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MIZUHO

WEEK AHEAD

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25-Apr-2022

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Economic Calendar

•Survey results from Bloomberg, as of 22 Apr 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
25 Apr	**US**	**Dallas Fed Manf. Activity**	**Apr**	**3.5**	**8.7**
	US	**Chicago Fed Nat Activity Index**	**Mar**	**--**	**0.5**
	JP	Leading Index CI/Coincident Index	Feb F	--	100.9/95.5
	GE	IFO Business Climate/Expectations	Apr	88.1/82.3	90.8/85.1
26 Apr	US	New Home Sales	Mar	774k	772k
	US	Conf. Board Consumer Confidence	Apr	108.4	107.2
	US	**Richmond Fed Manufact. Index**	**Apr**	**8.0**	**13.0**
	US	**Durable Goods Orders/Nondef Ex Air**	**Mar P**	**1%.0.4%**	**-2.1%/-0.2%**
	JP	Jobless Rate	Mar	2.7%	2.7%
28 Apr	US	Initial Jobless Claims	23-Apr	--	--
	US	Kansas City Fed Manf. Activity	Apr	--	37.0
	US	**GDP Annualized QoQ**	**1Q A**	**1.0%**	**6.9%**
	US	**Core PCE QoQ**	**1Q A**	**5.6%**	**5.0%**
	EZ	ECB Publishes Economic Bulletin			
	JP	Industrial Production YoY	Mar P	-1.4%	0.5%
	JP	**BOJ Policy Balance Rate**	**28-Apr**	**-0.10%**	**-0.10%**
29 Apr	US	U. of Mich. Sentiment	Apr F	6570.0%	6570.0%
	US	MNI Chicago PMI	Apr	61.0	62.9
	US	**PCE/PCE Core Deflator YoY**	**Mar**	**6.7%/5.3%**	**6.4%/5.4%**
	US	Personal Income/Spending	Mar	0.4%/0.6%	0.5%/0.2%
	EZ	**CPI/CPI Core Estimate YoY**	**Apr P**	**7.6%/3.1%**	**7.5%/--**
	EZ	**GDP SA YoY**	**1Q A**	**5.1%**	**4.6%**

Asia

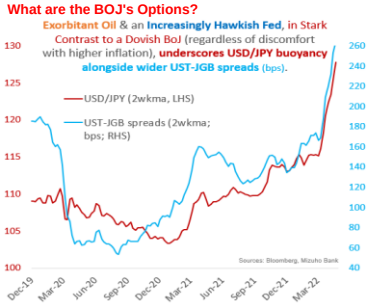
Actual Data Release

Date	Country	Event	Period	Survey*	Prior
25-29 Apr	VN	Trade Balance	Apr	$300m	$1389m
	VN	Imports/Exports YoY	Apr	13.0%/19.5%	14.6%/14.8%
	VN	Retail Sales YoY	Apr	--	9.4%
	VN	Industrial Production YoY	Apr	--	8.5%
	VN	**CPI YoY**	**Apr**	**2.6%**	**2.4%**
25 Apr	**SG**	**CPI/Core YoY**	**Mar**	**4.7%/2.5%**	**4.3%/2.2%**
26 Apr	SG	Industrial Production YoY	Mar	0.3%	17.6%
	KR	**GDP YoY**	**1Q A**	**3.0%**	**4.2%**
27 Apr	**AU**	**CPI YoY**	**1Q**	**4.6%**	**3.5%**
28 Apr	**SG**	**Unemployment rate SA**	**1Q**	**--**	**2.4%**
29 Apr	AU	PPI YoY	1Q	--	3.7%
	KR	**Industrial Production YoY**	**Mar**	**4.0%**	**6.5%**
	TH	BoP Current Account Balance	Mar	-$460m	-$652m

