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

05-Dec-2022

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 2 Dec 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
5 Dec	US	ISM Services Index	Nov	53.9	54.4
	US	Durable Goods/Non-def Ex Air Orders	Oct F	1.0%/--	1.0%/0.7%
	EZ	Retail Sales YoY	Oct	--	-0.6%
	EZ	Sentix Investor Confidence	Dec	--	-30.9
6 Dec	US	Trade Balance	Oct	-$80.0b	-$73.3b
	JP	Labor/Real Cash Earnings YoY	Oct	2.0%/-2.2%	2.2%/-1.2%
7 Dec	EZ	GDP SA YoY	3Q F	2.1%	2.1%
	EZ	Employment YoY	3Q F	--	1.7%
	JP	Coincident Index/Coincident Index	Oct P	100.5/98.3	101.4/97.5
8 Dec	US	Initial Jobless Claims			
	JP	BoP Current Account Balance	Oct	¥621.7b	¥909.3b
	JP	Eco Watchers Survey Current/Outlook SA	Nov	50.6/46.8	49.9/46.4
	JP	GDP Annualized SA QoQ	3Q F	-1.0%	-1.2%
9 Dec	US	U. of Mich. Sentiment	Dec P	56.8	56.8
	US	U. of Mich. Current/Expectations	Dec P	58.0/54.3	58.8/55.6
	US	PPI Final DD/Ex Food and Energy YoY	Nov	7.2%/5.9%	8%/6.7%
	US	U. of Mich. 1 Yr/5-10Yr Inflation	Dec P	4.9%/3.0%	4.9%/3.0%

Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
5 Dec	CH	Caixin PMI Services	Nov	48.0	48.4
	SG	PMI	Nov	--	57.7
	SG	Retail Sales/Ex Auto YoY	Oct	10.7%/--	11.2%/16.8%
6 Dec	AU	BoP Current Account Balance	3Q	A$6.2b	A$18.3b
	AU	RBA Cash Rate Target		3.10%	2.85%
	TH	CPI/Core YoY	Nov	5.9%/3.2%	6.0%/3.2%
	PH	CPI YoY 2018=100	Nov	7.8%	7.7%
7 Dec	CH	Trade Balance	Nov	$78.1b	$85.2b
	AU	GDP YoY	3Q	6.2%	3.6%
	IN	RBI Repurchase Rate		6.25%	5.90%
	PH	Unemployment Rate	Oct	--	5.0%
8 Dec	AU	Trade Balance	Oct	A$12100m	A$12444m
9 Dec	CH	PPI/CPI YoY	Nov	-1.4%/1.6%	-1.3%/2.1%
	KR	BoP Current Account Balance	Oct	--	$1611.2m
9-15 Dec	CH	Aggregate Financing/New Yuan Loans CNY	Nov	--	907.9b/615.2b

Week-in-brief: Bottoms Up, Goldilocks!

