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

07-Mar-2022

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 4 Mar 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
07 Mar	EZ	Sentix Investor Confidence	Mar	--	16.6
08 Mar	US	Trade Balance	Jan	-$82.5b	-$80.7b
	US	Wholesale Inventories MoM	Jan F	0.8%	0.8%
	EZ	**GDP SA YoY**	**4Q F**	**4.6%**	**4.6%**
	EZ	**Employment YoY**	**4Q F**	**--**	**2.1%**
	JP	BoP Current Account Balance	Jan	-¥870.5b	-¥370.8b
	JP	**Eco Watchers Outlook/Current SA**	**Feb**	**43.0/38.0**	**42.5/37.9**
	JP	**Labor/Real Cash Earnings YoY**	**Jan**	**--**	**-0.4%/-2.3%**
09 Mar	JP	Machine Tool Orders YoY	Feb P	--	61.3%
	JP	**GDP Annualized SA QoQ**	**4Q F**	**5.8%**	**5.4%**
10 Mar	**US**	**Initial Jobless Claims**		**--**	**--**
	US	CPI/Core YoY	Feb	7.8%/6.4%	7.5%/6.0%
	EZ	**ECB Main Refinancing/Deposit Rate**	**10-Mar**	**0.00%/-0.50%**	**0.00%/-0.50%**
	JP	PPI YoY	Feb	8.6%	8.6%
11 Mar	**US**	**U. of Mich. Conditions/Sentiment**	**Mar P**	**67.0/61.0**	**68.2/62.8**

Asia

Actual Data Release

Date	Country	Event	Period	Survey*	Prior
07 Mar	**CH**	**Trade Balance YTD**	**Feb**	**--**	**$97.06b**
	CH	Exports/Imports YTD YoY	Feb	--	60.6%/22.2%
	AU	ANZ Job Advertisements MoM	Feb	--	-0.3%
08 Mar	AU	NAB Business Conditions/Confidence	Feb	--	3.0/3.0
09 Mar	**CH**	**Aggregate Financing CNY**	**Feb**	**2200.0b**	**6172.6b**
	CH	New Yuan Loans CNY	Feb	1450.0b	3980.0b
	CH	PPI YoY	Feb	8.6%	9.1%
	CH	CPI YoY	Feb	0.9%	0.9%
	AU	Westpac Consumer Conf Index	Mar	--	100.8
	ID	Consumer Confidence Index	Feb	--	119.6
11 Mar	**IN**	**Industrial Production YoY**	**Jan**	5.20%	**0.4%**
	KR	BoP Current Account Balance	Jan	--	$6062.0m
	MY	**Industrial Production YoY**	**Jan**	5.2%	**5.8%**
	PH	Exports/Imports YoY	Jan	12.5%/32.6%	7.1%/38.3%

Week-in-brief: The 'S' Word

- With **Oil prices soaring** (Brent flirting with $130), **alarm about Stagflation** ***as a consequence of the geo-political supply shocks*** is **less a tail(-risk) and more a head(-ache)**.
- To be sure, the **horrors of war in Ukraine** - widespread destruction that is displacing Ukrainians from their homes - present the **most dangerous uncertainty** in the global markets.
- And this **translates into elevated latent volatility**. **Soaring Oil prices** for now are likely to **keep equities in the backfoot amid** ***fears of stagflation***; which **intensifies the policy dilemma for central banks** now faced with amplifying inflation risks juxtaposed against demand depression.
- For the **ECB meeting** (Thu) this week, we expect that ***inflation risks may be acknowledged,*** **but not actioned upon**. The ECB is likely to **allude to the adverse demand shocks as justifiable reason not to hasten tightening**; just yet. But as stagflation risks mount, the policy tensions and risks of a policy mistake will start to mount. And that will bear down on EUR and EUR assets.
- For the time being, a Fed that is likely to move ahead with tightening in any case, continues to reinforce the **Fed-ECB divergence**, which in turn **reinforces EUR slide** (on Russia war risks).
- **Worries of a recession as a consequence of stagflationary pressures** and uncertainty from the war are likely to continue swirling, **keeping yields soft and equities even softer** (except "war stocks" and tactical commodity bets). Speaking of which, **AUD surge past 74 cents underscores the Antipodean's commodity-boosted ToT allure**. But *beware abrupt "risk off" capitulation.*
- Elsewhere, **China's somewhat upbeat NPC economic targets** *simultaneously trigger doubt* amid global headwinds *and inspire hope* of ramped-up stimulus out of Beijing. But that 'S' word (stimulus) will probably continue to pale in comparison to THE "S" word, stagflation.
- For this week, **data will have to take the backseat as geo-politics supersedes** (another 'S' word) all. To be precise, **further sanctions and Russian warnings against (air-)space restrictions on it are the trigger points** for another wave of "risk off".