Week-in-brief: Abandon

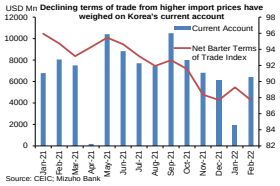
- **Perceptions that the Fed is primed to tighten with abandon** due to run-away inflation, appear to have hijacked the agenda, **triggering bond bears to sell-off USTs with abandon**.
- In turn, **prospects for far more rapid lift-off in rates** alongside **balance sheet run-off** (as soon as May) has **caused equity bulls to abandon ship**; with deep losses on Wall St to show for it.
- Point being, the **blackout period** (for Fed speakers) this week ahead of the next *FOMC meeting on 4th May* may arguably provide an absence of constant drumming up of hawkish expectations; but in **the blackout doesn't in any way equate to the abandonment of mounting hawkish bets**.
- Across the Atlantic, **Macron's win in the French Presidential elections** was *a* **reason not to sell-off EUR** (with modest buy-back); **but not cause enough to abandon caution**.
- For one, far right candidate Marine Le Pen still garnered over 41% of the votes and has vowed to fight it out in the National Assembly elections in June. Crucially, this in **no way absolves France or Europe of the crisis in Ukraine** - as the war drags on.
- And so the ECB will still be prone to sharp trade-offs between inflation and demand destruction.
- Elsewhere, the **BoJ** (Thu) will probably be **preparing to demonstrate its assertions** that it **will not abandon its commitment to policy accommodation**. But the elephant in the room will be **how the BoJ can manage sharp and sustained JPY pressures** amid soaring oil import oiil costs.
- Especially thorny will be the issue of **how JPY may be backstopped without having to abandon YCC**. There are some options to tweak YCC; in terms of target range and tenors. But the *priority would be to ensure that the BoJ is closer to stimulus with abandon rather than abandoning stimulus.*
- **Korea's Q1 GDP** (Tue) is expected to show signs of slowdown from cost shocks and supply disruptions; but it may be a **forward-looking hawkish Fed and China risks that may weigh more**.
- A high print of **Australia's Q1 CPI** (Wed) may trigger some upside in the AUD; but perhaps just fleetingly so ahead of the FOMC given the **Fed-RBA divergence that is expected to persist**.
- These **pre-FOMC markets still embroiled in Ukraine uncertainty** are **ripe for bears to be scared into sell-off with abandon**. The *only thing not to be abandoned is caution.*

What are the BOJ's Options?



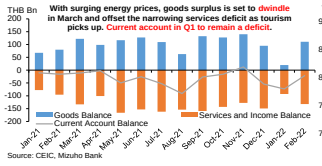
- The **overwhelming consensus**,is for the **BoJ to sit on its hands** and **reiterate that commitment to policy accommodation is unwavering**.
- This is **a point that Governor Kuroda has been unequivocal about**.
- **But a sharply weaker JPY**, presumably from the stark policy divergence (vs. an aggressively hawkish Fed), is the **inconvenient elephant in the room**; revealing policy dilemma from the **unintended consequence of JPY weakness amplifying pain from imported inflation**.
- Fact is, with **JPY plunging over 10%** YTD (USD/JPY surging from ~115 to 128-129 levels) geo-political price shocks from sharply higher imported energy and wider commodities are amplified.
- Trouble is, this is not merely a one-dimensional threat to unmoor inflation expectations, but also poses the danger that demand will be depressed as a result of eroded spending power.
- The **BoJ's clarification to this sharpened policy trade off** is **that cost shocks devoid of demand-pull inflation ought not to invoke policy normalization**.
- But doing absolutely nothing may become increasingly uncomfortable and potentially untenable.
- Which begs the question of **what exactly are the BoJ's** (sub-optimal) **options**.
- Policy Rate: One tempting option is *to restore 0% or marginally positive (0.10%) policy rate* **given negative rates have been more a bane than a blessing**; inadvertently counter-productive to a sustained recovery. **But** such a "hike" this move **will need to be complemented with nuanced yet clear** messaging of a one-off calibration, not a hiking cycle.
- YCC: *Expanding the YCC target range, albeit symmetrically* (e.g. from -0.25% to +0.50%) to soften the impact from rising UST yields, but without inadvertently suggesting tightening. Another YCC option is to *shift the existing target slightly to a shorter tenor* and/or target a range of tenor. However policy efficacy may be compromised even if technical viability is not in question.
- JPY: To be sure, we **don't think the BoJ will intervene directly in a sustained way**.Certainly **not based on some "line in the sand"** (although 130 USD/JPY appears to be a psychological worry). *But* the BoJ may be increasingly inclined to communicate that *overall monetary conditions* (including accommodation from JPY weakness) will factor into calibrating quantum of QQE/YCC.

