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MIZUHO

WEEK AHEAD

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28-Feb-2022

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Economic Calendar

•Survey results from Bloomberg, as of 25 Feb 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
28 Feb	US	MNI Chicago PMI	Feb	62.3	65.2
	US	**Dallas Fed Manf. Activity**	**Feb**	**3.5%**	**2.0**
	US	Wholesale Inventories MoM	Jan P	1.2%	2.2%
	JP	Industrial Production YoY	Jan P	0.0%	2.7%
	JP	Retail Sales YoY	Jan	1.1%	1.4%
01 Mar	**US**	**ISM Manufacturing/ New Orders**	**Feb**	**58.0/--**	**57.6/57.9**
	EZ	PMI Mfg	Feb F	58.4%	58.4
02 Mar	**US**	**ADP Employment Change**	**Feb**	**320k**	**-301k**
	EZ	**CPI/Core YoY**	**Feb**	**5.4%/2.5%**	**5.1%/--**
03 Mar	**US**	**Initial Jobless Claims**	**26-Feb**	**225k**	**232k**
	US	**Durable Goods/Nondef Ex-Air Orders**	**Jan F**	**--**	**1.6%/0.9%**
	US	**ISM Services Index**	**Feb**	**61.0**	**59.9**
	EZ	PMI Services	Feb F	55.8	55.8
	EZ	PPI YoY	Jan	27.0%	26.2%
	EZ	Unemployment Rate	Jan	6.9%	7.0%
	EZ	**ECB Account of February 2022 Policy**			
	JP	PMI Services	Feb F	--	42.7
04 Mar	**US**	**Change in Nonfarm Payrolls**	**Feb**	**400k**	**467k**
	US	Average Hourly Earnings YoY	Feb	5.8%	5.7%
	US	**Unemployment Rate**	**Feb**	**3.9%**	**4.0%**
	EZ	Retail Sales YoY	Jan	9.2%	2.0%
	JP	Jobless Rate	Jan	2.7%	2.7%

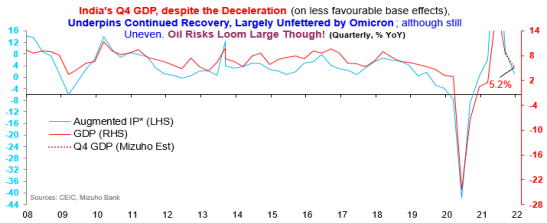
Asia Actual Data Release

Date	Country	Event	Period	Survey*	Prior
28 Feb	**VN**	**CPI YoY**	**Feb**	**1.3%**	**1.9%**
	AU	Retail Sales MoM	Jan	0.5%	-4.4%
	IN	**GDP YoY**	**4Q/2022**	**6.1%/9.0%**	**8.4%/-6.6%**
	TH	BoP Current Account Balance	Jan	-$747m	-$1378m
01 Mar	CH	Mfg/Non-Mfg PMI	Feb	49.8/50.4	50.1/51.1
	CH	Caixin PMI Mfg	Feb	48.7	49.1
	AU	BoP Current Account Balance	4Q	--	A$23.9b
	AU	**RBA Cash Rate Target**		**0.10%**	**0.10%**
	ID	PMI Mfg	Feb	--	53.7
	ID	**CPI/Core YoY**	**Feb**	**2.2%/1.9%**	**2.2%/1.8%**
	KR	Exports/Imports YoY	Feb	**--**	15.2%/35.5%
02 Mar	SG	Purchasing Managers Index	Feb	--	50.6
	AU	**GDP YoY/SA QoQ**	**4Q**	**3.5%/3.0%**	**3.9%/-1.9%**
	KR	Industrial Production YoY	Jan	--	6.2%
03 Mar	CH	Caixin PMI Services	Feb	50.7	51.4
	AU	Trade Balance	Jan	--	A$8356m
	KR	**GDP YoY**	**4QP/2021**	**--**	**4.1%/4.0%**
	MY	**BNM Overnight Policy Rate**		**1.75%**	**1.75%**
04 Mar	SG	Retail Sales Ex Auto YoY	Jan	--	8.6%
	KR	**CPI/Core YoY**	**Feb**	**3.6%/--**	**3.6%/3.0%**
	TH	**CPI/Core YoY**	**Feb**	**4.1%/--**	**3.2%/0.5%**
	PH	**CPI YoY**	**Feb**	**3.3%**	**3.0%**

