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

24-Jan-2022

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 21 Jan 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
24 Jan	**US**	**Chicago Fed Nat Activity Index**	**Dec**	**--**	**0.37**
	EZ	PMI - Mfg/Services	Jan P	57.8/52.5	58/53.1
	JP	PMI - Mfg/Services	Jan P	--	54.3/52.1
25 Jan	US	Conf. Board Consumer Confidence	Jan	113	115.8
	US	**Richmond Fed Manufact. Index**	**Jan**	**14.0**	**16.0**
	GE	IFO Current Assessment/Business Climate	Jan	95.7/94.2	96.9/94.7
26 Jan	US	New Home Sales	Dec	770k	744k
	US	Wholesale Inventories MoM	Dec P	1.4%	1.4%
	JP	Leading Index CI/Coincident Index	Nov F	--	103/93.6
	JP	PPI Services YoY	Dec	--	1.1%
	US	**FOMC Rate Decision**		**0.00%-0.25%**	**0.00%-0.25%**
27 Jan	**US**	**Initial Jobless Claims**	**22-Jan**	**--**	**286k**
	US	GDP Price Index	4Q A	5.9%	6.0%
	US	Durable Goods Orders/Nondef Ex Air	Dec P	-0.4%/0.3%	2.6%/0%
	US	**GDP Annualized QoQ**	**4Q A**	**5.7%**	**2.3%**
	US	Personal Consumption	4Q A	2.6%	2.0%
	JP	Machine Tool Orders YoY	Dec F	--	40.5%
28 Jan	**US**	**U. of Mich. Sentiment**	**Jan F**	**68.8**	**68.8**
	US	**Kansas City Fed Manf. Activity**	**Jan**	**--**	**24.0**
	US	**PCE Deflator/Core YoY**	**Dec**	**4.8%/--**	**5.7%/4.7%**
	EZ	Consumer Confidence	Jan F	--	--

Asia Actual Data Release

Date	Country	Event	Period	Survey*	Prior
24 Jan	**SG**	**CPI/Core YoY**	**Dec**	**3.7%/1.8%**	**3.8%/1.6%**
	AU	PMI - Mfg/Services	Jan P	--	57.7/55.1
25 Jan	AU	NAB Business Conditions/Confidence	Dec	--	12.0/12.0
	AU	**CPI YoY**	**4Q**	**3.2%**	**3.0%**
	KR	**GDP YoY**	**4Q P**	**3.9%**	**4.0%**
	VN	Trade Balance	Jan	$4150m	$2542m
	VN	Industrial Production YoY	Jan	--	8.7%
	VN	**CPI YoY**	**Jan**	**2.3%**	**1.8%**
	VN	Retail Sales YTD YoY	Jan	--	-3.8%
26 Jan	**SG**	**Industrial Production YoY**	**Dec**	**11.50%**	**14.6%**
	KR	Consumer Confidence	Jan	--	103.9
27 Jan	SG	Unemployment rate SA	4Q	--	2.6%
	AU	Westpac Leading Index MoM	Dec	--	0.1%
	PH	Trade Balance	Dec	-$4600m	-$4706m
	PH	**GDP YoY**	**4Q**	**6.4%**	**7.1%**
28 Jan	AU	PPI YoY	4Q	--	2.9%
	KR	Industrial Production YoY	Dec	2.0%	5.9%
	MY	Trade Balance MYR	Dec	20.6b	18.9b
	VN	PMI Mfg	Jan	--	52.5