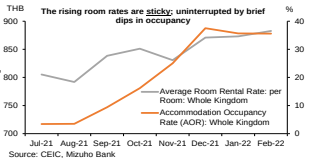
Korea Q1 GDP: Headwinds Abound



- Faced with multiple headwinds, **Korea's Q1 2022 GDP growth on YoY basis is likely to step down from the 4.2% in Q4 2021 to below 3.5%, closer to pre-Covid growth trends.**
- On the external front, Korea's terms of trade has declined considerably; largely due to the surge in import price arising from higher energy costs with the escalation of Brent crude prices
- As such, **Q1 current account surplus is set to soften**. Upshot being, the external front could account for some of the downside bias to GDP moderating earlier outturn .
- What's more, Omicron cases picking up has dented retail sales strength (from **double digit growth figures** seen in Q4); although it may improve in the coming months as social restrictions are eased.
- **More worryingly, equipment investment growth also stepped down** as supply chain disruptions were already prevalent in the first two months and we can expect further dents ahead to investments as business confidence decrease due to geo-political spillovers and tightening global financial conditions alter business cost calculus .
- With growth steady near pre-Covid trends, BoK's **new Governor Rhee (who took office yesterday, 21 Apr) will not be deterred in his pursuit of futher rate hikes to tame inflation** and looks set to commence a further 25bps hike at the next meeting in May.

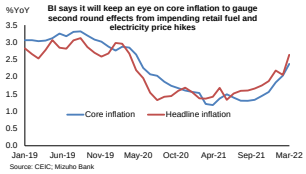
Thailand Current Account: Q1 Stuck in a Deficit

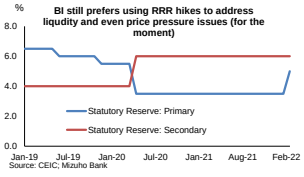




- Thailand's current account **will continue posting a deficit**, culminating in a deficit for the entire Q1 as **nascent uptick in tourism receipts is overwhelmed oil's drag on the goods balance**.
- While tourist arrivals have risen since Jan (albeit 8.5% below Dec '21) **rising room rates** and associated tourism prices will probably help **narrow the services deficit.**
- But with surging Oil and only gradual tourism pick-up, **the return to a C/A surplus may be delayed to Q3**; and even then **measured**. And so, THB remains vulnerable to a hawkish Fed.

Bank Indonesia: A Nuanced Nomalisation





- **BI's comments last week suggests it prefers a nuanced normalisation**, emphasizing that **inflation targeting will *not* be *done in isolation of supporting growth*.**
- The 2022 GDP growth range downgrade to 4.5%-5.3% from 4.7%-5.5% highlighted BI's concerns around a sub-optimal growth recovery and to that end, **BI signaled that rate hikes are neither urgent or immediately necessary.**
- **The Rupiah Reserve Requirement hikes** (to be implemented incrementally from March to September), **while draining excess banking system liquidity, are also adequate to address price pressures for the moment** was the implication from BI's statement at its press briefing.
- BI Governor Warijyo also stated that **jump in headline inflation from an upward adjustment of retail fuel and electricity prices alone are not sufficient to pull the trigger on rate hikes; core inflation would need to show a perceptible increase** from more obvious second-round effects.
- As such, BI's approach to rate hikes looks to be gradual with a keen eye on safeguarding growth. **We remain comfortable with our forecast for cumulative 50bp in rate hikes in H2**.
- **The main trigger for BI to expedite rate hikes would if a hawkish US Fed incites sharp and abrupt IDR depreciation which heightens financial stability risks.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	128.5	2.040	1.61%	127.20	~	131.00
EUR/USD	1.079	-0.0020	-0.19%	1.070	~	1.096
USD/SGD	1.3711	0.014	1.04%	1.3580	~	1.3780
USD/THB	33.967	0.361	1.07%	33.65	~	34.30
USD/MYR	4.325	0.090	2.11%	4.275	~	4.365
USD/IDR	14362	-19	-0.13%	14,320	~	14,450
JPY/SGD	1.0667	-0.007	-0.62%	1.037	~	1.083
AUD/USD	0.7244	-0.015	-2.04%	0.710	~	0.742
USD/INR	76.48	0.300	0.39%	75.8	~	77.5
USD/PHP	52.32	0.137	0.26%	51.8	~	52.7

