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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 4 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
07 Feb	EZ	Sentix Investor Confidence	Feb	15.2	14.9
	JP	**Leading Index CI/Coincident Index**	**Dec P**	**103.7/92.6**	**103.2/92.8**
08 Feb	US	Trade Balance	Dec	-$83.1b	-$80.2b
	JP	BoP Current Account Balance	Dec	--	¥897.3b
	JP	**Eco Watchers Current/Outlook SA**	**Jan**	**--**	**56.4/49.4**
	JP	Labor/Real Cash Earnings YoY	Dec	--	0.8%/-0.8%
09 Feb	**US**	**Wholesale Inventories MoM**	**Dec F**	**2.0%**	**2.1%**
	JP	Machine Tool Orders YoY	Jan P	--	40.6%
10 Feb	**US**	**Initial Jobless Claims**	**05-Feb**	**230k**	**238k**
	US	**CPI/Core YoY**	**Jan**	**7.3%/5.9%**	**7%/5.5%**
	US	**Real Avg Hourly Earnings YoY**	**Jan**	**--**	**-2.4%**
	JP	PPI YoY	Jan	--	8.5%
11 Feb	US	U. of Mich. Current Conditions/Sentiment	Feb P	--/67.5	72/67.2

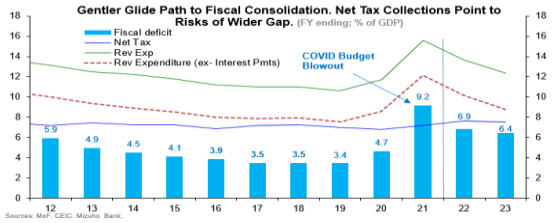
Asia Actual Data Release

Date	Country	Event	Period	Survey*	Prior
07 Feb	CH	Caixin China PMI Services	Jan	50.5	53.1
	ID	**GDP YoY**	**4Q/2021**	**4.8%/3.7%**	**3.5%/-2.0%**
08 Feb	AU	NAB Business Conditions/Confidence	Jan	--	8/-12
	MY	Industrial Production YoY	Dec	6.5%	9.4%
09-15 Feb	**CH**	**Aggregate Financing CNY**	**Jan**	**5400.0b**	**2368.2b**
	CH	New Yuan Loans CNY	Jan	3600.0b	1131.8b
09 Feb	**TH**	**BoT Benchmark Interest Rate**	**09-Feb**	**0.50%**	**0.50%**
10 Feb	**IN**	**RBI Repurchase Rate**	**09-Feb**	**4.00%**	**4.00%**
	ID	**Bank Indonesia 7D Reverse Repo**	**10-Feb**	**3.50%**	**3.50%**
	KR	BoP Current Account Balance	Dec	--	$7156.1m
11 Feb	CH	BoP Current Account Balance	4Q P	--	$73.6b
	IN	Industrial Production YoY	Dec	1.7%	1.4%
	MY	**GDP YoY**	**Q4/2021**	**3.4%**	**-5.6%**
	MY	BoP Current Account Balance MYR	4Q	--	11.6b
	MY	**GDP YoY/QoQ**	**4Q**	**3.3%/7.2%**	**-4.5%/-3.6%**

