Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095

MIZUHO

WEEK AHEAD

Vishnu Varathan | Lavanya Venkateswaran | Tan Boon Heng

21-Mar-2022

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Economic Calendar

•Survey results from Bloomberg, as of 18 Mar 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 Mar	**US**	**Chicago Fed Nat Activity Index**	**Feb**	**0.50**	**0.69**
22 Mar	**US**	**Richmond Fed Manufact. Index**	**Mar**	**2.0**	**1.0**
23 Mar	US	New Home Sales	Feb	812k	801k
	EZ	Consumer Confidence	Mar A	-12.9	-8.8
	JP	Leading Index CI/Coincident Index	Jan F	--	103.7/94.3
	JP	Machine Tool Orders YoY	Feb F	--	31.6%
24 Mar	**US**	**Initial Jobless Claims**	**Mar-19**	**211k**	**214k**
	US	**Durable Goods/Nondef Ex Air Orders**	**Feb P**	**-0.6%/--**	**1.6%/1.0%**
	EZ	Manufacturing/Services PMI	Mar P	56.0/53.8	58.2/55.5
	JP	Manufacturing/Services PMI	Mar P	--	52.7/44.2
25 Mar	US	U. of Mich. Sentiments/Conditions	Mar F	59.7/--	67.8/59.7
	JP	PPI Services YoY	Feb	1.2%	1.2%
	GE	**IFO Business Climate/Expectations**	**Mar**	**94.2/92.0**	**98.9/99.2**

Asia Actual Data Release

Date	Country	Event	Period	Survey*	Prior
21 Mar	**CH**	**1-Year/5-Year Loan Prime Rate**		**3.70%/4.60%**	**3.70%/4.60%**
23 Mar	**SG**	**CPI/Core YoY**	**Feb**	**4.0%/2.5%**	**4.0%/2.4%**
	KR	PPI YoY	Feb	--	8.7%
	TH	Customs Trade Balance	Feb	-$1487m	-$2526m
24 Mar	CH	Swift Global Payments CNY	Feb	--	3.2%
	PH	**BSP Overnight Borrowing Rate**		**2.00%**	**2.00%**
25 Mar	CH	BoP Current Account Balance	4Q F	--	$119.4b
	SG	**Industrial Production YoY**	**Feb**	**6.0%**	**2.0%**
	MY	**CPI YoY**	**Feb**	**2.4%**	**2.3%**
25-31 Mar	VN	Trade Balance	Mar	--	-$2332m
	VN	**Industrial Production YoY**	**Mar**	**--**	**8.5%**
	VN	**GDP YoY**	**1Q**	**--**	**5.2%**
	VN	Retail Sales YTD YoY	Mar	--	1.7%
	VN	**CPI YoY**	**Mar**	**--**	**1.4%**

Week-in-brief: 50-50

- **50-50 is a loose allusion** to the fair odds that markets are attaching to **chances of Russia-Ukraine** from **Russia-Ukraine talks, brokered by Turkey and Israel**.
- Equally, it is also a **harder reference to odds of a 50bps move at upcoming FOMC meetings** as **Feds Waller, Bullard and Barkin** not only keeping a **50bps move option** on the table, but unequivocally expressing the desirability of such a front-loaded move (remember 'Kokomo' Fed).
- Even strident Fed dove Kashkari, was on board with a 175bps of tightening in 2022.
- And this week, it appears that there is a **50-50 chance of continuing with the pick-up in market sentiments**. Two reasons why. First, as we alluded to, **hopes of Russia-Ukraine talks making further progress** *after the "convergence" on key points* that Turkey has claimed.
- To be sure, this **is a 50-50, and not a sure-fire**. So **overdone exuberance about geo-political risks capitulating will need to be checked**, if not recalibrated.
- Second, **China cheer** premised on **1-2 combo of less dire COVID outcomes** (easing restrictions in view as numbers/infections come under control) and **policy stimulus**; specifically, *Liu He's assertions of backstop for markets* with implications of relief from regulatory tightening for tech.
- Despite a **conspicuous absence of critical details on the extent of regulatory relief tech will get**, and crucially, the **scope for property market cashflows to be revived**, markets revelling in relief is likely to give Chinese policy-makers benefit of the doubt; even without LPR cuts this week.
- In any case, **China cheer conspiring with lingering Russia-Ukraine uncertainty** (regardless of hopes pinned to talks) were arguably **co-catalysts for reviving crude oil back above $100** (with Brent now knocking up against $110).
- And so, in every sense, **directional Oil trades remain a 50-50**, rather than a one-way bet.
- Similarly, **USD too looks like a 50-50**. Despite coming off rallies post-FOMC last week, underlying demand for USD, especially against EM FX remains a legitimate play amid uncertainty.
- Elsewhere in **EM Asia, inflation risks are a certainty, not a 50-50**. ***Nevertheless,* BSP is likely to take a rain cheque** on growing pressures to tighten this round.
- As market asssess the risks of one, if not two 50bps hikes 50-50 odds on Russia-Ukraine is not a one-dimensional relief and volatility suppression, but more of background uncertainty that may unleash latent volatility.