^ Changes are on weekly basis

FX: Blackout, Not Backdown

- Admittedly, **Fed speak to fuel a bullish USD will be conspicuous by absence** this week; **given the pre-FOMC blackout** ahead of the FOMC meeting on 4th May.
- ***But*** that is **not to be mechanically mistaken with sure-fire USD pullback**. Point being, **Fed speak blackout does not mean that the Greenback will backdown**.
- Admittedly, **Macron's win at the French elections** takes has provided **some measure of relief to the EUR**, thereby capping USD gains given the antagonistic relation between the EUR and USD.
- But this looks spent early on. In fact, the EUR is already struggling to retain traction.
- And **despite UST yields easing off the highs** from late last week, the **underlying hawkish triggers are likely to act as at least backstop**, if not a source of buoyancy, **for the USD**.
- Upshot being, a resilient, bodering on dominant, USD is set to rule the FX roost. And this expression of **USD strength** may be **especially pronounced against EM Asia FX given the slump in the CNY**.
- Last week, CNY fell 2.2% from 6.37 past 6.50 while the offshore CNH tumbled some 2.6% from 6.38 to 6.53; with the PBoC setting softer fixing to accommodate the softening in the CNH.
- To be sure, this still leaves the CNY NEER fairly rich, and so we don't expect sharp rebounds in the CNH. Instead, this dampening in the CNH should restrain, if nnot drag, other EM Asia FX.
- With Oil still not recovering ground back up above 110 and the RBA expected to hold back (validated by soft spots in jobs data) in May, the Fed-RBA policy divergence meanwhile is driving AUD weakness.
- From testing 75 cents in recent weeks, the **AUD is now potentially at risk of slipping below 72 cents**; and imaginably the CNH drag is not without effect.
- The **bigger picture** being, **USD continues to not just lead the** (FX) **pack**, **but rule it**.
- So **despite potential for US earnings to perhaps revive some risk taking** and **attendant USD pullback**, it is **best not to abandon underlying caution**. And so, **rallies in EM Asia FX are likely to be somewhat shallow and certainly fickle**; *susceptible to pullbacks on a hawkish strong USD.*

JPY: How High?

- Last week, the USD/JPY rose 1.2% as higher US yields pulled the pair higher and **the BoJ continued defending their monetary policy** with bond buying to keep yields at their target.
- This stand was reiterated by BoJ Governor Kuroda last friday as he expressed the continued commitment to overshoot the 2% inflation target.
- However, **hesitancy surrounding the USD/JPY relentless surge may have seeped** in the pair stayed flat after mid-week as warnings about rapid weakening of the JPY drew concerns from the Finance Minister Shunichi Suzuki.
- The question is certainly how high can this rally hit? For now, **upside bias remains for USD/JPY but rallies towards 130 may remain weak** as markets prepare for BoJ's policy decision on Thursday.
- We expect the pair to trade in the mid-127-130 range with consolidation around 128 to be the base case while the collision of BoJ's confirmation of dovish decision and higher US inflation print may boost above 130.

EUR: Disappointed by ECB

- ECB's meeting last week confirmed that the central bank would embark on normalising policy this year by bringing the asset purchase programme to an end in Q2 and start hiking rates by 25bp in Q3.
- However, the lack of details on specific dates and a mixed resolve led to EUR bulls being disappointed.
- EUR/USD fell to a low of 1.076 following President Lagarde's press conference and closed the week slightly higher at 1.082 levels.
- With a defacto embargo on Russia's gas imports into Europe likely to kick in, and US gas prices soaring on substitution effects, global commodity price pressures will continue weigh down EUR/USD this week. As such, 1.07-1.08 range will be par for the course.

SGD: UST Yield Surge & CNH Slump Drag

- In less than a week, a **hawkish Fed** and **bearish CNH** have **washed out all of the SGD's gains form the MAS' "double-barrelled" tightening**.
- USD/SGD swung up to test 1.37 late last week, while having moderated somewhat in the opening sessions of this week, is prone to buy-backs; with dips likely to be shallow.
- This on two counts. First, a hawkish Fed and correspodningly higher UST yields underpinning the USD; and this impact should last beyond the modest EUR bounce on Macron's win in the French elections.
- Second, the sizable drop in the CNH from 6.37-6.38 levels from the week before to 6.53 by end of last week will also drag on SGD gven relatively heavy CNH weight in the trade basket.
- For now, USD/SGD is expected to trade sub-1.36 to mid-1.37.

