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MIZUHO

WEEK AHEAD

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27-Mar-2023

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Economic Calendar

•Survey results from Bloomberg, as of 24 Mar 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
27 Mar	US	**Dallas Fed Manf. Activity**	Mar	--	-13.5
	JP	Leading Index CI/Coincident Index	Jan F	--/--	96.5/96.1
	GE	IFO Current Assessment/Business Climate	Mar	94.1/91.0	93.9/91.1
	GE	IFO Expectations	Mar	88.3	88.5
28 Mar	US	**Conf. Board Consumer Confidence**	Mar	101.0	102.9
	US	Wholesale Inventories MoM	Feb P	-0.1%	-0.4%
	US	**Richmond Fed Manufact. Index**	Mar	-9.0	-16.0
30 Mar	US	**Initial Jobless Claims**	25-Mar	196k	191k
	US	**GDP Price Index**	4Q T	3.9%	3.9%
	US	**GDP Annualized QoQ**	4Q T	2.7%	2.7%
	EZ	**Consumer Confidence**	Mar F	--	-19.2
31 Mar	US	**U. of Mich. Sentiment**	Mar F	63.4	63.4
	US	MNI Chicago PMI	Mar	43.0	43.6
	US	**PCE/Core Deflator YoY**	Feb	5.1%/4.7%	5.4%/4.7%
	US	**U. of Mich. 1/5-10Yr Yr Inflation**	Mar F	3.8%/2.8%	3.8%/2.8%
	EZ	**CPI/Core YoY**	Mar	7.1%/5.7%	8.5%/5.6%
	EZ	**Unemployment Rate**	Feb	6.6%	6.6%
	JP	Job-To-Applicant Ratio/Jobless Rate	Feb	1.36/2.4%	1.35/2.4%
	JP	Retail Sales YoY	Feb	5.8%	5.0%
	JP	Industrial Production YoY	Feb P	-2.3%	-3.1%

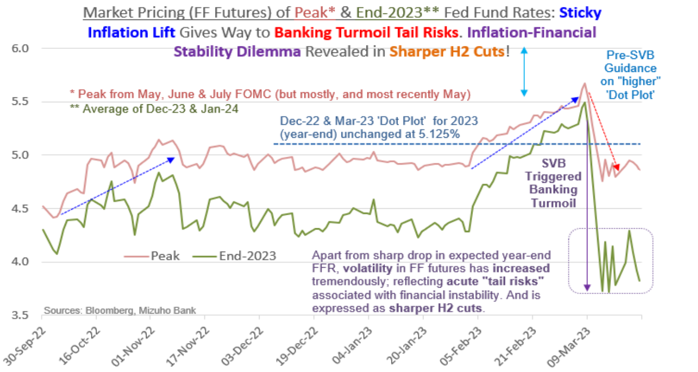
Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
27-31 Mar	IN	**BoP Current Account Balance**	4Q	-$23.1b	-$36.4b
27-31 Mar	VN	**Trade Balance**	Mar	$3550m	$2300m
	VN	**Retail Sales YoY**	Mar	--	13.2%
	VN	**GDP YoY**	1Q	5.0%	5.9%
	VN	**CPI YoY**	Mar	3.8%	4.3%
	VN	**Industrial Production YoY**	Mar	--	3.6%
	KR	Retail Sales YoY	Feb	--	--
	TH	**Customs Trade Balance**	Feb	-$1414m	-$4650m
27 Mar	CH	Industrial Profits YTD YoY	Feb	-22.9%	-4.0%
28 Mar	AU	Retail Sales MoM	Feb	0.2%	1.9%
29 Mar	AU	CPI YoY^	Feb	7.2%	7.4%
	KR	Consumer Confidence	Mar	--	90.2
	TH	**BoT Benchmark Interest Rate**		1.75%	1.50%
31 Mar	CH	**Mfg/Non-mfg PMI**	Mar	51.7/54.9	52.6/56.3
	KR	Industrial Production YoY	Feb	-7.0%	-12.7%
	TH	Trade Balance	Feb	--	-$2670m
	TH	**BoP Current Account Balance**	Feb	$845m	-$2002m

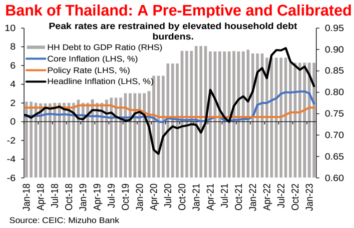
^Australia's Monthly CPI is an evolving variable partial derivative of more comprehensive Quarterly data.