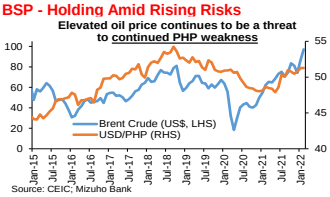
China's Policy Risk is "Too Little Too Late"

- As China gears up to shore up the economy, **Russia-Ukraine risks** and **COVID disruption** are admittedly unwelcome setbacks.
- Nonetheless, these "external risks" **pale in comparison** to **self-inflicted regulatory assault**, as the **single biggest threat to the economy**.
- Especially given the deep and wide economic pain these regulatory crackdowns may inflict via a conspiracy of balance sheet, liquidity and confidence channels.
- In contrast, the **ability to nimbly exploit efficient vertical supply-chains** and **domestic demand** alongside adequate policy buffer provide comparatively greater cushion against such geo-political; shocks and pandemic disruptions.
- All said, the real danger is not a lack of policy capacity or willingness, but that **Beijing may do "too little, too late" in a misguided pursuit of conflicting regulatory/social objectives**.
- The hope is that recent announcements about backstopping markets translates into decisive and emphatic stimulus, but the reality may be a messier struggle to coordinate and align conflicting regulatory and economic objectives.

Malaysia: Oil and Gas Windfall or Broken Price Ceilings?

- While oil prices grab global headlines, **gas exports in Malaysia continues to play their traditional role as one of the main drivers of the trade surplus** while petroleum products remain supportive. Assuming that natural gas prices remain at the average of the first two months of 2022 for the rest of the year, we expect the **trade balance to be boosted by at least 0.3-0.5% of GDP**.
- More importantly, the trade-off between high inflation and sustained fiscal deficit will mean that sensitivities to oil prices has escalated and will increasingly factor into **policy calculus for both fiscal authorities and Bank Negara Malaysia.**
- On one end of the spectrum, in the absence of fiscal intervention, higher oil prices will directly pass through to transport costs and utilities charges pushing headline inflation higher.
- Meanwhile, indirect spillovers through the services sectors such as retail and restaurants will also exert inflationary presence.
- On the other hand, government measures such as the **price ceiling on RON95 and diesel will keep a lid on inflation at the expense of fiscal slippage.**
- While the fiscal deficit was projected to be 6% of GDP in 2022, the inherent tensions are revealed by examining the **underlying fiscal assumptions** of their Medium-Term Fiscal Framework with **crude oil prices projected at $67 per barrel.**
- As the working assumption has inevitably undershot even with crude oil prices **at the $95-$105 range**, it is estimated within this range that the additional subsidy burden will **add an unwelcomed ~0.4% of GDP to the fiscal deficit** which dampen their fiscal consolidation efforts from their projected 6.5% (of GDP) fiscal deficit in 2021.
- As such, the **fragility of the petrol subsidy cushion contrasting with the immense inflationary pressure** means that broken price ceilings to allow petrol prices to float remains untenable with the acute awareness of the demand destruction brought about by higher pump prices.
- A quick **light lift of the ceiling** remains the easiest outcome, though a **revamp of price controls to targeted subsidies to the most affected groups may be the first best** solution if worrisome implementation kinks are smoothed out.
- Notably, for **the MoF and the BNM**, the trade-off will one involving **dynamic optimisation which will evolve in tandem with the trajectory of energy prices** (with the height and duration are both critical) alongside the **evolving state inflation (see the RHS box for inflation preview) at each point in the coming months.**
- **The MYR will also be subjected to similar tensions as oil and gas current account tailwinds face the duo of inflation risks eroding real returns and heightened fiscal deficit risks.**