AUD: Bulls Battered

- With higher UST yields, the USD dug its heels in to assert its dominance against the AUD, and the latter found itself fumbling below 0.73 levels, with no apparent support from commodity prices.
- Perhaps solace may be found in Wednesday's CPI print, where market watchers are expecting 4.6% CPI Inflation. This level of inflation may spur the already vigilant RBA to bring forward rate hikes, a move that will bode well for the AUD.
- At least in the near term however, the Fed still leads the pack toward tighter monetary policy, and will continue, albeit in bouts, to push back aganst the AUD.
- As such, the AUD is expected to remain some what subdued at current levels. Upside is contingent on commodity prices but a sustained run above 0.76 is unconvincing.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

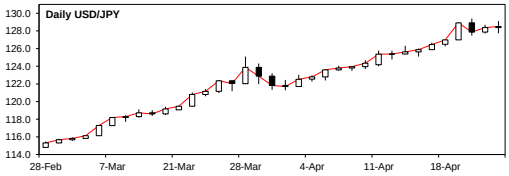
22-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.667	21.3	2.899	7.2	Flattening
GER	0.268	23.9	0.967	13.0	Flattening
JPY	-0.062	0.5	0.241	0.7	Steepening
SGD	1.966	18.2	2.577	10.3	Flattening
AUD	2.350	35.0	3.125	0.1	Flattening
GBP	1.685	14.7	1.960	7.3	Flattening

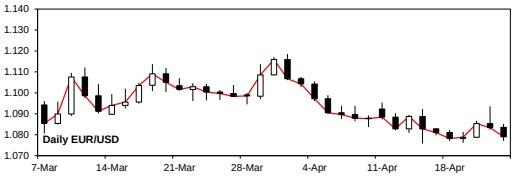
Stock Market

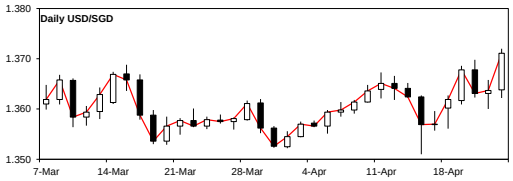
	Close	% Chg
S&P 500 (US)	4,271.78	-2.75
Nikkei (JP)	27,105.26	0.04
EuroStoxx (EU)	3,840.01	-0.23
FTSE STI (SG)	3,361.11	0.76
JKSE (ID)	7,225.61	-0.14
PSEI (PH)	6,998.59	0.20
KLCI (MY)	1,601.97	0.82
SET (TH)	1,690.59	0.97
SENSEX (IN)	57,197.15	-1.96
ASX (AU)	7,473.28	-0.67

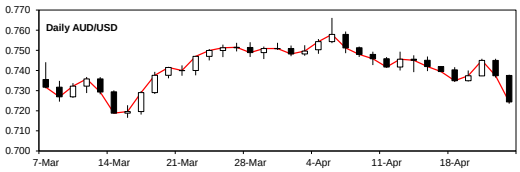
US Treasuries: Data Speaking

- Last week, despite initially anchored front end yields, Powell's "*50bps will be on the table*" **reinforced by his comfort with such a move** triggered **rapid ascendency of 2Y yields by ~21bps**; while pointing to FOMC members' support for one or more 50bps hikes.
- And 10Y yields lifted ~7bps amid hawkish tones, overriding potential haven demand amid protracted Ukraine conflict; high energy prices providing little respite for inflation.
- 10Y breakevens went up ~7bps as well as inflation woes were undaunted by a hawkish Fed; essentially implying that constant real 10Y yields as the yield curve flattened.
- There will be **silence from Fed officials this week due to blackout and data will speak instead**. Market remain watchful of the **core PCE deflator which will set the scope to for 2Y yields to continue surging**.
- With Powell's signals still echoing, near term 2Y yields **may consolidate above 2.7% in anticipation of FOMC** next week, and hints of uncertainty surrounding inflation momentum should see volatile trading in the 2.55%-2.80% range.
- Any disappointment on the job report will not derail the Fed but will restrain upside on yields as signs of weakening jobs market is still absent.
- **10Y yield also looks to test 3%** though durability might be lacking, barring a surge in energy prices alongside higher PCE deflator surprises.









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