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MIZUHO

WEEK AHEAD

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23-May-2022

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Economic Calendar

•Survey results from Bloomberg, as of 20 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
23 May	**US**	**Chicago Fed Nat Activity Index**	**Apr**	**0.50**	**0.44**
	GE	IFO Current Assessment/Business Climate	May	97.3/91.0	97.2/91.8
	GE	**IFO Expectations**	**May**	**85.5**	**86.7**
24 May	**US**	**New Home Sales**	**Apr**	**758k**	**763k**
	US	Richmond Fed Manufact. Index	May	9	14
	EZ	Manufacturing/Services PMI	May P	54.8/57.9	55.5/57.7
	JP	Manufacturing/Services PMI	May P	--	53.5/50.7
25 May	**US**	**Durable Goods/ Nondef Ex Air Orders**	**Apr P**	**0.60%/--**	**1.1%/1.3%**
	JP	Leading Index CI/Coincident Index	Mar F	--	101/97
26 May	US	FOMC Meeting Minutes		--	--
	US	**Initial Jobless Claims**		**210k**	**218k**
	US	Kansas City Fed Manf. Activity	May	18	25
	US	**GDP Annualized QoQ**	**1Q S**	**-1.3%**	**-1.4%**
	JP	PPI Services YoY	Apr	1.5%	1.3%
27 May	US	U. of Mich. Sentiment	May F	59.1	59.1
	US	**PCE Deflator/Core Deflator YoY**	**Apr**	**6.3%/4.8%**	**6.6%/5.2%**
	US	Wholesale Inventories MoM	Apr P	1.9%	2.3%
	US	Personal Income/Spending	Apr	0.50%/0.60%	0.50%/1.10%

Asia

Date	Country	Event	Period	Survey*	Prior
23 May	**SG**	**CPI/Core YoY**	**Apr**	**5.5%/3.4%**	**5.4%/2.9%**
	TH	Customs Trade Balance	Apr	-$621m	$1459m
24 May	**ID**	**Bank Indonesia 7D Reverse Repo**	**24-May**	**3.50%**	**3.50%**
25 May	KR	Business Survey Manufacturing	Jun	--	88.0
	MY	**CPI YoY**	**Apr**	**2.3%**	**2.2%**
	VN	Trade Balance	May	--	$1069m
	VN	Imports/Exports YoY	**May**	**--**	15.5%/25.0%
	VN	Retail Sales YoY	May	--	12.1%
	VN	Industrial Production YoY	May	--	9.4%
	VN	**CPI YoY**	**May**	**--**	**2.6%**
	SG	GDP YoY	1Q F	3.7%	3.4%
26 May	SG	Industrial Production YoY	Apr	3.7%	3.4%
	KR	**BoK 7-Day Repo Rate**	**26-May**	**1.75%**	**1.50%**
27 May	AU	Retail Sales MoM	Apr	0.9%	1.6%

Week-in-brief: Of Resolve and New Beginnings

- Last week, the **Fed certainly displayed plenty of hawkish resolve**, starting with Chairman Powell not hesitating **to move past neutral**, followed by Chicago Fed's Evans' "getting to a restrictive setting and sit there for awhile' aligning with our views of a "Kokomo" Fed and Kansas City's Esther George characterising the **tighter financial conditions as being part of policy transmission**.
- In China, the PBoC announced a larger than expected cut to the 5 year loan prime rate (LPR) to 4.45% from 4.60% (Mkt: 4.55%). Though with the one-year LPR benchmark kept at 3.7% and confidence issues denting demand, a **durable boost to jolt the housing market remains in doubt.**
- In EM-Asia, the Indonesian government will also **lift the palm oil exports ban today** as local cooking oil supplies had increased and resulted in prices declining (though not yet to their initial targets). This provided some support for IDR which was at the bottom of the EM-Asia pile last week and may give IDR a new lease of life.
- In the Philippines, the BSP, as we had expected, **began their monetary policy normalisation** with a 25bps rate hike, joining the BNM. BSP Governor Diokno cited a rise in inflation expectations and the emergence of second round effects as their rationale.
- In contrast, **this week, it is unlikely to be new beginnings for Bank Indonesia (Tue)** will look to **maintain its policy rate** at 3.5% at their meeting as they stay patient and focus on growth.
- Meanwhile, we **expect the BoK to stay resolute in their quest to tackle inflation and raise their policy rates by 25bps (Thurs).** The rise in headline and core inflation has continued to outpace their policy calibration, resulting in persistently negative real policy rates.
- Singapore and Malaysia **CPI looking likely to continue ascendiing** (and also spillover across the boarder) will **test both central banks resolve and put into question the need to do more on monetary tightening** as diminished real returns stress test currencies and policy paths.