Week-in-brief: Fed & Vlad(imir Putin) Risks

- **Headline events and risks will dominate** market attention this week; with much of the attention being hogged by Wednesday's **FOMC** and the escalating **Russia-Ukraine situation**, teetering on military action.
- As a result of which, **caution, if not outright "risk off"**, **may well be the theme** amid complex, and inter-dependent network of macro and market triggers - **Fed and Vlad** (Russia-Ukraine) **risks**.
- Starting with the **Fed**, prospects of "*sooner and faster*" **tightening** (entailing ramped-up pace and path of rate hikes and QT that's looming closer than earlier expected) has already triggered a **significant tech sell-off in**.
- The **Nasdaq**, *down 12% for the year and >14% off its highs from late-Nov*, is **in "correction" territory** and at **risk of slumping into a "bear market"**, defined as a20% drop from recent highs.
- But insofar that this **tech-tonic "risk off" is premised on rising rates** and prospects of **tighter liquidity** *stressing low/negative yielding assets and negative cash-flow* (cash-burn) assets running on the promise of future returns, the **Fed sell-off risk may apply more widely on weak balance sheets and cash-flows**.
- Moreover, **if accompanied by a stronger USD**, **EMs** (including Asia) **may feel the heat more acutely** as the woes of rising rates and tighter liquidity will be compounded by a *stronger USD exposing EMs to higher imported inflation, greater twin deficit slippage* and *vulnerabilities from external USD-denominated debt.*
- in that context, **Russia-Ukraine threat** is *not only from potential for generalized risk sentiments;* but also present **real challenges in terms of rising oil/energy prices** and **sharp liquidity/USD squeeze**.
- In other words, a hawkish Fed and Ukraine-Russia risks may very oddly manifest as "risk off" resonance.
- This is likely to show up as **softer equities** and a **firmer USD** (especially against EM) coinciding with **higher energy prices**. **Question though** is ***whether UST yields will be nudged higher by a hawkish Fed or slump further on geo-political "risk off"***. The answer is not clear, but this only adds to potential for volatility.
- Meanwhile, any **cheer of underlying growth recovery in Q4 GDP** (Korea: Tue; Philippines: Thu) will remain

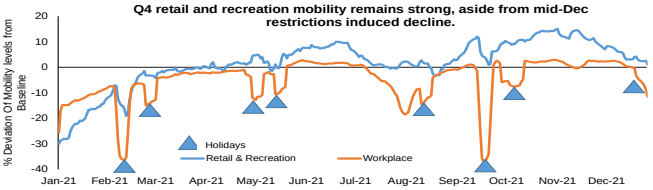
FOMC: March Ado

- To oversimplify, this week's **Jan FOMC will be all about what the Fed is setting the stage for** in terms of *QE wind-down, rate lift-off* and *QT* (balance sheet run-off); **especially for March FOMC when rate lift-off and QE wind-down are likely to coverge**.
- And to this end, there will be "**March Ado**" about **what the Fed will have to say about**;
  i) the *pace and path of rate lift-off,* as well as;
  ii) *QT, which has been billed to be "sooner and faster".*
- To be sure, the Fed's "***sooner and faster***" narrative **is set to resonate at the Jan FOMC** as well, where **baseline expectations are for the Fed to conclude QE by March,** *if not sooner.*
- But "taper" is water under the bridge. Whereas, any hawkish surprise in terms of QE wind-down (taper) will merely be the stage-setting for rate lift-off in March.
- So this **FOMC will be the teaser and test-run for a "live" March meeting,** ***when rate lift-off is set to commence*** with next to no down time for acclimatization from QE termination.
- And the **rhetoric** this week **will be scrutinised for** any signs of a quantitative **hawkish element to lift off in March, comprising a 50bps rate hike**; for which, there is a *non-negligible minority bet.*
- Particulary as **40-year high inflation**, **amid signs of wage-price risks** from an exceptionally tight job market, **prime the Fed for a more hawkish pivot**.
- So while there may not be much by way of policy action outside of taper acceleration, **Jan FOMC is set to be all about March ado**. And **in the absence of 'Dot Plot' updates** to confirm that the FOMC consensus has moved up to 4-5 hikes for 2022 (from 3 in the Dec 'Dot Plot'), the **statement and press conference will be closely monitored**.
- Despite hawkish UST yield upside mostly being priced in and geo-political risks may also temper, the slight **bias may still be for upside in UST yields**; with *the front-end likely to be more sensitive to allusions to "sooner and faster" hikes.* And a firmer USD could very well follow.