Week-in-brief: Of Escalation & End-Games

- **Escalation of Russian attacks on Ukraine** have been **met with an escalation in sanctions**.
- Notably, the imposition of crippling **impediments on the Russian central bank (CBR) foreign reserves** and **removing "select" Russian banks from** the **SWIFT** international payment systems.
- The idea **is to cut off international financing flows** that may circumvent sanctions and **hobbling the CBR's ability to deploy its $630bn of foreign reserves as backstop**.
- These are **key measures to ensure that the sanctions have bite**.
- *But* the **elephant in the room is current exemption Russia's energy exports from sanctions**, which means that **high energy prices could continue to underpin the windfall** of some €19bn in C/A surplus (possibly more), in turn blunting the impact of USD starvation. And so, while pain for Russia will be acute, **clarity on the end-game continues to be as elusive as it is** perhaps **fluid**.
- Taking a step back, what this means **for the global economy** is that **inflation woes will continue to escalate** amid high energy prices from Russia risks and impaired OPEC (ex-Saudi & UAE).
- And that casts **greater uncertainty around central banks' end-game**.
- Consequently, the **build-up of latent volatility in bond and FX markets could intensify**, while the **recent recovery in the equity markets may prove to be fleeting**.
- In economic releases that may be sidelined, but not entgirely ignored, neither US ISM (Tue/Thu) nor jobs data will deter the Fed from tightening later in March. But the key debate (and divide) on whether to go for a 50bps hike in March remains "live". Meanwhile, the **bigger picture is that Fed's Waller and Bullard hang on to the case of 100bps in hikes by mid-2022**.
- **India (Mon), Australia (Wed) and Korea (Thu) release Q4 GDP**, with **the story of on-going recovery despite Omicron** in the rear-view mirror being **discounted by energy price headwinds amid geo-politics in the foreground**. But perhaps not enough to put Fed hike risks to bed.
- Nonetheless, the **RBA (Tue) and BNM (Thu) are expected to remain on hold** as geo-political headwinds are likely to provide a slightly bigger window to maintain policy accommodation.
- For now, geo-politics will monopolize markets as escalation of the Ukraine war *with Russia's nuclear forces on high alert* further obfuscates end-game and amplifies risks of miscalculations on all sides.

India Q4 GDP: "The Good, the Bad & the Ugly"



- **India's Q4 GDP** has **all the ingredients of** *"the Good, the Bad and the Ugly"*.
- The "**Good**" (news) is news is that **despite an obvious deceleration in headline growth from 8.4% YoY in Q3, our forecast 5.2%** (market: 6.0%) still **reflects resilient recovery once a significant in base effect boost is accounted for**.
- What's more, activity suggests there has been **greater economic buffer from Omicron**. Thus, the recovery has been spared further jolts, and the path ahead looks less tenuous.
- Especially with a more gradual fiscal consolidation glide path allowing for public sector support.
- The "**Bad**" though is that this **remains a very uneven**, and as often cited, **'K-shaped" recovery** that has **disproportionately impaired low-income segments of the economy**.
- Inherently, this leaves the economy far more vulnerable to cost shocks.
- The "**Ugly**" is that **sharp surge in Oil prices from geo-political** triggers **may inadvertently set off destabilizing macro-dynamics** if worsening of "twin deficits" catch dovish fiscal (and higher corresponding debt) and monetary policies wrong-footed.
- Upshot being, **Oil may be the clouds that overshadow the silver lining of resilient recovery**.

RBA: Hawkish Pressures Deflected

- It is probably a forgone conclusion (for some time now) that the **RBA will maintain its accommodative hold for now**; even with the RBA walking back appreciably more strident dovish guidance from earlier to admit to the viability of rate lift off this year.
- Upshot being, **while the RBA, at the margin, has conceded to the need for policy accommodation to be dialed back sooner** than earlier imagined (2024 just half a year ago), it **will be sticking with current accommodation for most of 2022**.
- Especially with the bond purchase program (QE) being ceased in February.
- And there are **two key reasons as to why this dovish hold will be reinforced** for now, even with Oil prices spiking on the Russia-Ukraine trigger.
- For one, **wage pressures remain by and large subdued** (as per recent Q4 wage data), thereby keeping second round effects in check. And so *"patience" on cost-push is validated.*
- What's more, insofar that **disappointing Q4 capex** points to **incomplete and uneven recovery of confidence**, which squares with RBA's "patience" despite the Fed's hawkish pivot.
- All said, **hawkish pressures on the RBA are further deflected**; **validating a dovish hold**.