FOMC Minutes: Hawks in the House

- Hawkish expectations will colour the interpretation of FOMC Minutes, as Less hawkish caveats may be discounted while hawkish pronouncements validate views of more 50bp hikes being lined up in an effort to front-load tightening.
- A key watch factor for markets though may be any insights or hints as to how FOMC members gauge the **policy trade-offs**; and in particular **recession risks associated with the aggressive rate hike path laid out.**
- But because (and not despite) of the hawkish expectation built in, chances are there may be a higher bar trigger fresh and sustained upside in UST yields and the Greenback as markets have already "bought the rumour".
- Instead, and relief on assurances of a soft landing (rather than a policy-induced crash) may **unexpectedly buoy equities (from a soft position), and temper yields as well as the Greenback**

Why PBoC's LPR Cut Overstates Stimulus Impact

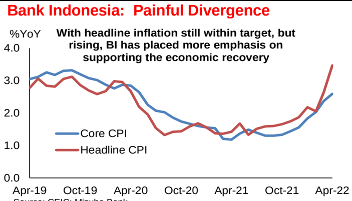
- The PBoC's 15bp cut to the 5-yr LPR rate has stirred some excitement insofar that **this is the largest LPR cut**, and it appears to fold into it a glimmer of hope for property sector relief, if not rescue.
- But as much as it may be tempting to interpret the longer-term policy rate cut as a boost for the property sector, this overstates the actual stimulus that may be expected.
- For one, in the grander scheme of things a 15bp cut is not going to be the panacea for the beleaguered property market; given that the shock waves have been triggered by the ripples effects of the seizure in liquidity rather than an incremental increase in the cost of credit.
- That being the case, **expanded credit quotas and a restoration of confidence with credit assurances (from the local governments and banks) will be the decisive aspects** of a resolution. Not token rate cuts in the midst of hesitancy in the banking sector to extend credit/liquidity to the property sector.
- And while credit supply is the impediment for the property sector many other parts of the Chinese economy may be hamstrung by a deficit in credit demand as confidence continues to wane.
- The upshot being, the surprise LPR cut may be a great signal, but **requires follow-up, topdown policy action to get the credit impulse going. Till then, the policy headline grossly overstates the economic outcomes.**

Asia FX Brief: Rising USD & Inflation Tide*

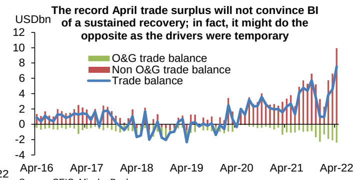
- **Pressures on EM Asia FX are likely to be protracted, and possibly set to deteriorate before things turn a corner late this year or in H1 next year.**
- For one, **on-going aversions to geo-political uncertainty and the consequent price pressures are delivering stagflation type of risks** that are likely to unearth greater aversions on EM. And EM Asia is no exception.
- With broad-based USD strength finding more dimensions and greater durability, resulting **weakness in EM Asia currencies (AXJ) may not only endure into Q2, but are likely to extend into Q3.**
- **And even if AXJ regains traction into end Q3 as Fed hawks mellow, downside risks within Q3 remain significant.**
- Point being, **this brand of Greenback strength**, steeped in a hawkish Fed with lagging and less compelling EM Asia central bank tightening (resulting in persistent policy gaps), **has a tendency to hit EM Asia currencies/assets hardest insofar that it stirs capital outflow risks.**
- **Especially if the dent from rising US/global rates hitting greater levels of indebtedness feed off**, and into, **the adverse balance sheet effects of a stronger USD** (inflating USD-denominated liabilities and diminishing returns of unhedged foreign investments in local currency assets).
- The most extreme iteration, albeit not the base case this time, would be "reflexivity", whereby EM Asia currency losses turn into a self-fulfilling spiral.

