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MIZUHO

WEEK AHEAD

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21-Feb-2022

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Economic Calendar

•Survey results from Bloomberg, as of 18 Feb 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
21 Feb	EZ	Manufacturing/Services PMI	Feb P	58.6/51.7	58.7/51.1
	JP	Manufacturing/Services PMI	Feb P	--	55.4/47.6
	JP	Machine Tool Orders YoY	Jan F	--	61.4%
22 Feb	**US**	**Conf. Board Consumer Confidence**	**Feb**	**110.0**	**113.8**
	US	**Richmond Fed Manufact. Index**	**Feb**	**10**	**8**
	GE	IFO Current Assessment/ Business Climate	Feb	96.5/96.4	96.1/95.7
23 Feb	**EZ**	**CPI/Core YoY**	**Jan F**	**5.1%/2.3%**	**5.0%/2.3%**
24 Feb	US	New Home Sales	Jan	800k	811k
	US	Initial Jobless Claims	Feb-19	235K	248k
	US	**GDP Annualized QoQ**	**4Q S**	**6.9%**	**6.9%**
25 Feb	US	U. of Mich. Sentiment	Feb F	61.7	61.7
	US	**Kansas City Fed Manf. Activity**	**Feb**	**25**	**24**
	US	**PCE Deflator/Core YoY**	**Jan**	**6.0%/5.2%**	**5.8%/4.9%**
	US	**Durable Goods/Non-def Ex Air orders**	**Jan P**	**0.8%/0.3%**	**-0.7%/0.3%**
	JP	Leading Index CI/Coincident Index	Dec F	--	104.3/92.6

Asia Actual Data Release

Date	Country	Event	Period	Survey*	Prior
21 Feb	**CH**	**1-Year/5-Year Loan Prime Rate**	**Feb-21**	**3.70%/4.60%**	**3.70%/4.60%**
	TH	**GDP YoY/ GDP Annual YoY**	**4Q/2021**	**1.9%/1.6%**	**-0.2%/-6.1%**
23 Feb	**SG**	**CPI/Core YoY**	**Jan**	**4.2%/2.5%**	**4.0%/2.1%**
	AU	Wage Price Index YoY	4Q	2.4%	2.2%
	TH	Customs Trade Balance	Jan	-1098m	-$354m
24 Feb	**AU**	**Private Capital Expenditure**	**4Q**	**2.5%**	**-2.2%**
	KR	PPI YoY	Jan	--	9.0%
	KR	**BoK 7-Day Repo Rate**	**Feb-24**	**1.25%**	**1.25%**
	MY	**CPI YoY**	**Jan**	**2.5%**	**3.2%**
25 Feb	**SG**	**Industrial Production YoY**	**Jan**	**9.4%**	**15.6%**
	VN	Trade Balance	Feb	--	-$500m
	VN	Industrial Production YoY	Feb	--	2.4%
	VN	CPI YoY	Feb	--	1.9%
	VN	Retail Sales YTD YoY	**Feb**	**--**	1.3%

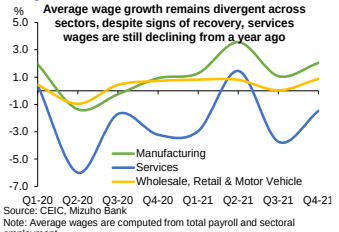
Week-in-brief: Between Conflict & Comfort