China: Why the PBoC May Turn Out More Aggressively Dovish

- Chinese President Xi warning of "*serious negative spillovers*" should "*major economies slam the brakes or take a U-turn in their monetary policies*" at the Davos **speaks to Beijing's worries that an overly hawkish Fed could not only dampen, but derail its plans to support the economy**.
- **Already coming off a weak underlying momentum**, growth teetering on slipping below 4% amid *regulatory and property market crackdowns* piling on above COVID variant disruptions, **Chinese policy-makers are not unaware of the need to row upstream against the currents**.
- Crucially, **a far more hawkish Fed was not yet fully revealed as of Beijing's CEWC** (in Dec), the top policy setting committee for economic policies. So, the CEWC's **uncharacteristic allusion to a trifecta headwinds to growth constituting**; i) *demand contraction*; ii) *supply constraints,* and; iii) *confidence deficit;* **as the premise for unambiguous pivot to monetary stimulus**, **probably understates the current dovish inclinations of the PBoC**.
- What this means is that President Xi was clearly **cautioning against an overly aggressive pace of rate hikes** by the Fed, is likely to underscore an even ***more intense pace of front-loaded PBoC easing*** than might have been expected based on the CEWC back in December.
- Fact is the **case for pre-emptive cushioning against a hawkish Fed is growing**, so RRR cuts as well as a deepening of recent LPR and MLF cuts may be introduced back on the table.

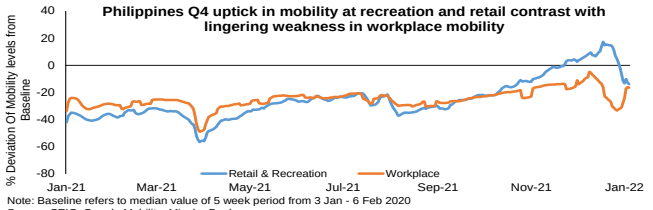
Korea Q4 GDP: Steady



Note: Baseline refers to median value of 5 week period from 3 Jan - 6 Feb 2020

- **Q4 GDP release on Tuesday** is set for a small sequential expansion from Q3, in turn registering an above 3% print on a YoY basis.
- Despite the **mid-Dec 21 tightening of social distancing rule**, mobility data shows that **Q4 traffic to retail and recreation places remain well (more than 10%) above baseline**.
- Admittedly, this may not directly translate to similar magnitudes of growth in private consumption but a conservative estimate would continue to imply **continued growth in household expenditure for Q4**.
- Business capital expenditure are also set to underpin and expand a steady pace in Q4 as facilities investments remain critical for major conglomerates in the country seeking to achieve dominance in the silicon chip and higher end electronic manufacturing industries.
- Industrial production and **goods trade will likely drive Q4 growth with strong external demand** amid workplace levels returning to nomalcy as indicated by mobility data.
- On the services trade front, while **tourism revenues are still largely absent**, **freight services continue to bolster receipts** as **shipping rates remain elevated** with the Baltic dry index still lofty despite coming off recent highs.

Philippines Q4 GDP: Consumption Boost



Note: Baseline refers to median value of 5 week period from 3 Jan - 6 Feb 2020
Source: CEIC; Google Mobility; Mizuho Bank

- **Q4 GDP is expected to record above 5% increase** amid contrasting fortunes within the economy.
- Amid **resumption in global economic activities in Q4, inflows of remittances** will continue to bolster private consumption as **mobility at recreation and retail places improved** from early Q4.
- In contrast, **workplace mobility displays lingering weakness** aligns with reported underutilisation of manufacturing capacities, **reflecting incomplete recovery in industrial production and lackluster export demand**.
- Looking ahead, re-implementation of social distancing measures may dampen 2022 Q1 activity while pre-election spending boost will provide a much welcomed boost.

Bank Negara Malaysia: Not A Strong Hold

- Last Thursday, the Bank Negara Malaysia has expectedly maintained their Overnight Policy Rate (OPR) at 1.75%.
- The **BNM's hold on policy rates may be weakening as they are put in a position facing sharp trade off between trying to buy time for the still weak and incomplete economic recovery or face consequent capital outflows and MYR sell off.**
- In our Mizuho Flash, we explore the motivation and ability for BNM to hold rates and the accompanying risks for the MYR surrounding a prolonged rate hold.

https://www.mizuhogroup.com/binaries/content/assets/pdf/singapore/macro/ad-hoc/flash/mizuho-flash_malaysia_220121.pdf