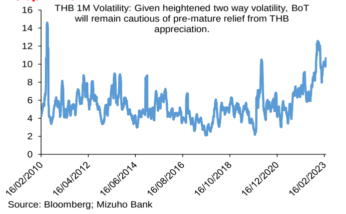
Week-in-brief: The Fed & Financial Fragilities



- Banking sector fears continue to dominate headlines and risk appetite.
- Indirectly, but importantly, tensions between the ***Fed's perseverance* in tackling inflation** and **market bets on panicked policy reversal** amid ***financial fragilities*** will **continue to drive volatility**.
- Admittedly, there were **some dovish elements to the March FOMC**, ***despite the 25bps hike*** accompanied by sustained ***emphasis on taming inflation*** and ***policy focus on price stability.***
- In particular, the allusion to "additional" hikes supplanting "ongoing" hikes from before suggest the Fed drawing closer to the end of the tightening cycle.
- Crucially, **leaving the 'Dot Plot' unchanged for 2023 at 5.125% despite earlier** (pre-SVB banking crisis trigger) **assertions of likely higher peak rate** (in the 5.5-6.0% vicinity) suggests that the **Fed is acutely aware of inadvertently tighter conditions from banking sector disruption** substituting for some hikes.
- Nonetheless, the **wider point** by the **Fed** appears to be **restraint, not retreat**.
- And accordingly, despite the conspicuous absence of a lift to 2023, 'Dot Plot', the Fed has not watered down end-2023 rates view from 5.125%. What's more, end-2024 rate view was bumped up 12.5bp to 4.25% to make a point about elevated rate for longer.
- This is a reflection of the **Fed being mindful of swirling banking sector risks** (thereby restraining peak rate) **but not succumbing to paralyzing fears**; *continuing to believe sector risks will be ring-fenced.*
- And therefore **de-couple monetary policy from regulatory back-stop** for financial stability.
- **Markets** are however **rejecting this notion of isolating banking sector risks from monetary policy calculus**; and vehemently so now. And all of this is in full display in the Fed Funds Futures.
- Not only have **(mid-2023) peak rate expectations dropped forcefully** from testing 5.5% to below 5% (4.50-4.75%), but **end-2023 rate expectations have plunged even more sharply to below 4%**; **in flagrant defiance of** (March FOMC) **'Dot Plot' re-affirming end-2023 FFR at 5.125%** (5.00-5.25%).
- In other words, while markets are not aggressively challenging the likelihood of one more rate hike in May/June, the odds of a brutal turn in policy, to slash rate by more than 100bp appears to be implied.
- In turn suggesting that **markets are proclaiming a Fed policy mistake** now, mainly *worried that the Fed will sleep-walk into a banking crisis* **that forces a panicked, after-the-fact policy swerve**.
- This expectations gap has **spilled over as significant volatility in UST yields led by the front-end**.
- **2Y yields have plunged from a test towards 5.1%** (in early March) **to slump below 3.8%**; a massive 120-130bps collapse in less than a month. **Whereas the resultant less severe yield curve inversion** is **not to be mistaken for receding recession risks**. Instead, it is the **growing probability of a recession induced by financial shocks**; rather than the slower burn of higher rates on the real economy.
- Nonetheless, **with inflation elevated and sticky at the core, the Fed may be slower than markets would desire, in backing down from (and reversing) tightening**;
- even if it eventually is likely to respond to imminent banking sector meltdown, with sharp policy reversals.
- The **interim policy tensions and policy "snap"** built into the *conflict between monetary and financial stability* means **two-way volatility will remain pronounced at the front-end of the yield curve**.
- But while it may be tempting to conflate US banking sector risks and corresponding dovish shifts/policy impulses with a softer Greenback, it is negligent to do so.
- Largely due to the fact that **while the USD may be driven by the Fed** (and this admittedly agrees with peak and softer USD arguments), **in times of intense stress, USD is dominated by "fear"**.
- Specifically, haven demand will spur USD strength if banking sector fears come home to roost.
- More so in the context of USD funding squeeze that is prone to impact smaller financial institutions and those outside of the US. And so, a *stronger USD should be viewed as an additional stress factor juxtaposed against generalized risk off from banking contagion fears.*