- **President Biden drumming up risks of conflict**, warning allies that a **Russia may be on the cusp of invading Ukraine**, **with intent of a far wider occupation** including the Ukrainian capital of Kyiv, **has markets on tenterhooks**. Surging Oil and slumping equities were par for the course.
- But as quickly as "risk off" enveloped markets last Friday and in early session Monday, **relief rallies appear to be emerging**; **drawing comfort** from Presidents Biden and Putin having "*accepted the principle*" **of a Summit**; conditional upon Russia not invading Ukraine.
- **Quick and lasting compromises from the Summit**, we fear, **may be wishful thinking** *given* the **inherent conflict** in *Russia's desire to extend border buffers* and the *US' inclination to deny Russia* the power to have an *effective unilateral veto on NATO membership/issues*.
- That being the case, **rebound in markets premised on relief from fears of conflict** on the basis of the Summit are **likely to be cold comfort**. And so, *bid for Oil and safe-haven assets* (e.g. USTs, JPY, CHF and USD) *on geo-politics may not be properly relegated to rear-view mirror.*
- But **adding to that noise will be fluid Fed expectations** ahead of key PCE data end of the week.
- While **more FOMC members** *(led by Williams)* have **pushed back against expectations for a 50bps hike in March**, thereby leading to a marked dial back in aggressive 50bps hike bets (now priced at odds of ~22% from peaks of 80% recently), **hawkish Fed triggers lurk**.
- PCE (especially **core PCE**), the **Fed's preferred measure of economy-wide inflation**, *poses a clear and present danger of reviving hawkish bets on a 50bps hike,* if upside surprise proves more profound and pervasive than anticipated; as was the case for CPI at 40-year high of 7.5%.
- The **conflict between patience** to allow the economy **to acclimatize and urgency so as not to fall further behind the curve** continues to sharpen for the Fed; and accordingly **spells more volatility in UST yields** led by the (policy-sensitive) front-end of the curve.
- And to be sure, there will be no comfort about corresponding USD moves should geo-politics underpin the USD base don "left-half" 'USD Smile' dynamics rather than yield driven moves.
- **BoK (Thu) will probably pause** this week, **taking comfort in its three rate hikes since Aug 2021**; allowing for some economic recovery to filter through.
- But **elevated Oil and a harder-to-predict Fed means that much of EM Asia will not be able to bask unfettered** in equity market recovery and/or a fairly subdued USD; even if those were to be.
- **Russia-Ukraine conflict risks**, despite being once removed from EM Asia, **provide little comfort given the pervasive effects of Oil and financial ripples**.