Week-in-brief: Raising the Stakes

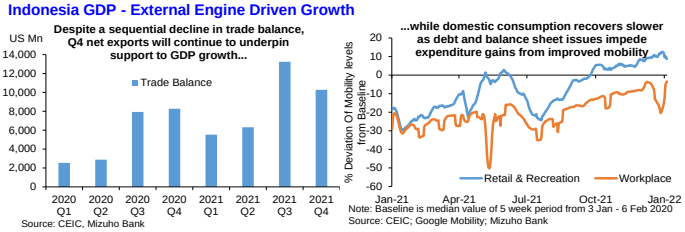
- The **block-buster NFP out-run** (of expectations, especially after the ADP dampener), with 467K jobs (consensus: 125K) and 709K upwards jobs revisions to the previous two months, **raises the stakes**; **not just for the Fed, but the global markets**, which inevitably price off the Fed's rate and balance sheet policies.
- **Not only have the odds of a March FOMC hike hardened to a virtual certainty** , but the **odds of a 50bp hike have now increased significantly** from a fringe hawkish bet to a almost a coin toss.
- So **not only are the stakes raised for the Fed** that will need to **actively assess not just the messaging behind a 25bps hike**, but also the implicit messaging in abstaining from a more aggressive 50bps move.
- The **stakes are also raised for the Fed by the US CPI** release (Thu), where headline inflation is expected to accelerate further from 7.0% to around 7.3% (with core price pressures swinging up towardss 6%).
- Especially as **Oil's surge past $90**, and **what looks like a firm-footed climb to $100**, is **raising the stakes for any inclination for policy "patience"**; be it amongst central bankers or markets.
- UST yield curve bear steepening, which has been a theme thus far, could continue to assert itself, with 1.4 -1.5% seen as the next level for 2Y and 2% crack for the 10Y also on the table.
- What **raises the stakes even more** may be **sharper moves up in real UST yields**. The real yield on 10Y USTs is now "only" -0.5% compared to being around -1.1% as at end-2021.
- The **Greenback though appears to have been subdued by ECB President now raising the hawkish stakes by not ruling out a rate hike in 2022 at the post-ECB press conference last week**;
- which **means that APP** (meant to run into 2023) **may be wound down much sooner** as well (given the faithfulness to the sequencing of hikes after the ceasure of asset purchases).
- Critically, **assumptions about Fed policy divergence** (vs. the ECB) are **now being stress-tested**, if not outright slammed. And so, while as a collective, the **narrative of increasingly hawkish central banks** is **raising yields alongside stakes**, the **USD has demurred as policy convergence overtakes divergence**.
- In Asia, this means that the **BoT** (Wed), **RBI** and **BI** (both on Thu) **will find the stakes being raised on maintaining the current policy accommodation**. For the BoT, the incompleteness of the recovery and fiscal buffer from inflation alongside still somewhat mild core inflation ought to allow for an outright pause.
- **Bank Indonesia (BI)** meanwhile, is **also likely to be on hold**, but whilst **riding on the tailcoats of the phased, but somewhat front-loaded, reserve requirement (RR) hikes** that it announced at the last meeting.
- Finally, the **RBI is perhaps facing the most acute dilemma**; especially after the shortfall in fiscal consolidation glide path of its pro-growth FY2023 Budget that has ramped up on capex as well as debt.
- With debt/credit metrics raising the stakes, the RBI might have to tighten soon, if not this week. For now, there is a chance of 15bps hike in the reverse repo rate (to 3.50%) so as to narrow the rates corridor to 50bps.
- While **not a headline policy rate hike**, this is seen as a *liquidity management tool to tame more extreme inflation risks*. **Rupee support** from this though may be **limited given Oil's more worrying ascendancy**.
- The **mounting hawkish resonance of the West means that the stakes for PBoC doves** are now being raised; and more RRR, LPR and MLR rate cuts are all fair game. Meanwhile, China's credit data will be watched as a quantitative gauge of how much easing Beijing is intending to front-load.

The RBI's Budget Constraints



- The Reserve Bank of India's (RBI's) **meeting this week has been postponed by a day to Thu** (10 Feb), but its **Budget constraints**, so to speak, are **no less binding**.
- Arguably, the RBI may not face a literal budget constraint in its ability to indulge in unfettered liquidity/balance sheet operations. But **RBI policy is undeniably constrained by the fiscal stance**.
- Be it in terms of **ensuring the combined fiscal-monetary stance is appropriate** (neither overly restrictive nor loose) or *crucially,* **averting fiscal/debt risks overrun of growth objectives**.
- To be sure, **India's FY 2023** (year-ending 31 March 2023) **Budget** has been widely **hailed as a growth positive** budget that is **set to boost growth and also raise growth potential**.
- The former owed **much more *gradual glide path to fiscal consolidation*** (from 6.9% deficit for FY2022 to 6.4% deficit for FY 2023); **that stretches out fiscal support for longer**.
- What's more the **35% increase in capital expenditure at INR7.5trln** (2.9% of GDP) **underscores infrastructure push** in the Budget; which is admittedly not only **a welcome boost for growth potential** but is a **longer-term inflation anchor** given the capacity expansion.
- *But for now,* **slower fiscal consolidation may aggravate inflation risks**, thereby **accentuating the RBI's already sharp trade-offs**. Not to mention, there may be *some risks of "crowding out" amid rising global rates;* even as the case is made for "crowding in" of private sector investments.
- Crucially, a **fairly large ramp-up in net debt issuance** *from INR9.48trln in FY2022 to INR11.19trln for FY2023* (~18% surge) **entails greater macro-stability vulnerabilities**. Especially as rising global interest rates threaten to exacerbate the deterioration in credit/debt metrics.
- Notably, **India's already heavy debt servicing burden** is **projected to step-up to ~3.6% of GDP for FY2023**. And the sense is that the **risk to that projection may be skewed to the upside** if indeed the global hawkish wave lifts Indian yields/rates more than anticipated.
- And therein lies the rub. The **RBI's trade-offs sharpen even more between holding off on hikes** (*to help anchor yields as well as boost growth*), **yet tightening on time to be able to avert** *rupee destabilization and ratings downgrade.*
- Upshot being, a **more gradual "glide path" for fiscal consolidation *without corresponding tax increments*** (and hence requiring more debt) are not without cost; as **fiscal risks are coming home to roost as the RBI's Budget constraints** amid elevated and rising inflation.