Bank Negara Malaysia - Holding Back

Malaysia Recovery Tracker

	Units	Q1 2021/March 2021	Q2 2021/June 2021	Q3 2021/Sept 2021	Q4 2021/ Dec 2021
GDP SA	2019=100*	99.1	97.1	93.7	99.8
Industrial Production		102.3	99.1	106.3	107.7
Currrent Account: Goods Balance		112.1	124.5	126.1	158.5
Currrent Account: Services Balance		-372.5	-384.2	-379.3	-385.7
PMI* (<50 = contraction, >50 = expansion)		49.9	39.9	48.1	52.8

Source: Bloomberg; CEIC; Mizuho Bank

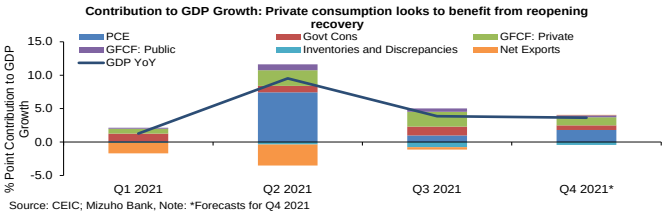
Legend: Incomplete Recovery | Healthy Recovery

- **Bank Negara Malaysia is set to continue holding policy rates at their meeting this week despite improving economic situation,** though this hold may not last for long as the durability of the recovery sets in to allow room to begin policy normalisation in Q2.
- With Q4 2021 GDP growth at 3.6%, **overall GDP levels have nearly recovered back to pre-Covid levels** led robust global demand underpinning manfacturing production. The healthy external demand also drove the stellar performance from goods balance. (See Tracker above)
- The surplus from **goods balance (given the larger base) has also been able to make up for the services deficit from the tourism drought**.
- Notably, services employment has continued to steadily increase and exceeded pre-Covid hiring levels since Q4 2021. That said, value added of services remains 2% below pre-Covid levels.
- On the horizon, Malaysia looks set to reopen to international tourism in Q2 which will reignite the much needed energy within the services sector and return it to levels last seen 2 years ago.
- Heightened geopolitical tensions in Europe also adds some cause for holding rates to allow the uncertainty to settle for an assessment of its ripples and spillovers.
- All in, while the BNM stands pat on policy rates, **some signalling of normalisation may be on the cards especially in the face of Fed tightening headwinds.**

Korea CPI and Q4 GDP - Inflation Troubles Growth

- Final print of **Q4 GDP** is set to come in at about **4.1% YoY**. Unsurprisingly, 3/4 of this growth will be driven **by recovery in household consumption** as social distancing restrictions were lifted.
- More notably, **net exports has turned into a drag on growth**. Diving deeper, this driven by net goods exports being a drag on twin pressures from a **declining terms of trade as import prices escalated** and slowing export demand relative to import demand. Meanwhile, **net services trade bolster growth as transportation balance via frieght services continue to be supportive.**
- Going forward, as Korea's growth trajectory normalise, fiscal spending will be critical to prevent an unwelcome contraction from early-2022 omicron induced measures. Thus far, the **additional supplementary budget approved on 21 Feb which adds 0.7% of GDP to the fiscal deficit will serve to compensate small businesses helping to avoid closures and unemployment**.
- Meanwhile, headline inflation will be set to stay above the 3% mark, while petroleum prices hog headlines, **broadening inflation into services will continue to be the more troubling issue**.

Australia Q4 GDP - Pent Up Growth



Source: CEIC; Mizuho Bank, Note: *Forecasts for Q4 2021

- Australia's **Q4 GDP release is expected to print upwards of mid-3% as private consumption is set to contribute** more than half of the GDP growth. Earlier Q3 net exports drag look likely to dissipate as commodities export demand looks to offset the drag from imports (from goods).
- With **higher mobility levels as lockdowns were lifted**, retail sales for Q4 being up 5.3% YoY bodes well for private consumption alongside the release of **pent-up demand for services**.
- With construction work done expanding 2.9% YoY in Q4, gross fixed capital formation will also be expected to remain resilient but uneven as longer term private investment may remain weak.
- With **coal and natural gas exports remaining strong into Q4 offsetting iron ore demand slowdown**, exports on the whole may edge out revived import demand from reopening.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	115.55	0.540	0.47%	113.50	~	116.00
EUR/USD	1.1268	-0.0054	-0.48%	1.100	~	1.140
USD/SGD	1.3533	0.007	0.54%	1.3450	~	1.3650
USD/THB	32.466	0.337	1.05%	31.90	~	33.30
USD/MYR	4.2023	0.016	0.39%	4.176	~	4.230
USD/IDR	14364	37	0.26%	14,250	~	14,430
JPY/SGD	1.1718	0.002	0.17%	1.159	~	1.203
AUD/USD	0.7226	0.005	0.68%	0.699	~	0.729
USD/INR	75.29	0.630	0.85%	74.4	~	76.1
USD/PHP	51.35	-0.020	-0.04%	51.0	~	51.6