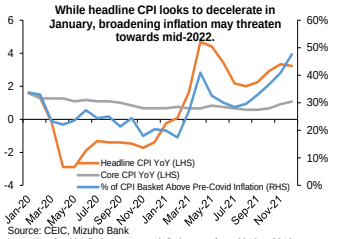
Singapore Budget 2022: Five Take-aways

- Budget 2022 was cracked up to be on sustainability and inclusivity. As expected, the **issue of fiscal sustainability was tackled head on**; not only **without compromising efforts to alleviate inequality** but arguably, **aligining tax resilience and fairness**. Here are five key take-aways.
- First, Budget 2022 is **set to remain highly supportive, with a third straight year of deficit**.
- A mild overall deficit of S$3.04bn (0.5% of GDP) from revised $4.95bn (0.9%) deficit for FY2021 is *even more supportive in fact* as primary deficit increases to S$22.84bn (FY2021: S$18.04bn).
- Second, **GST hikes phased over Jan 2023 and Jan 2024** in two instalments 1%-pt hikes (to 8% and 9%), while adhering to GST hike initiation in FY2022, nevertheless **mitigates concerns about unwelcome second-round effects in the current inflationary environment**.
- This inflation risk is not addressed by the enhanced S$6.6bn Assurance Package. Although the package is critical in ensuring that the inherently regressive GST is softened for low income households so much so that it squares with a progressive tax structure.
- Third, **"fairness" as a tenet of tax policies** was **even more emphatic in wider tax changes**, which was *expressed both in terms of income and wealth taxes.*
- **Personal income tax was redered even more progressive** with two additional tiers for income taxes (>S$500K up to S$1mn @ 23% from 22% and in excess of $1million @ 24%). This is expected to raise an additional S$170mn per year.
- **Wealth taxes made a splash with significantly higher property taxes** to be applied on the excess of S$30K annual value; with *owner-occupied tax rates being increased to 6-32%* (from 4-16%) while non-owner-occupied tax rate are to be hiked to 12-36% (from 10-20%).
- This is **expected to be a significant increase in contribution**, which we estimate may be in the ballpark of S$3.5-5bn per annum (when fully realized) *given steep step-up in tax rates conspiring with a rising property market;* as the latter ought to result in appreciably higher annual values.
- **Luxury vehicles will also be subject to higher taxes** (with open market value in excess of S$80K subject to 220% tax) as *part of the wealth tax suite,* but will probably be nuanced in effect.
- Fourth, the **DNA of corporate tax rates** may also be **evolving**. **Carbon taxes being scheduled for a hefty 9-fold increase over the next 5 years** (from S$5/tonne to S$25 in 2024-25 and S$45 for 2026-27) sends a **clear message to corporates on climate sustainability**.
- And **consideration of minimum effective tax rate (METR)** framework reflects the **need to evolve with BEPS 2.0**, and focus on **sustainability of tax/incentive schemes to attract the best investments**, and by extension **jobs**, to Singapore.
- Fifth, the focus on **deepening job skills capital and SME resilience** continues to resonate in the S$500mn 'Jobs and Business Support Package' (rendering support for local, inclusive hiring as well as training providing credit backstops, project loans for construction).
- Especially complemented by S$200mn for *digitalization initiatives,* S$600mn for *boosting local firms* (productivity, hiring and innovations/scaling-up) alongside *M&A financing. SkillsFuture* and *Skills Matching* also kick in to allow for more *dynamic upgrade of the work force while reducing frictional inefficiencies* in a quickly evolving labour market (requiring new skillsets/applications).
- All said, **Budget 2022 was as bold as it was reassuring** on revival, redistribution and resilience; **guided by principles of fairness, sustainability, and inclusivity**.

Malaysia CPI - Under Control?



Source: CEIC, Mizuho Bank
Note: Average wages are computed from total payroll and sectoral employment



Source: CEIC, Mizuho Bank
Note: Pre-Covid Inflation averages inflation rate from 2016 to 2019

- **Malaysia's first inflation print in 2022 is likely to slow from last Dec's 3.2% while core inflation in January looks likely to establish firmness near the 1% mark.**
- While slowing headline inflation may offer some relief, underlying tensions warn of risks.
- On downside risks, wages still contracting in the services sector contrasts with continued expansion of salaries for manufacturing workers as such wage pressures exerting on consumer prices remain muted. (See LHS chart above)
- In addition, **government efforts in price control scheme** **(Malaysian Maximum Family Price Scheme) have kept a lid on prices of essential goods such as chicken, eggs and long beans**. This though **essentially represents transfers of risks** towards a squeeze on retailers especially those without economies of scale as well as an increasing drain on fiscal resources.
- While the scheme has already expired on 4 Feb, the National Action Council on Cost of Living continues with price controls of specific goods such as chicken and widening import options.
- Looking ahead, **broadening inflation may manifest as a threat in the coming months** as the proportion of the CPI basket experiencing higher inflation increases. (See RHS chart above)
- For now, **the BNM looks likely to take a brief respite** while they still can as and defer normalisation while bidding time for growth to broaden further and for easing of supply constraints to relief cost pressures.