Indonesia GDP - External Engine Driven Growth



- Indonesia's GDP YoY release releasewill show **Q4 growth accelerating from 3.5% ibn Q3.**
- On the external front while some sequential slowing of net exports is expected, net exports are still poised to underpin GDP YoY growth as **commodity tailwinds stayed strong in Q4.**
- Domestically, notwithstanding the large rise in mobility at recreation and retail, we expect **private consumption to recover but on a more moderate pace** as household debt levels remain high.
- Despite overall GDP exceeding pre-Covid levels, the recovery so far has been uneven. Looking at the underlying**, investment spending as well as household spending have yet to recover above their pre-Covid levels**. Uncertainties surrounding the constitutionality of the Omnibus Law may continue to restrain a fuller capital expenditure recovery and stronger FDI inflows.
- With these soft spots present in the economy, Bank Indonesia will seek to buy time for recovery to turn more broad based. (See more below).

Bank Indonesia - Buying Time For Domestic Growth Engines

- While inflation release at 2.2% last week enter into BI's range for the first time in 20 months, **inflation still remains fairly anchored and will not pose worries for BI for now.**
- While the trajectory may grow increasingly uncomfortable for BI in H2 2022, **we expect the BI to keep policy rate on hold this week, having already communicated their RRR increase.**
- Therefore, the BI will wait to assess the impact of their **phased increase Reserve Requirement Ratio** which is designed in a **front loaded step increase fashion** starting in March from 3.5% to 5%, reach 6% in June and 6.5% in September which **serves to mop up excess liquidity and check pipeline demand pull inflation.**
- More importantly, **BI will want to allow more time for the domestic engines of growth to entrench rather than being overly reliant on commodity-driven external windfall**.

Bank of Thailand - Increasingly Uncomfortable Hold

- We expect the BoT to continue holding **policy rate at historical low of 0.50% as it is essential to provide an accommodative monetary environment to support the ongoing recovery.**
- Admittedly, Jan headline inflation at 3.2% exceeding the BoT's 1-3% range, **pressures to embark on policy normalisation will creep up despite the deficient tourism recovery**.
- But underlying core inflation, despite upward creep to pre-COVID 0.5% remains mild.
- Crucially, **alarm about broadening inflation is overdone at this point**; as **less than half of the 115 components in the CPI basket showing inflation above pre-Covid inflation rates.**
- ***But*** that **does not negate potential for upside risks to inflation** at an inconvenient juncture when growth is still far from getting back on its feet. In particular, the nation's Oil Fund providing diesel price caps may be under increasing strain as Crude costs soar; inadvertently **entailing wider fiscal trade-offs** between cost-control and growth boost.
- In any case, with 70% of the THB 500 billion emergency borrowing yet to be disbursed, **fiscal stimulus will continue to shoulder the heavy lifting**; **amid recovery impeded byarrested tourism revival (**beleaguered by start-stop "Test & Go" quarantine-free travel scheme and the conspicuous absence of Chinese tourists owing to Beijing's Zero COVID border restrictions.
- Inevitably then, the **BoT's discomfort with its necessary policy accommodation intensifies**.