^ Changes are on weekly basis

Bond Yield (%)

25-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.570	10.5	1.962	3.3	Flattening
GER	-0.396	9.2	0.226	3.8	Flattening
JPY	-0.032	-0.5	0.204	-0.2	Steepening
SGD	1.178	-0.7	1.895	-7.0	Flattening
AUD	1.185	1.0	2.228	0.1	Flattening
GBP	1.190	-5.4	1.455	8.0	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,384.65	0.82
Nikkei (JP)	26,476.50	-2.38
EuroStoxx (EU)	3,970.69	-2.54
FTSE STI (SG)	3,294.47	-3.92
JKSE (ID)	6,888.17	-0.07
PSEI (PH)	7,212.23	-2.78
KLCI (MY)	1,591.72	-0.71
SET (TH)	1,679.90	-1.94
SENSEX (IN)	55,858.52	-3.41
ASX (AU)	6,997.81	-3.10

FX: Poised, Not Panicking

- The classic **geo-political safe haven refuge is not unequivocal**; *certainly not escalating.*
- Yes, Gold has sustained some traction above $1900, but is well off the $1970-1980 peaks from Thu.
- And that **suggests that the most intense geo-political fears have subsided;** at least at the margin.
- Likewise, **USD/JPY has also bounced off mid-114**, and is **now at mid-115** (consistent with Cross/JPY more broadly bouncing off the week's lows).
- And the **Greenback has also capitulated from the surge on Thu**; although holding reasonable ground.
- Part of this may be attributed to relief of averting an open and unmitigated armed conflict **between Russia and the West.** Fact is, for all the justifiable concerns of the most significant European ground war in decades, the **West maintains a "*attack the banks, not with tanks*" sanctions-based approach**.
- So, FX markets are poised for a controlled escalation in financial impact as sanctions noose tightens around Russia, rather than a more uncontrollable outcomes that is associated with NATO-Russia conflict.
- Meanwhile, in the economic policy space, **while the Fed has not backed down from steadfast and emphatic front-loaded tightening** (Waller and Bullard maintaining call for 100bps by mid-2022), the odds of a 50bps hike for March has subsided sharply from 80% to 10%.
- And so, the **confluence of;**
  - i) **geo-political spillovers to panic about war being contained** alongside;
  - ii) a **less hawkish take on MArch FOMC** (despite $102 Brent)
- may corollary contain USD upside in the near-term.
- With that, there could be scope for currencies of net energy exporters to be buoyed to some extent (and barring an abrupt blow-up in Russia risks), but broad-based USD sell-off is not on the cards either.
- Especially for EMs, given the far larger impact from oil imports into "twin deficits" and inflation.
- Consolidation erring on the side of caution means a backstopped, if not buoyed USD (despite not surging with abandon); especially as EUR remains on the backfoot.

JPY: Yields & Oil Re-asserting?

- **Downward pressures on USD/JPY from geo-political "risk off"** appears to have been assuaged by the assessment of outright, unmitigated NATO-Russia war being watered down.
- Accordingly, haven demand for JPY have also been dampened.
- Especially given the confluence of a strong rebound inequities and backstop in UST yields as Brent prices are lifted above $102.
- So it is reasonable to suggest that buoyant yields and elevated Oil are re-asseting to keep USD/JPY traction intact. But this is not suggestive of a reversal either.
- Instead, a wider consolidation in the 113.8-116.5 is likely as bouts of "risk off" and are still par for he course as geo-political risks continue to evolve.

EUR: Pivots

- Last week's allusion to holding the border fell, as Russian troops attacked Ukraine and the EUR ended the week just above mid-1.12, that is after falling to nearly 1.11.
- With a low probability of successful peace talks, EUR weakness may continue resulting in continued testing of mid-1.11 as the fighting continues.
- That said, given the still unknown impact of unprecedented SWIFT sanctions, sharp declines below 1.11 should not be discounted.
- Meanwhile, this week's CPI will continue to pressure the ECB and backstop excessive EUR declines but mid-1.13 may be too far a turn.