Bank of Thailand: A Pre-Emptive and Calibrated 25bp Hike



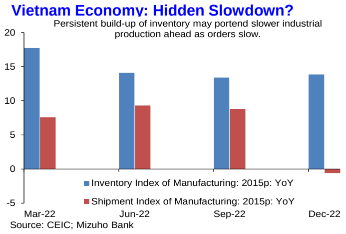


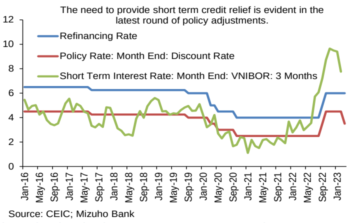
- While we stick to our call for **another 25bp hike at the BoT's next meeting** (29 March), this hike looks to be of a **pre-emptive nature** which serves to arrest pipeline tourism-led demand pull inflation.
- The pre-emptive nature stems from our view that while **headline inflation is expected to continue declining, it might prove stickier than expected** and **hover** around the BoT's **upper limit of 3%** rather than head convincingly below it. A pre-emptive hike may assist to guide the dis-inflation process.
- Nonetheless, the THB has been volatile in recent months and will continue to be subject to vagaries of market perceptions of the Fed's policy trajectory.
- **Beyond this meeting, the BoT will also remain cautious on hiking rates further** as **elevated household debt and associated financial stability risks becomes more acute**.

Thailand Current Account: Of Recovery and Ramp Up

- Thailand's current account in January had posted a steep US$2b deficit which would have some worried given their substantial tourism recovery. As we had alluded to before, the current account position will be expected to have a bumpy ride to the recovery.
(See Mizuho Chart Speak: Thailand: Of Deficits and Slippery Moving Parts, 13 October 2022)
- The goods balance which swung into a record deficit not seen since 2013 will likely be an unfortunately blip. The **upshot here is that the current account ought to return to a surplus position for February.**
- On the goods balance front, given that Brent crude prices had stayed elevated above $80, the energy import bill is likely to remain large.
- Meanwhile, on top of some uptick in domestic household needs, the **sharp spike in consumer imports may in part be a ramp up in anticipation of tourism recovery which is likely to fade**.
- Given the cautious global environment, export revenue recovery may be found wanting though dire worsening is not a base case at this juncture.
- On the whole, **subject to energy price swings, occasional mild current account deficits might be sighted in Q2** on the road to recovery as export demand stay lackluster.
- Looking ahead, under the projection that tourist arrivals recover to 75-80% of pre-Covid levels by mid-2023, we expect a **durable current account surplus in H2 which should withstand oil prices spikes towards the upper limits around $85-90.**

Vietnam Economy: Hidden Slowdown?





- **Initial signs of slowdown** are evident as industrial production is down 6.3% YoY YTD and exports YTD are 10.4% lower compared to a year ago. What's worse, **significant accumulation of inventory** exacerbates the challenges of slowing order book growth.
- Vietnam Q1 2023 GDP will be expected to slow from 2022Q4's 5.9%.
- Due to **having low base effects**, the **GDP YoY print may not experience a sharp deceleration** despite seeing a **stark contraction on QoQ** terms, albeit non-seasonally adjusted one.
- In fact, a statistical perspective tells of non-trivial possibility that Q1 GDP print may hover around last quarter's print. That said, this will **be no illusionary relief to the authorities as we have seen the SBV** lower several interest rates, except the main policy refinancing rate.
- The move to lower rediscount rate serve to alleviate short term credit flows with the window for rediscount rate being shorter than the refinancing rate. In addition, a **lower cost of funding to stretched business in manufacturing** sector remain critical to **allow them to tide over** this period of external headwinds **rather than descend into capacity destruction.**
- At the same time, allowing time for the **arduous task of restoring confidence in the real estate sector which continues to face outsized credit difficulties.** (See Mizuho Flash: Vietnam Real Estate Snapshot: Relevance and Risks, 16 March 2023)

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	130.73	-1.120	-0.85%	129.00	~	134.30
EUR/USD	1.076	0.0090	0.84%	1.050	~	1.090
USD/SGD	1.3322	-0.010	-0.75%	1.3250	~	1.3600
USD/THB	34.145	-0.083	-0.24%	34.00	~	35.50
USD/MYR	4.4295	-0.056	-1.26%	4.400	~	4.550
USD/IDR	15155	-190	-1.24%	15,100	~	15,550
JPY/SGD	1.0189	0.001	0.09%	0.987	~	1.054
AUD/USD	0.6645	-0.005	-0.78%	0.655	~	0.688
USD/INR	82.48	-0.064	-0.08%	82.1	~	82.7
USD/PHP	54.345	-0.370	-0.68%	54.2	~	55.1

^Weekly change.