Malaysia Q4 GDP - Small Rebound

- In Malaysia, while GDP in Q4 is expected to rebound from the sharp Q3 contraction of -4.5% YoY, **the activity recovery might be more muted (0.5-1.5%) than ~3% market consensus.**
- Notwithstanding the continued improvement, **mobility levels** at both workplaces and recreation and retail **remain below baseline** translating to **mild private consumption rebound and an incomplete service sector recovery**.
- Given the muted recovery expected**, underlying growth drivers will largely stem from a dissipation of drags rather than outright boosts**. Specifically, the Q3 **drag on services sector will likely turn to a slight support in Q4.**
- **Resource mining and agriculture sector will likely provide a small boost to GDP growth supported by commodity tailwinds but** restrained by the disastrous late December floods.
-Amid the broader recovery, **construction sector growth will be dampened by labour shortage** issues while schemes such as Housing Credit Guarantee Scheme seeks to allow gig workers, small business owners and farmers access to housing financing.
- Looking ahead, implementation of Budget 2022 which widens the fiscal deficit to more than 6% of GDP will be critical to firm up the current recovery trajectory in 2022.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	115.26	0.000	0.00%	114.80	~	116.00
EUR/USD	1.1449	0.0298	2.67%	1.128	~	1.158
USD/SGD	1.3458	-0.009	-0.69%	1.3420	~	1.3580
USD/THB	32.98	-0.460	-1.38%	32.80	~	33.50
USD/MYR	4.1807	-0.009	-0.22%	4.176	~	4.210
USD/IDR	14380	5	0.03%	14,320	~	14,420
JPY/SGD	1.168	-0.009	-0.74%	1.157	~	1.183
AUD/USD	0.7072	0.008	1.20%	0.699	~	0.722
USD/INR	74.70	-0.345	-0.46%	74.5	~	75.3
USD/PHP	51.125	-0.103	-0.20%	50.8	~	51.4

^ Changes are on weekly basis

FX: USD Bulls Derailed by Convergence?

- After a hawkish ECB press conference, the **elephant in the room** is whether (Fed-ECB) **policy divergence is now in the rear-view mirror**;
- crucially, **rendering policy convergence the new narrative** for global policy.
- If so, this could spell the **end of a bullish USD on the premise of policy divergence** instilled by an increasingly hawkish Fed, in contrast to a stubbornly dovish ECB.
- Here's the thing. The **ECB need not even catch up with the Fed on its hawkish arc**. Rather it ***merely needs to converge*** at the margin. And the **perception of such a convergence**, given 5 Fed rate hikes being priced in, **appears to be the default**, if not low hanging fruit.
- That is, ***unless the ECB scrambles to disavow inflation worries*** **and expressly rules out rate hikes**; *which are to be sequenced after the termination of PEPP (slated for April) and APP (originally not scheduled before 2023)*.
- Thus, it **follows that the Greenback could lose traction, if not altitude** for the time being; at least until the ECB clarifies its position on, and probability of, rate hikes this year.
- But **although the EUR and GBP may be buoyed against the USD**, **broad-based USD weakness resulting in sharp EM Asia FX appreciation is unlikely**.
- Instead, this is **more likely to translate into softer EUR/AXJ and stable USD/AXJ**.
- ***Especially as CNH bulls are being tempered;*** with USD/CNH dips to 6.35 challenged.
- In all, **while USD Bulls may be deterred, if not derailed, USD bears are not on a stampede either**.
- And in particular, **USD/AXJ may have upside curtailed appreciably, but perhaps not set for emphatic AXJ appreciation**.

JPY: Buoyed on the Crosses?

- **Despite drop-back in the USD** following a hawkish surprise from the ECB, the **USD/JPY remains buoyant**, maintaining traction above 115.
- One reason the pair is not being dragged to the same **degree of USD knock back is the boost to Cross/JPY**; as EUR/JPY is lifted significantly; offsetting USD drag appreciably.
- Put another way, the growing divergence not only between Fed and JGB, but now the ECB and the BoJ, is suppressing the JPY more broadly.
- Consequently, this is providing some bacckstop, if not buoyancy, for the USD/JPY.
- We expect trades to be mostly in tjhe 114 to mid-116 range for now.
- The key caveat is that "risk off" led by falling equities copuld drag the USD/JPY if safe-haven JPY demand overshadows the policy divergence dampener (on JPY).

EUR: Convergence in sight?

- With Lagarde's pivotal press conference, the ECB looks ready to turn and embark on planning their first steps toward convergence with the Fed.
- With this change of tone, the EUR was boosted and surged above mid-1.14 last week.
- Amid continuous sensing of rate hike schedules, EUR rally may fizzle ahead of 1.16.
- Barring large outsized surprises on US CPI inflation, the EUR will most likely stay buoyant above mid-1.13.

SGD: Struggles on both Ends?

- With ECB's turn towards the Fed, USD/SGD's attempt to stay above 1.35 was foiled as the pair was spurn around and headed lowered toward 1.34.
- Notably, any grounds made towards testing 1.34 was met with strong resistance as we had empahsized given the rich S$NEER position.
- With ECB led tailwinds assisting regional peers, the USD/SGD may find re-testing of 1.36 too high a bar for now, though US CPI release on the upside may help buoyancy above 1.35.
- "Risk-off" may also continue to weigh on USD/SGD amid some quasi-haven demand.