- The **question** is **not "half-full or half-empty?"**. But rather, *whether it makes sense to quibble about whether a "Santa rally" is warranted, with a market that wants it so bad.*
- So much so that **even a punch from further rate hikes is framed as a "punchbowl" associated with a dial back in the pace of rate hikes** (recall that Fed Chair Powell declared the speed of rate hikes is less important, and a dialback is expected at these levels in any case).
- Which provides **context to why markets** happy to run with "bad news (on data) is good news (on policy)" **have not reciprocated with "good news is bad news" type of reaction to the stronger-than-expected US jobs data**. And *in particular,* to the *discomfortingly strong surge in wages.*
- Point being, for markets hung up the slowing pace of Fed hikes expected, the **strong jobs/hot wage data should have triggered "risk off" in equities amid higher yields and a stronger USD**.
- But instead, the initial lift in yields (and slide in equities) dissipated alongside USD strength.
- In other words, markets are happy to **bottoms-up on any remnants in the glass** (nevermind half-full of half-empty). Moreover, **markets are inclined to be generous in recognizing "Goldilocks"**;
- taking "*bad (data) news as good (policy) news*", *yet subordinating strong data to a dial back in the pace of rate hikes* (which is in turn extrapolated to peak rates and ultimately pivot).
- Are there **risks to these overly upbeat interpretations? Surely!**
- But **will that deny markets a "Santa rally"? Perhaps not**.
- Point being, after a punishing year for markets, **silver linings may be magnified in favour of a year-end rally in risk assets**. So, **barring a major disappointment**, *reckoning on the "for longer" part of the "higher for longer" Fed may not imminently hit hard.* Apart from cautious closing to lock in profits before the turn of the year. And that **could coincide with a softer USD, which continues to play off the "Fed and fear"**; *both of which have been suppressed into the holiday season.*
- US ISM Services, U of Michigan survey (sentiments and inflation expectations) will be watched, but possibly via "Santa rally"-biased lenses.
- In our neck of the woods, both the **RBA and the RBI are expected to stick with tightening**.
- The **RBA by 25bp (to 3.10%)** as higher inflation demands more calibration, although aptly calibrated now that rates are deemed sufficiently restrictive amid housing and household debt risks.
- As for the **RBI**, the dial-back transition is in process as it steps down from 50bps hikes. A **35bp hike (to 6.25%)** may be apt *as price stability remains the priority.* Especially as *underlying macro stability risks persist despite the interim "risk on" providing some reprieve* from unabated USD strength.
- An inebriated **Goldilocks may blunt, but does not bury, risks associated with the "three bears"** (Fed-induced recession, Geo-politics and China policy muddles).

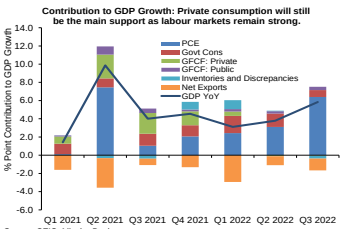
Philippines Budget 2023: Sticking To Fiscal Consolidation And That's About It

Summary table of key budget items									
	2021		2022					2023	
	Actual (PHPbn)	% YoY	Program (PHPbn)	% YoY	Jan-Aug'22 Actual	%Program	%YoY	Projection (PHPbn)	%YoY
Govt Revenue	**3006**	**5.2**	**3304**	**9.9**	**2369**	**71.7**	**18.1**	**3632.9**	**10.0**
Tax Revenue	2743	9.5	3140	14.5	2132	67.9	17.3	3464.1	10.3
Bureau of Internal Revenue	2078	6.5	2393	15.1	1559	65.2	12.3	2670.4	11.6
Bureau of Customs	644	19.7	722	12.1	559	77.5	35.6	765.6	6.1
Non Tax revenues	263	-25.3	164	-37.5	236	143.9	24.9	168.3	2.6
Govt Expenditure	**4676**	**10.6**	**4955**	**6.0**	**3202**	**64.6**	**8.0**	**5085.8**	**2.6**
Current Operating Expenditures	3494	5.0	3679	5.3	2377	64.6	8.3	3873.1	5.3
Capital Outlays	1164	32.4	1247	7.1	805	64.6	6.3	1184.1	-5.0
Infrastructure Program	1124	29.2	1200	6.8	629	52.4	10.2	1180.2	-1.6
Net Lending	18	-18.6	28.7	59.4	19.4	67.6	70.2	28.7	0.0
Fiscal balance	**-1670**		**-1651**		**-833.0**			**-1453**	
%GDP	*-8.5*		**-7.6**		**-7.4**			**-6.1**	

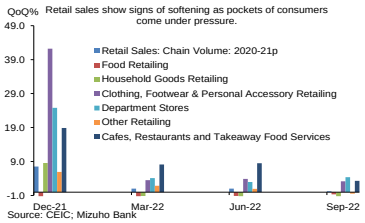
**The government's program is as of 24 May, 2022. Source: DBM; CEIC; Mizuho Bank*