FX Outlook: The Haven Play

- With **fears of a banking crisis** continuing to swirl on both sides of the Atlantic (worries of First Republic and a wider cascade in the US whilst worries of Deutsche Bank weighed on Europe), **haven demand** may be at work, bouying JPY, USD and perhaps CHF (if UBS-CS skirts negative press).
- So **as counter-intuitive as it may be, bond markets aggressively betting on steep H2 Fed rate cuts**, driving UST yields sharply lower led by the front-end, **may not correspond with a softer USD**.
- Apart from rate/policy differentials which usually drive USD, we will do well to recall that the **USD is highly sensitive (and positively correlated) to more extreme iterations of fear**.
- And so, the **greater the fears and uncertainty surrounding banking sector risks**, **the less likely that the USD will be unequivocally bearish** based solely on the delta in rate/policy differentials.
- In fact, quite to the contrary. **USD could turn bullish in the midst of** flight to safety. And haven demand play could underpin the Greenback, checking downside, *at least until the worst of the fears are assuaged and the Fed has officially shifted stance.*
- Moreover, **with Europe equally exposed to the risk of the next (banking) shoe to drop** juxtaposed against an ECB forced to be hawkish against more **elevated inflation**, **EUR is not an obvious (much less standout) beneficiary** of this conflict of inflation and banking risks.
- For that reasons opportunistic gains in EUR (on policy triggers) remain *susceptible to sell-off on risks associated with fragmentation, banking contagion and negative real rate dynamics.*
- Knowing this, and factoring in the potential for sharp bouts of "risk off", it may be **prudent not to to aggressively bet against USD**; *especially vis-a-vis EM and higher beta currencies.*
- Admittedly, **JPY and to some extent CHF** (so long as banking sector woes do not shake the confidence in the Swiss banking sector) may retain some allure as haven play against the USD. And by that same token **Gold could shine as we**ll.
- But all said, **any decline in the USD will be opportunistic and likely fleeting**; especially against wider G10 and more so against EM Asia FX.

USD/JPY: Of Speculation and Fundamentals

- Clearly, JPY have enjoyed tail winds from the falling UST yields to close below 131 last week.
- Critically, the **sheer prospect of Brent crude prices being submerged** below $78/barrel from the highs above $82/barrel from the start of March imparts **fundamental restrains** for USD/JPY rallies.
- **Inflation** excluding fresh food and energy in February which **accelerated** from exceeded expectations will incite **speculative** short USD/JPY bets for a BoJ pivot.
- All in, we expect USD/JPY rallies to remain checked by risk off sentiments and improving fundamentals.

EUR: Fragile Stability

- Uncertainty over ECB's path ahead dents interest rate differential relative to USTs.
- Concerns over Deutche Bank's stability remain despite German Chancellor Scholz's public backing alluding to the lender's profitability. Static balance sheet snapshorts are battling with dynamic worries triggering fund flows.
- Tactical nuclear weapons in Belarus by Russia are re-igniting geo-political concerns to the fore.
- On balance, EUR rallies look to remain fragile with multiple points of weakness.

SGD: Caution

- **SGD is trimming gains**, and not just in a blind sympathetic move with the CNH;
- but rather, in an acknowledgement of the **lingering fears of banking crisis** hanging over markets like a ominous cloud over shivering kittens.
- And the attendant **haven demand for USD provides ample fodder** to re-assess the case for USD/SGD to sustain downside towards a test of 1.32.
- Instead, USD/SGD is now settl;ing 1.33-1.34 (off mid-1.32 lows from last week).
- Admittedly, **SGD may justifiably benefit from quasi haven status** - especially amongst EM Asia FX. And that is to be expected.
- But this does not in any way distract from the case for USD demand to check SGD gains;
- especially given that S$NEER remains rather rich for the current risk environment.
- Against such nerves, USD/SGD is likely to consolidate around low-1.32 to low-1.34.