AUD: Limited Upside

- The AUD remained supressed at mid-0.71 levels at the tail end of last week after the RBA push back against rate hike bets.
- While RBA conceded to broadening inflation, they continue hanging to the need for higher wage growth to engender sustainability of underlying inflation rates between 2%-3%, provides a stronger justification for raising rates.
- With the RBA remaining as one of the last doves, the AUD upside may be limited.
- In the near term, surging commodity prices, led by iron ore, may continue to buoy the AUD between 0.70 and 0.72 levels, with tourism re-opening plans tilting bias towards the 0.71 upside.

Bond Yield (%)

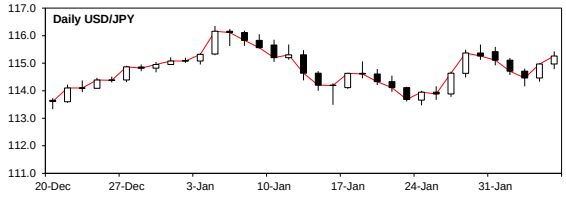
4-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.310	14.8	1.908	13.9	Flattening
GER	-0.265	35.5	0.201	24.9	Flattening
JPY	-0.051	0.5	0.190	2.6	Steepening
SGD	0.999	-0.9	1.756	-1.2	Flattening
AUD	0.920	-0.7	1.955	0.1	Steepening
GBP	1.249	29.1	1.408	16.7	Flattening

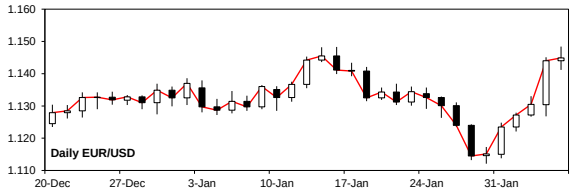
Stock Market

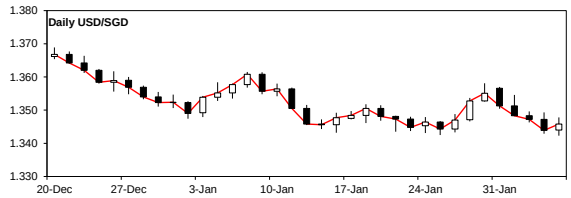
	Close	% Chg
S&P 500 (US)	4,500.53	1.55
Nikkei (JP)	27,439.99	2.70
EuroStoxx (EU)	4,086.58	-1.22
FTSE STI (SG)	3,331.41	2.62
JKSE (ID)	6,731.39	1.29
PSEI (PH)	7,456.35	2.82
KLCI (MY)	1,522.76	0.18
SET (TH)	1,674.22	2.12
SENSEX (IN)	58,644.82	2.53
ASX (AU)	7,120.21	1.89

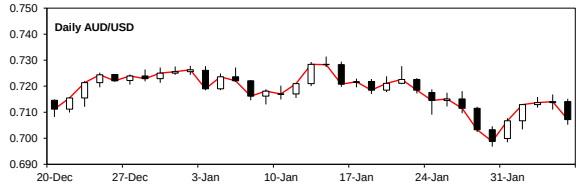
US Treasuries: Base Building

- Treasuries action was led by the ECB's Lagarde pivot and **movements were compressed into the second half of last week as UST bulls got trampled.**
- In a bear flattening fashion, UST 2Y yields went up ~15bps while 10Y yields followed suit with a ~14bps increase.
- Given the trigger from cross Atlantic yields going up at least 10 bps (2Y yields for Italian government bonds was up more than 40bps) last week, UST yield reaction magnitude is well within reason.
- With the Fed looking **as if all the (hawkish) statement that has to be said has been said,** UST yields will perhaps look towards European peers this week and also at **background haven demand** amid some 'risk off' sentiments.
- What's more given that altitude of UST yields at this juncture, 2Y and 10Y yields testing 1.4% and 2% might be a stretch this week and may come off easily.
- With Bostic clarifying this week that his (previous weekend) 50bps mention was for optionality and not his preference, other Fed officials Daly and Barkin had also stressed for data dependence implying a consistent push back against 50bps March hike.
- Thus, the **base case this week will be an attempt to build a more resilient base off current 2Y and 10Y yields of 1.3% and 1.9% respectively.**









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