BSP - Holding Amid Rising Risks



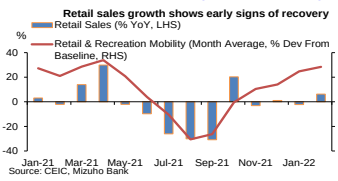
Fiscal Assumptions

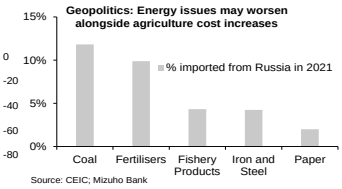
	Philippines*
Crude Oil	USD 50-70
Real GDP Growth	7-9%
Inflation Rate	2-4%
USD/PHP	48-53

Source:Department of Budget Management; Mizuho Bank

- **While the BSP is expected stand pat on policy rate this week,** the wobbles are increasingly evident given stresses on multiple fronts.
- First, the PHP's 2.4% YTD **depreciation against the USD amplifies the impact of higher oil prices exacerbating imported inflationary pressures**.
- As such, **headline inflation at 3% for February is cold comfort** as the higher weightage of transport cost and utilities can easily send inflation towards 4% given the extent of increase in oil prices.
- Second, the broader issue here being that **given the already high inflation rates of 2021, a further acceleration of price in 2022 implies suffocating household budgets and attendant** heightened threat to other goods generating broadening inflation.
- Meanwhile the **current absence of broad based inflation** has, in our view, translated to Governor Diokno's emphasis on the BSP's wide policy tool kit and **signaling non-monetary measures** to curb inflation in turn hinting at **some avoidance of hiking policy rates**.
- However, BSP's position on holding policy rate will get increasingly uncomfortable if oil prices remain high for longer as the **added headwind of tightening Fed which reverses relative inflation spread and narrows policy rate spreads will mean that PHP may remain weak** for longer.
-What's worse, **fiscal assumptions imply twin deficit risks as current oil prices are 30% above their assumed upper limits**, indeed the BSP can **extend loans to the government to expand spending** to suppress household pain on fuel prices but that in itself raises debt sustainability issues.
- While adequate FX reserves have been the BSP's repeated emphasis, the **tacit acknowledgement of a fundamentally different scenario for the Philippines economy (given higher oil prices amid geo-political conflicts)** comes from **the USD/PHP being sustained above 51.5,** a level which the Governor had alluded to BSP's participation earlier in January.
- For the USD/PHP, the **markets will remain watchful for 53** as the Governor was comfortable for the PHP within 48-53 and postulated that it is unlikely to weaken beyond.

Vietnam GDP - Growth Begins Entrenching





- Vietnam's Q1 GDP release is likely to print in the 3-4.5% range with **some upside bias imparted from services recovery.** With **industrial production YTD (Feb) enjoying 5.4% YoY** growth, **manufacturing recovery took hold across a broad swathe of sectors.**
- While on the services front, **retails sales up 1.7% YTD (Feb)** alongside improved mobility levels bodes well for employment in the services sectors.
- Their mid-March tourism re-opening (**without need for quarantine**) will allow aid in the services sectors recovery as flight frequencies and connectivity picks up.
- On the expenditure front, **downside bias could likely stem from external trade as the terms of trade worsens with rising import cost** alongside economic recovery driving up import demand.
- Looking ahead, while we expect initial kinks of tourism resumption, **the removal of tedious quarantine measures will supersede background virus concerns and boost tourism in Q2**
- That said, supply chain complications (see chart above) from geopolitical conflicts may result in energy issues from coal, while input cost increases erode agriculture margins and raise food costs.These may consequently restrain the pace of growth.