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	114.19	-1.370	-1.19%	113.30	~	115.60
EUR/USD	1.1411	0.0051	0.45%	1.125	~	1.146
USD/SGD	1.3477	-0.008	-0.59%	1.3420	~	1.3580
USD/THB	33.206	-0.404	-1.20%	32.70	~	33.60
USD/MYR	4.178	-0.029	-0.70%	4.170	~	4.210
USD/IDR	14296	-55	-0.38%	14,260	~	14,400
JPY/SGD	1.1805	0.007	0.62%	1.161	~	1.199
AUD/USD	0.7208	0.003	0.38%	0.707	~	0.728
USD/INR	74.15	-0.154	-0.21%	74.1	~	74.9
USD/PHP	51.115	-0.236	-0.46%	51.1	~	52.1

^ Changes are on weekly basis

Bond Yield (%)

21-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.001	3.4	1.758	-2.6	Flattening
GER	-0.632	-3.9	-0.068	-1.8	Steepening
JPY	-0.078	0.6	0.127	-0.4	Flattening
SGD	0.955	7.6	1.773	3.0	Flattening
AUD	0.825	14.0	1.913	0.1	Flattening
GBP	0.869	8.7	1.168	2.1	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,397.94	-5.68
Nikkei (JP)	27,522.26	-2.14
EuroStoxx (EU)	4,229.56	-1.00
FTSE STI (SG)	3,294.86	0.39
JKSE (ID)	6,726.37	0.49
PSEI (PH)	7,293.52	0.44
KLCI (MY)	1,527.06	-1.82
SET (TH)	1,652.73	-1.19
SENSEX (IN)	59,037.18	-3.57
ASX (AU)	7,175.81	-2.95

FX: Will USD Bulls Reclaim Ground on Risk Aversion

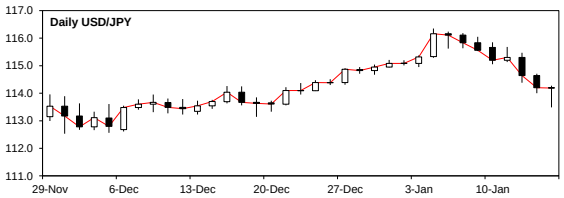
- A **combination of** both a **hawkish Fed** and **risk aversion** *led by mounting geopolitical threats posed by Russian troops* may very well **instigate USD bulls to reclaim ground**.
- The **caveat** is that with a **hawkish Fed already mostly priced in**, positioning might have blunted USD strength. Or in other words, widely anticipated (and therefore priced) **Fed cues may not, in and of themselves, be the decisive trigger for level shifts in the Greenback**.
- Especially in the absence of a actual "hawkish surprise" that may further harden already rather extreme expectations of 4-5 hikes for 2022 and QT poised to kick-off later in 2022.
- Instead, it is **more likely elevated uncertainty** that accompany **growing threats of Russian invasion of Ukraine**, inadvertently triggering ***wider military conflict,*** that **could incite USD bulls to make a broader break higher**.
- As a result of which, **sweeping USD strength could come to manifest**. But this is of course subject to have ***exceptions such as classic safe haven such as Gold, JPY and CHF***.
- How **much safe-haven demand for USTs could dampen, or reverse upside in UST yields** from a hawkish Fed, may be **a question of interest in assessing USD/JPY drag**;
- but **certainly not for denying USD bulls more broadly *if*** indeed **Fed hawks are unfetterred** whereas **geo-political risks mount on Russian calculus that is undeterred** by US and NATO .
- In which case, USD will rule the roost in a "risk off" environment , with the hawkish Fed merely a back-up to, rather than a leading cause of, a strong USD.
- **EMs**, and **those hit by the prospect for higher energy prices** from geopolitics may also be **particularly vulnerable**. And so a **basket of USD, Oil and Gold may well outperform EM FX**.

US Treasuries: Hawish FOMC & Geo-political Risks

- With 2Y yields up ~3bps to stay above 1% and 10Y yields falling ~3bps, the steepening of yield curve last week masked the tumultuous week in US Treasuries.
- This hid the **notable movements of 2Y and 10Y yields hitting highs 1.06% and 1.87% last week, highlighting the massive volatility and UST sell-off that occurred** and buybacks amid repositioning.
- As we emphasized last week, short terms rates being the primary instrument to tackle inflation are **not in doubt within market wisdom**.
- With FOMC in sight, **belief in the Fed's resolve to tackle inflation became even more apparent** as inflation expectations given by **10Y breakevens sank to 2.3%, a 3 month low since last Sept.**
- The uncertainty last week with large yield swings at the long end largely stems from: uncertainty of **QT actions in terms of form (runoff/direct sales)** and its magnitudes;
- Thus, QT implied **lifts in the credit/risk and term premiums may cause some distortion in the impact of the FOMC on the curve**. But more so, the geo-political risks that may undermine upside bias in UST yields.
- Barring this, **2Y yields may continue to inch up with 10Y yields set to follow suit to land above 1.8%.**