Thailand Q4 GDP - Glimmer of Light

- A **glimmer of light at the end of the tunnel may be seen** as Q4 Thai GDP printed above expectations at 1.9% YoY (with full year 2021 GDP growth at 1.6%) with **contributions from strong boost from industrial production as well as the December tourism pick-up.**
- **Amid robust external demand recovery, the manufacturing sector posted a 3.8% YoY growth which bodes well to support the goods balance as current account awaits firming services recovery.**
- On the services front, the **tourist arrivals of 230k in Dec which more than doubled from the 91k in Nov** shows the **potential of non-linear recovery** which we had highlighted before. These **arrivals are also likely to engage in longer stays with expenditures likely to skew on the higher end tourism**.
- Coupled with **mobility at retail and recreation places improving since Q4**, **services sector expanded 1.6% YoY in Q4 2021.**
- Looking ahead, tourism will be a really mixed bag in Q1 with Jan suspension of Test & Go, (quarantine free travel progamme) which subsequently resumed this month, though signs of further **recovery look encouraging as regional peers and major sources of tourist arrivals (from the Western hemisphere) begin more substantial reopening**
- We contine to expect household debt levels to constrain the recovery but the grip will weaken as activities level are now on a firmer path **as the tourism recovery spurs employment** (which is a substantial 20% of total employment in pre-Covid times) **and bolster household incomes which will set private consumption in a better place for a more durable recovery and withstand possible BoT tightening in H2 2022.**

Bank of Korea: Standing Pat

- **The BoK looks to stand pat on their current policy rate of 1.25%, though this pause is not expected to last for long.**
- With 75bps points increase of the policy rate thus far, **real interest rates still remain excessively negative and accommodative to economic conditions.**
- The latest jobs report reveals a more nuanced recovery, one which contains facets of a pandemic exit, manufacturing-led employment and a services sector still trying to get on a stable footing**. Labour markets would certainly prefer more time for jobs gains to firm up.**
(See Mizuho Flash- Korea: The Not So Curious Case of Jobs Gain - Deceiving Base Effects, 16 Feb)
- Inflation and underlying wage pressures will remain overriding key concerns for the BoK.
- While headline and core inflation at 3.6% and 2.6% YoY in January respectively is still uncomfortably elevated, guidance from an **insertion of the need to assess the "effects of base rate raises" in their monetary policy statement last month** point to some degree of willingness to stand pat at least for the upcoming meeting this week on 24 February.
- That said, inflation broadening remains a key concern, our analysis of 448 components of the CPI basket shows that 72% weightage of the household CPI basket showed higher than pre-Covid inflation rates while the same statistic was only 39% in 2020. **As such, a "get there fast and take it slow" calibration of 25bps to 1.50% cannot be easily dismissed.**
- On balance, **our base case leans towards the BoK keeping policy rate on hold at 1.25% this week**, which **allows a 2-month window of assessment** (till their next meeting in April) for impact of earlier policy rate increases to transmit and feedback through the economy.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	115.01	-0.410	-0.36%	113.30	~	116.00
EUR/USD	1.1322	-0.0028	-0.25%	1.124	~	1.156
USD/SGD	1.346	-0.001	-0.08%	1.3390	~	1.3550
USD/THB	32.129	-0.609	-1.86%	31.90	~	33.50
USD/MYR	4.1858	-0.004	-0.09%	4.176	~	4.210
USD/IDR	14327	-20	-0.14%	14,250	~	14,420
JPY/SGD	1.1698	0.003	0.27%	1.154	~	1.196
AUD/USD	0.7177	0.004	0.56%	0.699	~	0.729
USD/INR	74.66	-0.716	-0.95%	74.4	~	75.8
USD/PHP	51.37	0.040	0.08%	51.0	~	51.6

^ Changes are on weekly basis

Bond Yield (%)

18-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.465	-3.5	1.929	-0.8	Steepening
GER	-0.488	-14.3	0.188	-10.4	Steepening
JPY	-0.027	1.8	0.206	-1.8	Flattening
SGD	1.185	1.4	1.965	2.8	Steepening
AUD	1.175	0.5	2.243	0.1	Flattening
GBP	1.244	-15.6	1.375	-16.7	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,348.87	-1.58
Nikkei (JP)	27,122.07	-2.07
EuroStoxx (EU)	4,074.28	-1.95
FTSE STI (SG)	3,428.90	0.00
JKSE (ID)	6,892.82	1.13
PSEI (PH)	7,418.79	2.04
KLCI (MY)	1,603.05	1.53
SET (TH)	1,713.20	0.82
SENSEX (IN)	57,832.97	-0.55
ASX (AU)	7,221.72	0.06