Malaysia CPI - Elevated Within Expectations

- Malaysia's February inflation printing **above January's 2.3% will be within expectations.**
- First, **seasonal effects of holidays** (Lunar New Year) will continue to feature while essential items such as chicken and eggs remain under price control during the festive period.
- Second, this will be compounded by **the transmission from higher global food prices.**
- Third, while ceilings on RON95 and diesel serve to limit fuel cost increases, the **unsubsidised fuel variants** such as RON97 will also exert inflationary pressures.
- Looking ahead, **inflationary pressures will stream in from multiple fronts** given the Ukraine-Russia impact ranging from **metals to fertilisers** on top of energy concerns**.**
- For now, the inflation print will not derail the BNM's course to ensure a more durable recovery, **though the need to anchor inflation may entail a consideration of monetary tightening in Q2.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	119.17	1.880	1.60%	117.00	~	120.00
EUR/USD	1.1051	0.0139	1.27%	1.085	~	1.115
USD/SGD	1.3566	-0.006	-0.46%	1.3480	~	1.3680
USD/THB	33.335	0.036	0.11%	32.90	~	33.70
USD/MYR	4.1953	-0.001	-0.01%	4.176	~	4.220
USD/IDR	14340	39	0.27%	14,280	~	14,420
JPY/SGD	1.1374	-0.024	-2.05%	1.123	~	1.169
AUD/USD	0.7415	0.012	1.67%	0.725	~	0.760
USD/INR	75.81	-0.787	-1.03%	75.5	~	76.9
USD/PHP	52.345	0.057	0.11%	51.9	~	52.8

^ Changes are on weekly basis

Bond Yield (%)

18-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.936	18.8	2.149	15.7	Flattening
GER	-0.361	6.9	0.367	12.4	Steepening
JPY	-0.032	1.2	0.197	1.8	Steepening
SGD	1.432	11.4	2.069	17.4	Steepening
AUD	1.363	8.3	2.570	0.1	Flattening
GBP	1.187	-10.3	1.493	0.6	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,463.12	6.16
Nikkei (JP)	26,827.43	6.62
EuroStoxx (EU)	3,902.44	5.85
FTSE STI (SG)	3,330.63	2.49
JKSE (ID)	6,954.97	0.47
PSEI (PH)	7,007.63	-1.47
KLCI (MY)	1,591.26	1.47
SET (TH)	1,678.51	1.24
SENSEX (IN)	57,863.93	4.16
ASX (AU)	7,294.35	3.27

FX: Fizzling on the (Hawkish) Fed Fact?

- **Despite a hawkish Fed** that **compensated for a more measured 25bps hike** (rather than a 50bps move) **with an aggressive 'Dot Plot'** suggesting a cumulative 175bp hikes in 2022), the **Greenback has slipped back**; by ~1%(with USD Index maintaining some traction around 98).
- Whether this suggests "*buying the rumour, and selling the fact*" **is arguable** given that USD has retained most of its altitude gains since Russia's invasion of Ukraine. But at the very least, it does appear that the **USD is fizzling on the hawkish Fed "fact"**.
- The only currency that has **materially under-performed the USD on the week is the JPY**, which was down 1.6% last week (with USD/JPY above 119). Coincidentally, **Gold too slid from $2000 to $1921**.
- Alongside higher UST yields and buoyant equities, the **temptation may be to declare "risk on"**.
- But that would be **misguided as Russia-Ukraine geo-political uncertainty remains eleveated**, notwithstanding glimmers of hopes about a resolution from Russia-Ukraine talks last week.
- Instead, **oil price and China policy relief** (**firing up tech stocks from a low base**) boosted equities whereas ***rising (real) UST yields*** (from a hawkish Fed) ***left JPY and Gold compromised***.
- In other words, rather than UST (yields), JPY and Gold all being driven lower (higher) by generalized risk sentiments, it may be a case of yields driving JPY and Gold while equities danced to a different tune.
- At the other end of the spectrum, **commodity currencies such as the AUD managed a strong rebound post-FOMC**, giving some credence to the ***"fizzling the hawkish Fed"*** **trade**.
- So the **question remains as to whether the USD has exhausted most of the hawkish bets**, while the **current Russia-Ukraine risks being priced in also diminishes USD demand** at the margin.
- Perhaps so.But it would be **negligent, if not outright reckless, to write-off underlying USD demand on the Fed-geopolitics mix**. It is *one thing for the USD fizzle after sharp bullish turn, but quite another for the USD to be finished with its buoyancy phase.*
- **Until clarity on Russia-Ukraine emerges**, USD rebounds, especially against EM Asia FX, remains par for this bumpy course. Especially as oil's rebound reminds of lingering pressures.