- **Budget 2023 was approved by the Senate on 23 November, in advance of the start of the New Year. The budget aims to narrow the fiscal deficit to 6.1% of GDP from 7.6% in 2022**.
- **Revenue growth is expected to be 10% YoY, similar to the expectation for 2022.** Within this, tax revenue growth is expected to slow to 10.3% in 2023 from 14.5% in 2022.
- **This is consistent with slower nominal GDP growth in 2023** at 9.6% YoY (more from a moderation in inflation rather than real GDP growth) from 11.7% in 2022.
- Meanwhile, **expenditure growth is budgeted to slow to 2.6% YoY in 2023 from 6.0% in 2022 led by slower capex disbursements** (-5.0% YoY in 2023 from +7.1% in 2023) with opex growth is set to remain stable at 5.3% YoY.
- **While this is not be encouraging on the headline, it reflects the reality associated with fiscal consolidation** wherein capex cutbacks are inevitable even as opex growth is sustained.
- That said, **the government has been close achieving its tax revenue targets, 95%-100% of target since 2016, implying that revenue underperformance is unlikely to be material.**
- Indeed, for Jan-August 2022, tax revenue collections at ~68% of the annual target, suggest that the full target is within reach.
- **This has allowed the fiscal deficit, running at 7.4% of GDP on a 12 month-rolling sum basis to August 2022, to modestly undershoot the annual 2022 target of 7.6%.**
- As such, **Budget 2023 sticks to the medium-term agenda of fiscal consolidation and tighter macro policy but does not break the mould on pushing additional fiscal reforms. If anything, it is categorically short on details regarding the latter.**

Australia Q3 GDP: Beneath the Flattery



Source: CEIC; Mizuho Bank
*Q3 Data are Mizuho forecasts.



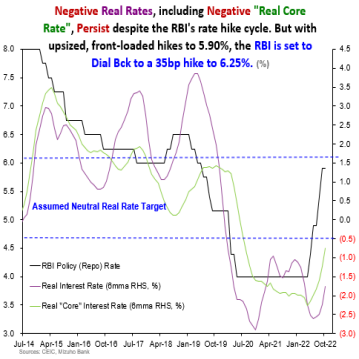
Source: CEIC; Mizuho Bank

- **Base effects will inevitably flatter the Q3 GDP YoY print** for Australia which we expect to come in just below 6%. With a resilient job market, private consumption will continue to be the main growth support.
- Nonetheless, **beneath these headline figures, real retail sales display a weakening momentum**.
- Food retail and household goods sales have continue to contract in Q3. **Clothing and footwear as well as food services are also showing a slower rate of expansion** as the reopening boos fades and **inflationary pressures hit pockets of consumers**.
- Increasingly, **softer private consumption is par for the course** as a growing proportion of households are hit by higher mortgage burdens as the effect of fixed rate loans expire.
- That said, outright meltdowns are still remain as tail risks as **savings buffers and employment remain supportive of household balance sheets.**

RBA: Retaining 25bp Hikes

- We find that the **case to retain 25bp rate hikes at the RBA's next meeting (6 Dec) remains strong. This will take their cash rate target to 3.10%.**
- Since the previous meeting, imported inflationary pressures has been dented by a stronger AUD benefiting from a softer USD trend alongside optimism surrounding China's easing of Covid restrictions. This in turn diminishes the case for upsized hikes.
- While monthly CPI indicator is an imperfect proxy of its quarterly counterpart**, October's headline inflation printing at 6.9% is still uncomfortably high** despite it being lower than September's 7.3%.
- **Housing market and construction sector risks are rising but the current state can be considered intended by (policy) design and the mitigating incomes/savings buffer still prevail.**
- Specifically, while we are cognisant of falling building approvals (6% MoM decline in october on a seasonally adjusted basis), the level of approvals remain 4.4% above 2019's monthly average.
- Similarly, housing prices are at elevated levels despite falling off its peak in recent months.
- Uptick in employment and hours work will prove supportive of incomes to mitigate against inflationary pressures and rising mortgage burdens.
- Along the same vein, household savings ratio has been fallen to 8.7% in Q2. Nonetheless, it is also above pre-Covid levels. That said, as **households increasingly consume out of savings, private consumption may begin to slow and allow demand side inflationary pressures to ebb.**
- In 2023, another 25bps hike to reach 3.35% is on the cards and beyond which, the case to pause and allow policy transmission effects to take hold increases.

