Fed unambiguously pushing back on imminent "pivot" bets, alongside;
- ii) with the ECB underscoring a "higher for longer" rates outcomes from sustained tightening,
- the **USD may retain more upside tendencies than markets are currently pricing in**.
- Especially against EM FX (generally), including EM Asia FX.
- For one, **higher global rates tend to impinge not only on capital inflows**, but **also pose headwinds to aggregate global demand**, *denting EM Asia Fx via both financial and trade channels.*
- What's more, a hawkish **ECB** may inadvertently trigger more *EZ "fragmentation" risks*, and so *enhance the USD's allure* as haven refuge amid uncertainties.
- Moreover, a **sense of caution sweeping through amid global recession risks** will also *tend to favour precautionary USD holdings;* boosting, rather than compromising, the Greenback.
- So all said, ***USD may be more a reflex due to caution than misplaced causation stemming from "peak" or "pivot" bets***. Either way, clean causation may be hard to pin down till the dust settles.

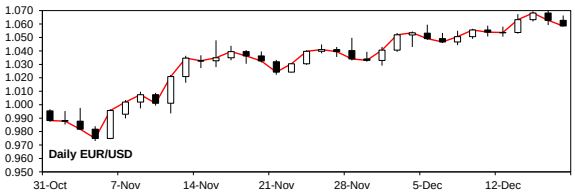
USD/JPY: BoJ's Certainty

- While reports of BoJ's 2% price target accord hogs headlines, uncertainly over Governor Kuroda's successor and lack of concrete negotiation details mean that this week firmly remains in the realm of a dovish BoJ.
- What is certain though is that the BoJ is sticking to their dovish policy stance. That said, the pressure on the JPY has been alleviated with Fed and ECB's slower pace of hikes.
- Crucially, the feedback between lower oil prices and recession risks look to increasingly backstop the JPY.
- While adventures above 138 will be too far given last week's failures, the USD/JPY can still bounce off 135 on resilient real US yields.



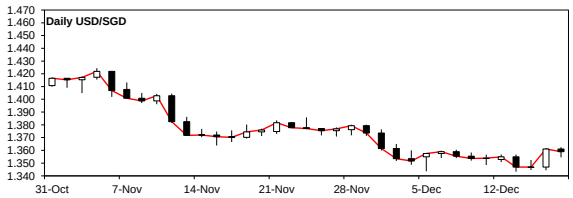
EUR: Covering Ground and Cracks

- Last week, the EUR strengthened on the back of ECB's decision to cross 1.06.
- To be clear, it is more of ECB's Lagarde who warned that that the ECB has **more ground to cover** with more hikes of 50bps are in the pipeline- rather than the standalone hike of 50bp.
- The question is **does the EUR have more ground to gain against the USD?**
- **Cracks within the Eurozone might be hard to cover** as Italian poltician irked at the ECB's decision calling it a mistake amid a widening of Italian and German yields.
- With more cracks appearing with more hikes, EUR slips are par of the course rather than undeterred ascendency.



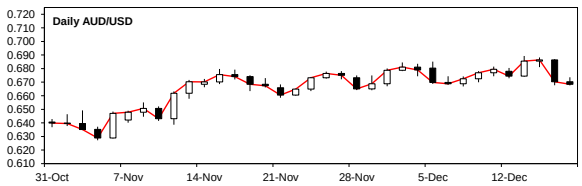
SGD: Cruising

- SGD looks set to cruise into the end of the year within familiar low-1.34 to high-1.36 ranges;
- as markets back away from excessive risk taking towards year-end (hence proppoing the downside of USD/SGD), while at the same time, processing of peak Fed rates limits the extend of USD squeeze.
- That said, if there is any bias, it should be to be long USD as markets grappling with global recesssion risks from further monetary policy tightening are likely to prefer the safety of the USD rather than the hollow promise of China offset for EM Asia's demand.
- So the CNH boost to SGD will remain limited; as will the strength of downswing in the USD/SGD.



AUD: No "Clean" Bullish Triggers

- **Despite market betgting on peak Fed rates"** , and **beyond that a "pivot" in H2 2023**, **USD capitulation is just not a clean theme to base AUD bullishenss off**.
- For one, **Fed pivot bets are premised on recesssion risks** forcing the Fed to "blink" and reverse policy course hastily and aggressively.
- If so, then the **sheer damange implied to commodity prices from recession fears** *cannot be consistent with sustained AUD strength.*
- Second, high US rates meanwhile could also be a source of pressure; especially as China demand lift will not be enough to fully offset either recesssion risks or Fed policy tightening.
- The upshot is that AUD may struggle to break out of 0.69+ towards 70 cents even if it gets off the current drag to 0.67-ish levels. On the other side, bids below 65 cents could stall excessive sell-off as well.



Bond Yield (%)

16-Dec	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.178	-16.6	3.482	-9.6	Steepening
GER	2.406	28.4	2.143	22.0	Flattening
JPY	-0.026	0.0	0.245	0.6	Steepening
SGD	3.026	-13.8	2.851	-7.3	Steepening
AUD	3.120	9.3	3.450	0.1	Flattening
GBP	3.408	6.3	3.319	14.7	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	3,852.36	-2.08
Nikkei (JP)	27,527.12	-1.34
EuroStoxx (EU)	3,804.02	-3.52
FTSE STI (SG)	3,240.81	-0.16
JKSE (ID)	6,812.19	1.45
PSEI (PH)	6,496.50	-1.27
KLCI (MY)	1,478.54	0.09
SET (TH)	1,619.01	-0.25
SENSEX (IN)	61,337.81	-1.36
ASX (AU)	7,148.68	-0.89

US Treasuries: Of Winter Storage and Santa Rallies

- Admittedly, UST rallied last week with 2Y and 10Y UST yields plunging 16.6bp and 9.6bp respectively. The FOMC dot plot upshift had failed to puncture UST bulls.
- While a rally is a rally, framing from the angle of Santa rallies might be a tad too cheery. This jolly well might end up being a **storage for winter**, next winter that is.
- First, the **near term forward spread (18m-3m) entrenched deeper in inversion territory.**
- Second, continued persistent declining of yields on 10Y breakevens (~14bp drop last week) imply a **much milder decline in real yields thus far**.
- The tail risk here being that with a **Fed bent on keep policy rate elevated for longer**, the storage of USTs as **haven assets may end up being depleted in value** especially if **markets expectations for rate cuts from mid-June readjust to align with the Fed's Dot plot**.
- For the rest of Dec, while haven demand is still par for the course on the longer end of USTs, we expect 10Y yields to persist trading in the wide range of 3.35%-3.7% and 2Y yields may be subject to new year awakening to retest 4.4%.