* For further analysis and EM-Aaia country specific details, FX forecasts, pls see:
https://www.mizuhogroup.com/binaries/content/assets/pdf/singapore/macro/periodicals/fx/asia-strategy-brief-may---2022.pdf

Bank Indonesia: Painful Divergence



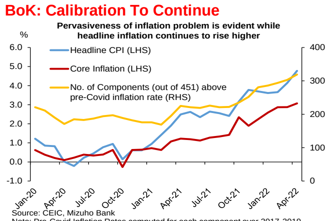
Source: CEIC; Mizuho Bank



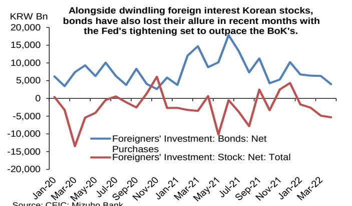
Source: CEIC; Mizuho Bank

- **BI's focus on growth**, while justified to some extent given the lackluster recovery, and **within target headline inflation**, albeit against a backdrop of rapidly suppressed domestic price pressures, **suggests a longer runway to start the process of monetary policy normalisation.**
- For now, **our forecast is for BI begin this process only in Q3; maintaining its policy rate 3.50% at its 17 May meeting.**
- Even the **record trade surplus in April will not be enough to convince BI that a more sustainable recovery is underway.**
- In fact, we suspect the sharp pick-up in April export growth was supported by strong price effects rather than volume effects; **and that part of the boost was from a front-loading of palm oil export ahead of the embargo on 28 April.**
- **Although the ban has been revoked from 23 May** and could allow for a normalisation in palm oil exports, it will be unable to compensate for the broader global growth slowdown expected in H2.
- Moreover, **the government has significantly increased the subsidy budget for fuel and electricity**, to maintain retail prices, **delaying the fiscal consolidation agenda (**even with commodity revenue backstops) **and potentially diverting spending away from capex.**
- **This rising penchant towards protectionist policies** will worsen the **'twin deficits'; and combined with BI's stance diverging from its hawkish regional peers (BNM and BSP)**, **IDR depreciation against USD and relative currency underperformance versus peers will likely sustain in the near-term.**
- Sustained upward moves in USD/IDR, from aggressive US Fed rate hikes and a deterioration in interest rate differentials, could **force BI to walk back on its "patience" and start hiking rates.**
- **The unintended consequence of such an outcome would be BI's diminished credibility and a setback to the nascent domestic demand recovery.**

BoK: Calibration To Continue



Source: CEIC, Mizuho Bank
Note: Pre-Covid Inflation Rates computed for each component over 2017-2019



Source: CEIC; Mizuho Bank

- We expect the BoK to **continue raising their policy rate at their meeting this week (Thurs) by 25bps to take the Base Rate to 1.75%.** This is on the back of 4 hikes of 25bps which began in August last year.
- First, the need to continue calibrating policy rates is evident considering the **magnitude and breath of the inflation problem facing the BoK.**
- On magnitude, **both headline and core inflation** have been rising relentlessly and is projected to head **sustain above 4% and 3% for much of this year.**
- Broadening of inflation has also taken hold at a remarkable pace, conservatively on an unweighted basis, 70% of the categories in the CPI basket show inflation rates higher than pre-Covid averages.
- What's worse, the KRW's YTD **depreciation** of 6.3% exacerbates their supply side imported inflation problems such as that arising from higher energy costs feeding into their industrial complex.
- In addition, given their tight labour market and steady growth (3.1% YoY in Q1) thus far, demand side price pressures have allowed the sustained momentum of inflation.
- With a supplementary budget at more than 2% of GDP being debated at the national assembly, the worry is that expansionary fiscal policy in the form of **cash transfers (which have larger multipliers) lifts the inflation trajectory and un-anchor inflation expectations**.
- Surrounding this budget **debate is not the denial of spending, instead they are centered around a further enlargement of the supplementary budget to transfer the amount allocated to paying the national debt to further cash transfers.**
- Externally, waning foreign interest in Korean equities and bonds dampens buffers provided by their current account surplus.
- In fact, Governor Rhee's display of openness towards a **big step rate hike (50 bps) underscores the multiude of challenges facing the BoK.**
- Nonetheless, these comments should be viewed as **affirming the current need for a 25bps rather than priming for a 50bps, while forward communication tones down the awe of 50bps, if the next inflation print surprises.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	127.88	-1.340	-1.04%	126.50	~	130.00
EUR/USD	1.0564	0.0152	1.46%	1.035	~	1.069
USD/SGD	1.3804	-0.013	-0.90%	1.3700	~	1.3940
USD/THB	34.263	-0.520	-1.49%	34.00	~	34.90
USD/MYR	4.3892	-0.010	-0.22%	4.350	~	4.420
USD/IDR	14652	39	0.27%	14,450	~	14,780
JPY/SGD	1.079	0.001	0.09%	1.054	~	1.102
AUD/USD	0.704	0.010	1.44%	0.690	~	0.720
USD/INR	77.55	0.101	0.13%	77.3	~	78.2
USD/PHP	52.225	-0.232	-0.44%	51.8	~	52.8