RBI: Dailing Back, But Not Done



- The bottom-line is that the **RBI will have to maintain the tightening stance amid sticky inflation**, ***albeit dialing back*** from upsized 50bp hikes ***to a 35bp hike*** (to 6.25%) this time.
- As alluded to in our note after Q3 GDP:
- "*despite emerging headwinds to growth, the more pressing price (and rupee) stability mandate of the RBI, sets the stage for more rate hikes …*"
- Crucially, especially "*… in the context of an uncompromisingly hawkish Fed.*"
- In fact, there could be **yet another 25bp hike in Q1 2023** to bring the repo rate **to 6.50%**; as inflation linger inconveniently and uncomfortably.
- What's more, *alongside non-negligible fiscal slippage risks,* **persistently negative real rates underpin the case for the RBI not to shift down from its current tightening stance**.
- At least not just yet as **overhang of** *latent global market volatility* **and** *capital outflow risks* **remain**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	134.31	-4.880	-3.51%	130.00	~	138.00
EUR/USD	1.0535	0.0140	1.35%	1.040	~	1.060
USD/SGD	1.3516	-0.025	-1.83%	1.3400	~	1.3850
USD/THB	34.765	-1.050	-2.93%	34.20	~	35.40
USD/MYR	4.3883	-0.095	-2.13%	4.300	~	4.550
USD/IDR	15428	-245	-1.56%	15,300	~	15,650
JPY/SGD	1.0071	0.018	1.81%	0.971	~	1.065
AUD/USD	0.679	0.004	0.58%	0.660	~	0.690
USD/INR	81.32	-0.366	-0.45%	81.0	~	82.5
USD/PHP	55.765	-0.920	-1.62%	55.0	~	56.5

^Weekly change.

FX Outlook: USD on Temporarily Dampened by Santa Rallies

- There is **admittedly a strengthening case to be made that the USD has peaked**.
- After all, USD past its peak would be **consistent with the historical precedent of the Greenback discernibly front-running the Fed peak rates**.
- Crucially, **markets in "risk on" mode** (by and large) also **square with a softer USD**.
- ***Especially if a "Santa rally" takes hold*** into the rest of December; **sharply reversing out the haven demand for the USD**, which has arguably been **boosted by both "Fed and fear"**.
- But it would be **premature, if not a mistake, to conclude that the USD strength is done and dusted**. Afterall, *"Santa rallies" merely dampen USD bulls temporarily, but arguably not durably defy lingering financial and Fed risks that could trigger fresh bouts of USD strength.*
- **Three reasons why spurts of USD strength could still catch markets on the wrong foot**.
- First, **Fed hawks appear to be discounted a tad too much**. Admittedly, slower pace of hikes are par for the course. But there remains sufficient uncertainty around peak rates.
- Crucially, the **persistence of elevated rates also appears to be under-accounted for**.
- And so, scope for fresh Fed triggers aimed at USD strength may have a final leg left.
- Second, these "risk on" markets are not being perpetuated in the absence of negative news. Notably (and amongst other risks), recession risks remain elevated.
- And **even if a strong USD is not the natural instinct into recession risks**, **EM Asia FX strength against the Greenback into a recession is even more absurd**.
- Finally, the calculus of further tightening being far more deleterious for EZ and UK (than it is for the US) could also trigger fresh re-assessments of re-balancing away from USD into EUR and GBP (as well as JPY). and if so, it may be a bumpy ride to s durably softer USD.

USD/JPY: Contemplating Consolidation

- Undoubtedly, the **JPY performance was boosted by lower UST yields as the USD/JPY sank below mid-134 last week**.
- While the JPY has appreciated sharply as the USD/JPY plunged from early Nov highs of 148, this **does not mean a straight up reversal in the form of slips below sub-130 which was last seen in June this year.**
- Critically, during mid-2022, **UST yields were significantly lower. Admittedly, Brent crude prices were hitting heights ~US$110/barrel then.**
- All in, the most likely scenario this week is for **a consolidation in the 133-136 range as FX markets contemplates the impact on the Fed and Opec+'s reaction to EU's Russian oil embargo.**