FX: War Games

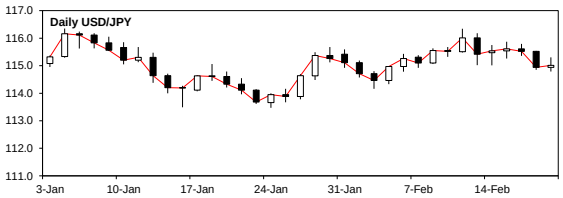
- **Russia and Belarus continuing with military exercise** between the two countries **at the Ukrainian border**, much to the discomfort of Ukraine, **keeps volatility alive**; *even if mostly latent for now.*
- The "**War Games**" **is anything but (a game)**, with **geo-political tensions are being ratcheted higher**; as President Biden continues to warn European allies of an imminent invasion by Russia. And to be sure, the "in principle" **Biden-Putin Summit** merely buys time, but is **unlikely to provide a lasting resolution**.
- In other words, despite the ebbs and flows of geo-political risks, the situation is unlikely to normalise.
- Which **at the margin is supporting the USD** (especially against the EUR) and buoying the JPY further on the presumed safe-haven demand. Tellingly, Gold is up 3.8% (since 10th Feb) while RUB is down 3%.
- But it remains highly challenging to extrapolate the geo-political risks from Russia-Ukraine.
- For one, **Fed March hike bets continue to evolve** with in-coming data, at best wary of, but certainly **far from deferring to geo-political risks**. That's to say, the Fed is not significantly impacted by Ukraine.
- And so it follows that **USD may move both on geo-politics and monetary policy**, rendering one-dimensional catalysts from aggravation to diplomacy harder to tie the dollar down with.
- Similarly for **USD/JPY**, **predicting the push and pull between haven demand and policy divergence** (vs. the Fed) also **challenges the view of how far and fast JPY gains and subsequent pullbacks** may be; much less giving any clarity on the timing of these moves.
- **Gold too, is at risk of knock back on rising real yields** if geo-political risks fade, to leave a hawkish Fed unmitigated. What's more, the *"fade" in market pricing of geo-political risks need not coincide with actual withdrawal of troops.* Point being, timing market ripples remains fraught.
- For now, we expect EUR to be vulnerable to pullbacks on renewed Ukraine worries. Bouts of rebounds on relief may prove hollow. EM Asia FX too, may be exhausting the extend of resilience.
- A deeper geo-political shock may be harder to avert acorss the board; despite being geographically removed. If war games stumble into the real thing, no one wins.

US Treasuries: Uncertainty is not Safety

- With **safe haven demand featuring prominently** last week, both 2Y and 10Y yields dipped modestly in rather muted bull steepening fashion.
- Though this is merely brief respite and not all out relief for UST bulls, Fed hawks are very much still circling, threats in the air giving way to dangers on land for now.
- Fed's Williams and Brainard comments last friday also pushed back against a 50bps March hike which will help reduce the extent of yield curve flattening for now, given their relative proximity to Fed Chair Powell. But **US PCE may have the final word**.
- With markets having already having exposed to the extremes of both Fed tightening and geo-political tensions thus far, it will be a week to **watch for substantial dislocations** (on both geo-politics and Europe CPI revisions surprises) **rather than incremental changes.**
- With the elevated uncertainty over Ukraine-Russia, **2Y yields will struggle to test 1.6% while the ability of 10Y yields to challenge the 2% remain in question this week**, yields dipping will likely feature alongside news of border violence.
- **Notably, caution is in the air for UST bulls mistaking the uncertainty for safety.**