SGD: Quasi-Safe Havens?

- While SGD movements deferred to the USD as "risk off" mode took hold last week, the overall assessment is a more measured flight to USD.
- The CNH had also assisted to lean against the USD in assuming unprecedented quasi safe haven status and in turn provide some backstop for the SGD.
- This week, while geo-political triggers may see continued SGD weakness, the rise in commodity prices worsens the cost-push sensitives and adds to the case of MAS mid-point re-centring in April.
- That said, given intricacies of S$NEER re-centring, opportunistic buying and CNH backstop will be more likely than one way hawkish MAS bets.
- With risk aversion likely to continue, USD/SGD may stay above 1.35 while testing of 1.36 may fizzle unless tensions and sanctions are notched upwards.

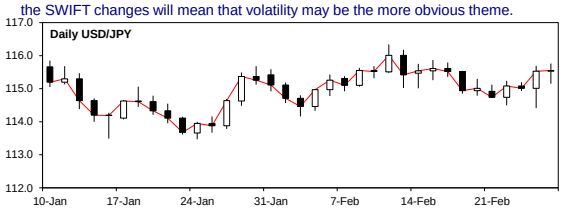
AUD: Commodities Cushion

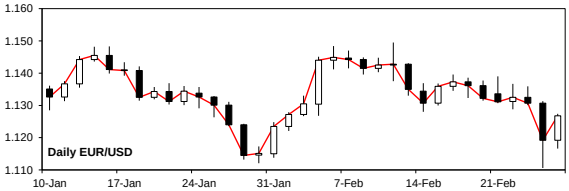
- The AUD rallied above mid-0.72 mid-last week on commodity boost before retreating to stay below 0.72 levels as risk off flight to USD took hold.
- With wage growth coming in short of expectations, the RBA is likely to keep the policy rate steady at 0.10% this Wednesday, validating their wage growth concerns.
- The Russia-Ukraine conflict will likely continue to drive "safe haven" USD demand while pushing commodity prices to ever higher prices.
- With that said, favourable commodity prices are expected to only cushion below 0.71 as the AUD will continue to remain subordinate to the USD, staying below 0.73 levels.

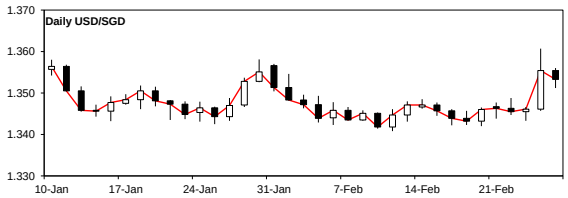
With acknowledgements of contributions from our Research Associate Matthew Ng

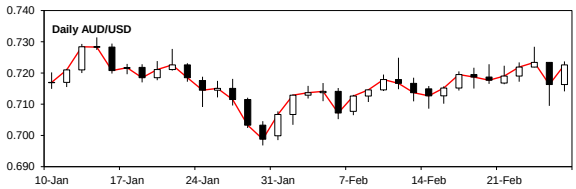
US Treasuries: SWIFT Currents

- Last week, a flattening UST yield curve as UST yield 10Y yields up ~3bps and 2Y yields up ~10bps, belies the **underlying torrents**.
- First, the higher oil prices would have worsened inflation worries on the Fed front rather than growth dynamics with Fed's Bullard (again) repeating his 1%-pt by July 1 call alongside other Fed's officials who stood firm in their March hike convictions.
- Second, **despite higher oil prices**, yields being slightly down on the short end (or similar on the long end) compared to 2 weeks back **cautions against too quick a conclusion that safe haven demand has receded.**
- Third, the yield curve flattening reminds us that **FOMC looms in just over 2 weeks**.
- This week, with the proposed SWIFT sanctions being imposed while the Russian attack in Ukraine continues, **safe haven demand will likely mean** that **both 2Y and 10Y yields struggle to sustainably breach 1.6% and 2% respectively**.
- Meanwhile, the rising energy prices is unlikely to subside which will mean that Fed's hawkishness will allow some **modest flattening** of the yield curve while a straight forward UST bearish case also looks too far a stretch.
- All said, this is not a case of tight trading, rather rebalancing and reallocations as a result of the SWIFT changes will mean that volatility may be the more obvious theme.









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