AUD: Struggling

- With **risk sentiments beaten up** (and **down**), **AUD is struggling to durably retain traction** above 0.67; with a slip back to mid-0.66 as DB concerns swept across risk assets.
- Admittedly, there could be **some impetus for AUD to rebound if the RBA hints that more rate hikes** are needed; knocking back aggresive market bets on imminent pause, if not a reversal fo hikes with rate cuts.
- Nonetheless, this is perhaps *only a first-round reaction for AUD bulls to seize upon RBA denial of dovish market bets.* But **after which, global banking sector risks may dominate** the FX narrative.
- In which case, **AUD will continue to struggle** given the **positive correlations to risk assets are amplified via commodity-banking channels**.
- For now, expect AUD to consolidate on the wider 0.65-0.68 range as RBA and global risks are watched.

Bond Yield (%)

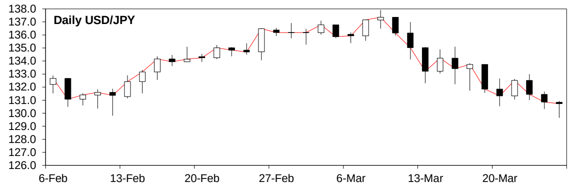
24-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.767	-7.0	3.376	-5.3	Steepening
GER	2.369	1.5	2.120	2.3	Steepening
JPY	-0.086	-0.1	0.244	-3.5	Flattening
SGD	2.794	-38.7	2.821	-9.7	Steepening
AUD	2.860	-16.5	3.210	0.1	Steepening
GBP	3.170	-4.2	3.274	-0.2	Steepening

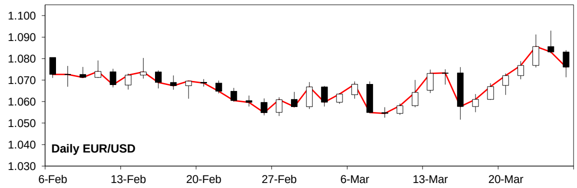
Stock Market

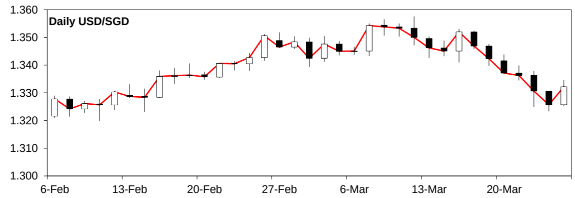
	Close	% Chg
S&P 500 (US)	3,970.99	1.39
Nikkei (JP)	27,385.25	0.19
EuroStoxx (EU)	4,130.62	1.61
FTSE STI (SG)	3,212.64	0.92
JKSE (ID)	6,762.25	1.26
PSEI (PH)	6,602.17	2.05
KLCI (MY)	1,399.70	-0.85
SET (TH)	1,591.85	1.80
SENSEX (IN)	57,527.10	-0.80
ASX (AU)	6,955.24	-0.57

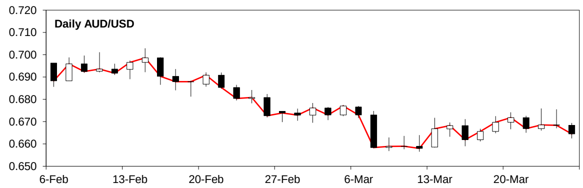
US Treasuries: Challenged

- The **fresh Dot Plot which was relatively unchanged** excepted for a 12.5bp upgrade of end-2024 projected Fed Funds rate **invited challenges for a Fed pivot again as 2Y yields sunk 7bps.**
- Given the financial stability concerns adding to growth woes which fuel bets of Fed rate cuts, the gap between the Fed's end-2023 rates and market pricing has now widened to a staggering 135bps.
- Considering the cover taken so far, it may require a significant above expectations beat for the PCE deflator to challenge the underlying growth concerns.
- In fact, a stubborn PCE deflator may instead ignite further inversion of the short end of the yield curve. Higher near term policy rates in sync with even deeper cuts.
- With a softer PCE deflator restraining the need for higher peak rates, shorter end yields may have their upside restrained.
- All in, brace for volatility is par for the course, with 2Y yields likely to swing in the 3.6%-4.1% with **upside skewedness reflecting sticky inflation bias.**
- 10Y treasuries look to enjoy haven demand and trade between 3.2%-3.5% amid growing geo-political concerns in North East Asia and Europe and questionable global financial stability.









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