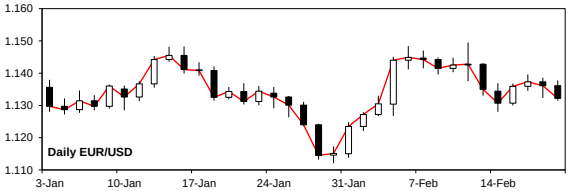
JPY: Haven Trades to Linger

- While sub-115 dips have remained shallow, this may intensify on two counts.
- First, **safe haven demand** being amplified. While the "in principle" Summit is being hailed as a source of relief, the sticking points between US and Russia are more stark than say Russia and France. And so, the French hand in arranging talks is no guarantee of success.
- In turn, **safe-haven JPY demand may be volatile, not invalidated**.
- What's more, **softening views on a 50bps hike in March is also likely to dampen UST yields** and therefore dampen, if not drag the USD/JPY.
- **So long as US PCE data do not wind up Fed hawks into a frenzy**, that is.
- For now, we expect USD/JPY to be traded in the low-113 to 116 range.



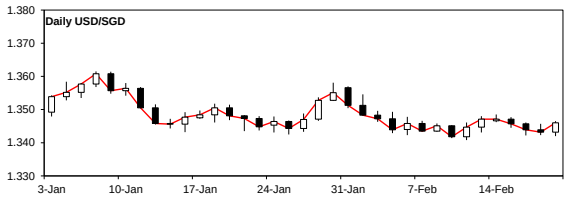
EUR: Consolidation at the border?

- While the **ECB's hawkish turn remains a key backstop for the EUR**, the extent of EUR surge from the ECB front has so far been kept in check by **growth concerns and a mild retention of the fading supply side constraints narrative**.
- The issue here will stem from a finalised EZ CPI which is set to show heightened services inflation which will certainly weigh on the policy calculus.
- With **geo-political tensions have nearly reaching fever pitch, the question is what else is left? Foward, retreat or consolidation at the border?**
- With a hopeful and yet pragmatic view, consolidation **with bouts of weakness** may be the likely EUR outcome for this week, trading between the mid-1.12 and 1.14, trying to hold the border at mid-1.13.



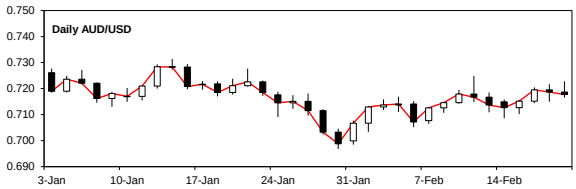
SGD: Bouncy Amid Tensions

- While CNH gaining ground against the USD last week ought to have bolstered SGD, relative SGD appreciation was rather mild as USD safe haven demand overwhelmed late last friday.
- While Budget 2022 is set to incur a deficit of 0.5% of GDP, it should not detract from the slew of tax increase meant to improve long term fiscal sustainability.
-With this virtuous econoic support coupled with longer term foresight, SGD allure may also be accentuated insofar that the Budget reinforces the notion of further MAS tightening; including re-centring of the S$NEER mid-point higher.
- Our views remain that give a rich $NEER, USD/SGD may exhibit tendency to bounce off 1.34 while attempts to stay above 1.35 will need hinge on further escalation of geopolitcal tensions and Fed hawks returning to focus.



AUD: Playing Second Fiddle

- Having repeatedly pushed back on rate hikes amidst reportedly weak wage growth (2.2%), AUD bulls will be hoping for upside surprise for the mid-week wage inflation release, which is expected to be in the ballpark of 2.4%.
- Concurrently, labour statistics point towards a tightening labour market despite the Omicron outbreak, which hints at possible outperformance for wages. The AUD could then test 0.725.
- The caveat being **geopolitical uncertainties continue to drive bouts of "safe haven" demand for the USD which could see the AUD slip.**
- Furthermore, 7.5% inflation in the US continues to justify a **hawkish Fed**, in turn keeping the AUD playing **second fiddle** to the greenback.
- Barring outsized commodity price surge, AUD gains are therefore expected to falter once it pushes past mid-0.72 levels.



With acknowledgements of contributions from our Research Associate Matthew Ng

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