^Weekly change.

FX: Contemplation Amidst Modest Consolidation

- For a second consecutive week, **FX markets will start with global growth concerns taking precedence over inflation worries.**

- While we had expected, that there would increasingly be some **bouts of USD weakness**, **this play may have some legs yet as weaker global growth data gives pause for thought for market participants** (more so than central banks).

- Furthermore, these **bouts of USD weakness allow for country-specifc idiosyncratic factors to come into play.** Cases in point being:

  - the resounding Labour party victory in **Australia boosting AUD/USD to 0.71 levels**;
  - the 15bp cut in the LPR by **PBoC reviving CNY/CNH strength on hopes of further support**;
  - upward EUR/USD momentum sustained by **ECB's repeated committment to embarking on rate hikes in July narrowing the ECB-Fed divergence**.

- **Even the minutes of the US Fed meeting this week**, which in all likelihood will confirm that the hawks have the floor, **may not be enough to push USD demand to the fore-front as a lot of these risks may be 'priced in'.**

- That said, talk around larger magnitude hikes being front-loaded or an even longer hiking upcycle by the Fed could easily set in motion a USD and UST yield upswing, with equities sliding.

- As such, **this week looks set to be more a week of contemplating amidst modest (even if fleeting) FX consolidation.**

- **The risks are clearer skewed towards** more volatility and a **sharp abrupt reversion to USD demand**.

- **Geopolitical tensions**, with the ongoing Ukraine-Russia situation, remains rife; **oil market concerns** with Saudi reaffirming the committment of the OPEC+ alliance to Russia and **further supply-chain routs threatening to push global price pressures even higher**.

Bond Yield (%)

20-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.581	0.3	2.781	-13.8	Flattening
GER	0.312	22.2	0.937	-0.3	Flattening
JPY	-0.067	0.0	0.233	-0.2	Flattening
SGD	2.184	5.9	2.707	-2.4	Flattening
AUD	2.450	-7.0	3.308	0.1	Steepening
GBP	1.481	26.6	1.891	15.0	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	3,901.36	-3.05
Nikkei (JP)	26,739.03	1.18
EuroStoxx (EU)	3,657.03	-1.25
FTSE STI (SG)	3,240.58	1.55
JKSE (ID)	6,918.14	4.85
PSEI (PH)	6,746.33	5.76
KLCI (MY)	1,549.12	0.30
SET (TH)	1,622.95	2.43
SENSEX (IN)	54,326.39	2.55
ASX (AU)	7,145.64	1.00

US Treasuries: Anchored Swings?

- Last week, **caution** which we had alluded to, **permeated though USTs.**

- Though 2Y yields ended up flat for the week, it is worth pointing out it did come off 2.7%, reducing more than 10bps of increase.

- On the whole,10Y yields decline 13.8bps as the yield curve bull flattened.

- With the release of the Fed Minutes this week, we may continue to experience **anchored swings, with the short end yields acting as the pivot.**

- On 2Y yields, while sustained upside may be tough, given that the bar for hawkish expectations within the bar is now high, though the hawkish path is now a resolute one.