JPY: Buoyed

- A **trio of factors are set to conspire to buoy the JPY** this week.
- First, **Oil on a rebound** means that relief for JPY from the C/A and energy import front will be limited; even if a case for delayed response to last week's pullback in Crude is made.
- Second, **a hawkish FOMC** last week, cemented by even **more hawiksh talk all around** could also boost the JPY further; as it wedges a deeper policy divergence view given a dovish BoJ.
- The **corresponding lift in UST yields** providing the leg-up for USD/JPY.
- Finally, with hopes of truce talks beyween Russia and Ukraine lingering, follow-through lift in equities are also likely to buoy the USD/JPY.
- That said, sharp gains last week may temper the dynamics such that USD/JPY consolidates in the sub-118 to mid-120 range rather than entrenching emphatically amid 120-121.

EUR: Russian-Ukraine Overhang

- With ECB's hawish flex, the EUR gained steadily against the USD last week, amidst geo-political knockback, to rise above 1.11 levels with further support from inflation rate at 5.9% edging above initial estimates.
- Accordingly, ECB's Lagarde followed up with acknowledging, with increasing confidence, that "inflation dynamics over the medium term will not return to the patterns before the pandemic", further encouraging rate hike bets for Q4 of this year.
- For this week, it would be presumptuous, however, to expect the momemtum to persist given the ECB's steady and data dependent transition towards a hawkish stance.
- After all, ambiguity with regards to the end of the Russia-Ukraine conflict remains a heavy overhang on the EUR.
- Indeed, the odds are stacked against the EUR for now, with sustainabiity of upside gains above mid-1.11 levels in doubt.

SGD: Covid Pivot and Safe Haven About-turns

- Last week, with the FOMC's 25bps hike confirmed alongside a weakening USD trend for the week, attention pivots to **policy convergence on the MAS's part** as the USD/SGD dropped 0.8% to go below mid-1.35.
- This week, further CNH/CNY easing to support the economy may restrain SGD gains though signs of **Chinese Covid restrictions pivoting (even if only in Hong Kong) could boost regional peers** alongside the SGD.
- Base case remains a cosolidation between 1.35-1.36, though the greater geopolitical backdrop worsensing may see USD/SGD boosted above 1.36 on renewed safe-haven demand.

AUD: Commodities Remain King ?

- The week past saw the AUD regain lost ground on the coattails of commodity price rebound, rising from below 0.72 to ending the week above 0.74. Notably, the mid-week decline displayed some of AUD's vulnerability and sensitivities to geo-politcal risks.
- Having consistently emhasizing improving unemployment and wages growth as the precursor to sustained inflation (and accordingly rate hikes), better than expected unemployment data this week rekindled hawkish bets against the RBA.
- Going forward, elevated commodity prices are likely to continue backstopping, if not driving up, AUD in the near term.
- That said, USD "safe haven" demand on resurgent geo-political risks, and the RBA's ability to be patient with rate hikes will limit AUD upside at 0.75 levels.

With acknowledgements of contributions from our Research Associate Matthew Ng

US Treasuries: Open Mouth Operations

- WIth the FOMC confirmation of the 25bps rate hike and trajectory of a hike in all six remaining meetings for this year, the UST sell-off was as expected with 2Y yields went up ~19bps and 10Y yields up ~16bps.
- The UST yield cuve **continued its modest flattening** from the week before.
- WIth a 7bps decline in US 10Y breakevens, **some belief in the Fed quelling inflation translates to higher real UST yields.**
- **This week, US treasuries will be subjected to the wave of Fed Governor opinions which may lean with a hawkish tilt on balance.**
- Sole dissenter Bullard has further substantiated his views in favour of an implementation of **balance sheet reduction and in favour of rates above 3% by end-2022.** Meanwhile, Christopher Waller highlighted geo-political caution which underlies his support for a 25bps initial lift off.
- As such, a 50bps move is very much in tact if inflation sustains at current levels and growth endures, that is to say the current economic indicators persist.
- 2Y and 10Y yields rallying above 2% and 2.2% respectively looks likely as **caution from 25bps supporting Fed speakers may easily be interpreted as hawkish tendencies.**