EUR: Watching China Oil & Sanctions

- n a week of easing USD demand and associated DXY index weakness, EUR/USD moving 1.9% higher for the week to 1.054 levels was an underperformance compared to its G10 peers., NZD and JPY, for instance, gained >3.5% versus USD.
- Notwithstanding, EUR may continue to ride on the coattailsof USD weakness into this week as countervailing risk sentiment factors remain at play. On the one hand, expectations of China re-opening will help boost global risk sentiment while on the other hand, tougher sanctions on Russian oil imports (effective 5 December) and a potential tussle over the agreed USD60 cap on Russian oil may be dampen EUR associated strength.
- Furthermore, hawkish ECB speak may provide EUR support as the market shifts US Fed expectations to a higher rates for longer rather than higher rates imminently.
- As such, we expect a wider trading range for EUR/USD from 1.04-1.062 for this week.

SGD: 10-month Highs Beg Wider Questions

- A sub-7 CNH rallies, SGD has also had a mind-boggling spurt.
- From testing 1.42 in early-Nov (a month ago) to breaking below 1.35; almost 10-month lows at rates nmot een since February.
- No doubt that further CNH rallies alongside a sliding USD (amid "risk on" building into "Santa rallies") is likely to inspire even more downside in the USD/SGD.
- But a surge of over 5% merely on peak rates by the Fed and China re-opening bets appear to be overdone. Even by the standards of these markets.
- Nonetheless, sensibility should not be mistaken for the sheer sway of markets.
- So USD/SGD, under the current climate may well test below 1.34 with a wider consolidation amid sub-1.34 to 1.36+.

AUD: RBA to Support, Not Super-Charge

- **AUD could very well be exploring more upside as a RBA hike could resonate wioth the "risk on"** inclination of markets (and the attendant USD pullback that it comes with).
- But here's the deal. **With** the USD pullback having come some way, and markets calculating the **upward peak rate shifts that might be communicated via the Dec FOMC, unbridled AUD rallies are not quite on the menu either**. Or at the very least risks capitulation.
- For now, we expect that the AUD could be traded in the sub-0.67 to 0.69+ range.
- The skew of the trades may be biased to testing upside first, before consolidating gains and perhaps trimming ahead of the FOMC.

Bond Yield (%)

2-Dec	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.272	-18.1	3.486	-19.2	Flattening
GER	2.083	-7.6	1.846	-12.2	Flattening
JPY	-0.035	-0.3	0.245	-0.1	Steepening
SGD	3.074	16.6	2.964	-0.7	Flattening
AUD	2.983	-19.5	3.388	0.1	Steepening
GBP	3.263	5.3	3.142	3.1	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,071.70	1.13
Nikkei (JP)	27,777.90	-1.79
EuroStoxx (EU)	3,977.90	0.39
FTSE STI (SG)	3,259.14	0.45
JKSE (ID)	7,019.64	-0.48
PSEI (PH)	6,489.65	-1.78
KLCI (MY)	1,481.80	-0.32
SET (TH)	1,641.63	1.28
SENSEX (IN)	62,868.50	0.92
ASX (AU)	7,301.46	0.58

US Treasuries: Landing Points

- Last week, USTs rallied **on the back of softer core PCE deflator** as well as Fed Chair Powell's allusion to the **possibility of a soft landing**.
- As such, 2Y yields declined 18.1bp while 10Y yields dropped 19.2bps, retaining the deep inversion.
- It is worth noting that the end of week jobs report which showed **non-farm payrolls coming in stronger than expected gave a slight jolt to front end yields.**
- While the report bolstered hopes for a soft landing, **it would be questionable if inflation can land back at the Fed's 2% target** if one is to hold the view of a rather resilient US economy.
- This week, with the Fed speakers entering black out period, UST bulls may find their rally halted if ISM services remain strong to incite persistence in services inflation.
- This may allow consolidation of 2Y yields in the 4.2%-4.4% range.
- Releasing end of this week, the Uni. of Michigan survey will be closely watched as inflation expectations may not land as fast as (markets) desire. Even if it does, the perverse event may be triggered by weakening growth sentiments and drive demand for 10Y yields.
- Consequently, 10Y yields may slip towards the lower end of 3.4-3.6% range.