- As such, we continue to expect 2Y yields to be supported above 2.5%, though rallies towards 2.7% may stay weak.-

- On the longer end, a **lack of assurances within the minutes surrounding a soft landing** and/or **further considerations surrounding QT (involving outright sales)** may swing longer end 10 year yields, **down on the former towards 2.7%** but **up the latter towards 2.9%.**

USD/JPY: Risk and Yields Tussle

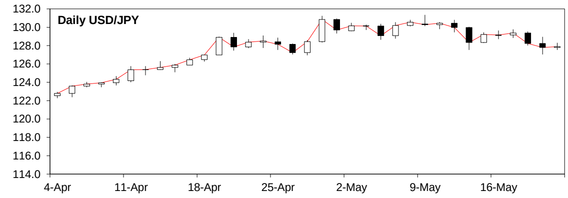
- The USD/JPY dipped below 128 last week as **lower US yields** alongside **souring risk sentiments asserted.**

- An elevated CPI release last friday at 2.5% while certainly not an outright BoJ game changer, will precipitate bets on the side.

- The JPY will also be helped by expectations of further international reopening though plans are proceeding with due caution.

- This week, we expect USD/JPY to trade largely in the 127-129 range, with balance tilted to the downside, though a sustained slide remains in doubt.

- That said, while a **confirmation of hawkish FOMC minutes will support the pair**, the higher bar of hawkish intentions may see 129 challenged.

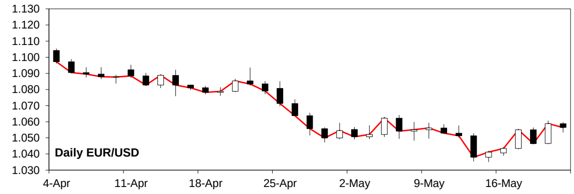


EUR: ECB Staying the Course

- With ECB President Lagarde all but confirming that a July rate hike is a done deal, EUR/USD got a further boost late last week.

- Downside surprises to economic activity data at this stage will not push ECB off its stated course, not just for credibility reasons but more so, as the Fed remains unwavering hawkish even as incoming US activity data has clearly become more mixed.

- As such, we see EUR/USD sustaining above 1.06 for the week looks more likely than not.



SGD: Euphoria Fades?

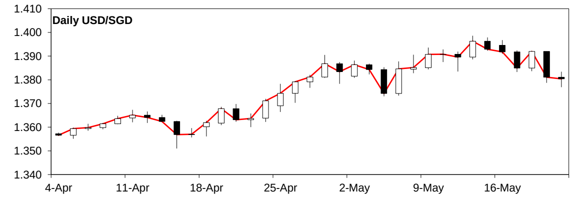
- Last week, amid the backdrop of lower US yields, USD/SGD was sent below 1.38 as SGD strengthened alongside regional peers, helped by CNH's appreciation on the back of LPR cut.

- This week, further strides downwards towards mid-1.36 will be doubtful without the assistance of another bout of US yields declining and further CNH/CNY gains on substantial economic reopening.

- Some pessimism on China's growth may also seep in after the initial policy support euphoria fades while a surge in Singapore's CPI release today may invite talk/speculation tightening.

- On balance, we expect the pair to trade between 1.37-1.39 with downward bias.

- Testing of 1.39 will be largely dependent on FOMC minutes' hawkish surprises.



AUD: In A Bind

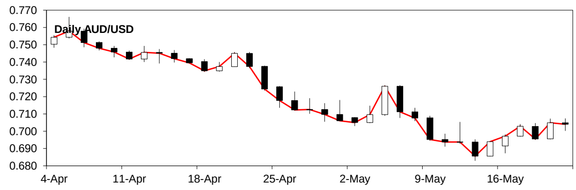
- The AUD enjoyed some reprieve late last week to close above mid-0.70.

- This came alongside a general trend of weakening US yields as China's policy support reduced growth worries late last week and in turn buoying commodities.

- Tepid wage growth, along with a 3.9% unemployment rate (in line with estimates), justifies the RBA's vigilant but cautious stance on rate hikes. That is, a gradual rate hike path as compared to one that requires larger rate increases and therefore a persistent rate gap with the Fed.

- While the change of ruling parties over the weekend seem stunning, the spillover to AUD remain that of a weak boost, rather than all out surge.

- For this week, bouts of US yields weakness may create relief for the AUD, however, AUD looks to trade between 0.69 – 0.72, as **sustainability of ascendency remains binded to Chinese policy implementation/outcomes** which remain restrained by broader zero-Covid stance.



With acknowledgements of contributions from our Research Associate Matthew Ng

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