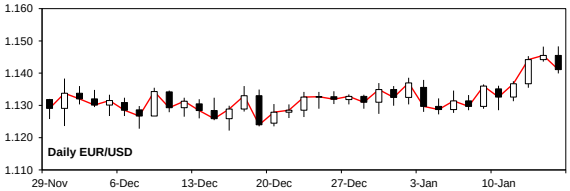
JPY: Between Haven & Hawks

- **Capitulation in UST yields amid risk-off poses strong resistance**, **perhaps even** send into a **reversal**, the hawkish cues that tend **to** set in motion **JPY buoyancy**.
- The **tensions in USD/JPY are as real** as can be with **markets positioning for a hawkish Fed** (and hence USD/JPY upside) diametrically opposed to geo-political risks from a precarious and escalating Russia-Ukraine situation that could easily invoke a forceful capitulation in UST yields and JPY surge (on the back of safe-haven demand).
- **Between haven and (FOMC) hawks USD/JPY could be prone to wilder swings** in a wider sub-113 to mid-115 range.
- Meanwhile, BoJ chief Kuroda's interview with CNBC stressing that Japan's situation is a far cry from US (in terms of fearing and having to respond to inflation) suggests more USD/JPY upside from a hawkish Fed; barring extreme "risk off".



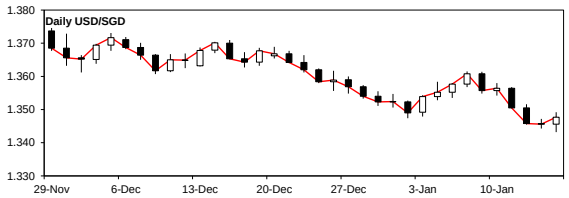
EUR: Persistent Weakness

- EUR edged lower towards 1.13 as the ECB pushed back once again against rate hike bets despite elevated inflation rate (5%) last week, citing the risk of derailing economic recovery in the EU which remains weak relative to the US.
- Further exacerbated by an increasingly aggressive Fed, policy divergence will no doubt continue to play a major role in EUR weakness especially with the mid-week FOMC.
- That said, the ECB's Largard did leave room for pivoting by being "open to any change in inflation outlook" and adding that "projections in a couple of months could look different" which EUR bulls will take as a signal to hold on to their ECB rate hike bets.
- In the face of Omicron in the background while **political tenstion continue to heighten as the US officially orders the family of diplomats to leave Ukraine**, EUR will continue to be weighed down and we expect it to trade at the lower end between mid-1.12 to 1.14.



SGD: Safe haven?

- The second half of last week saw longer end UST yields combine with risk off sentiment to send the USD/SGD back to mid 1.34, after initial surge past 1.35 in the middle of the week.
- Given the free flow of capital in the financial hub, correlations between domestic interest rates with the Fed funds rate will imply and **backstop excessive SGD weakness**.
- That said, a **surge in longer end UST yields will still see the pair surge above 1.35**, with Fed hawkishness exceeding expections provide further boost to mid-1.35.
- Though forays above 1.35 are likely to be shallow as CNY/CNH looks to impart resilience to SGD and the quasi-safe haven nature of the SGD may continue to be the supporting role.
- Given the nature of the S$NEER band, declines below 1.34 may be limited.



AUD: Temporary CPI Support

- Indeed, the AUD lost buoyancy last week falling to below 0.72 with the commodity price slippage amid rising UST yields.
- This week, while AUD bulls look to CPI release on Tuesday for hints of RBA pivot, a higher than expected print may lend temporal strength as the initial surge may quickly give way to FOMC hawkishness.
- On the flip side, a modest inflation print while beneficial for the economy may see the AUD retreat as RBA-Fed divergence strengthens.
- Be prepare for volatility as we expect the AUD to trade within a larger range of 0.71 to 0.73 with a bias towards the downside to test mid-0.71.