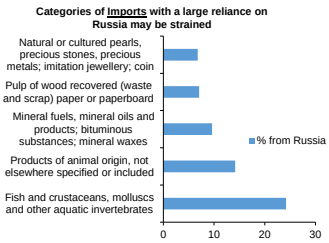
China's Money-Mouth Gap

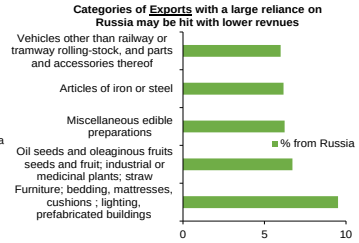
- **China's 2022 growth target** appears *long on ambitions* and *possibly a little short on committed stimulus required;* **given pre-existing headwinds** from the property sector. Throw in surging energy costs amid geo-political upheaval in Europe, and the **gap between policy aspiration and action** is hard to ignore. Upshot being, *Beijing will have to soon put its money where its mouth is.*
- At the annual **National People's Congress**, **Premier Li Keqiang revealed China's 2022 growth target** (suspended in 2020 due to COVID and set at "above 6%" for 2021) **to be** ***"around 5.5%"***.
- For practical purposes, that **ought to comfortably cover growth outcomes from 5.3%-5.8%**; reasonably assuming there is a slight preference to out- rather than under-perform.
- Admittedly, the top-end of this range (5.8%) is aligned with **our China GDP forecast** from our last quarterly report (Q4 2021). But that was a ***conditional*** forecast that *assumes emphatic policy stimulus to shift gears up sufficiently* to lift underlying growth up from its 4.0% YoY rate in Q4 2021.
- What's more, that forecast **pre-dated** the **Russia-Ukraine conflict** that has sent *convulsions of commodity price shocks* that **threaten** to evolve into **stagflation-type demand destruction**.
- Point being, ***accounting for significantly stronger external headwinds,*** over and above the pre-existing drag from *property market pressures* (which account for about a quarter of the economy) *alongside tech shake-down,* **materially ramped-up stimulus is needed to hit the growth target**.
- And so far, the **front-loaded suite of rate cuts** (RRR, MLR, LPR) **and fiscal stimulus** (2.8% of GDP for 2022 v.s 3.2% in 2021) **appear** to be **a tad short**.
- Specifically, what's needed is a **further 100-150bps of RRR cuts** and **20-60bps of headline rate reductions** across various tenors. Crucially, an **appreciable step-up in credit growth** is required.
- And **none of these have been committed to explicitly**. And to be sure, the *additional CNY1.5trln of transfers to local governments fall short of offsetting revenues lost from slumping land sales.*
- Alongside **unchanged bond issuance quota for local governments**, **fiscal spending may remain constrained**. Especially as "*housing if for living, not speculation*" slogan reiterated suggests that the property sector may not be out of the woods. And accordingly, the **economy may not escape the shadows of the beleaguered property sector**.
- Upshot being, **if Beijing does not unveil significant stimulus soon**, t risks are that the **economy may inadvertently disappoint**; which is is *not what the top CCP leadership desires given this year's critical political transitions being targeted at the 20th Party Congress in Fall* (Oct/Nov).
- Given the existential political needs, it is **premature to write off the political resolve to line up sufficient policy stimulus** get China's economy of a better footing. So **despite our misgivings about the gap between "money and mouth"**, we *watch for Beijing to turn on the tap.*

Oil on Fire Begs Policy Exceptions

- **Brent crude flirting with $130 is a clear and present threat to the global recovery**.
- The **specter of stagflation has gone from a worrying whisper to a shrill alarm** that the world may be on the brink of a crisis. And this certainly **warrants policy exceptions** all around.
- The **least convincing of which may be monetary policy concessions to cushion growth**.
- Especially in the case of the **Fed that has been wrong-footed by persistent and pervasive inflation** pre-Ukraine. And with the Congress holding Fed Chair Powell to "doing the right thing" (as Volcker did) if he was to ever stare down the barrel of stagflation, there is **limited wiggle room**.
- So, the **main policy response may be from the supply-side** to tackle geo-political supply shock.
- However, it could entail serious **rollback on regulatory Shale restrictions in the US**, such that more alluring profitability and may **reinstate output sensitivities to price**.
- This is **both** an **economic buffer** and *geo-political advantage* for the US.
- There could also be **increasing pressures on OPEC+ to not just quickly restore output**, but also **compensate for Russian shortfall**; which means *Saudi and UAE must be prepared to exploit their spare capacity to do the heavy lifting for capacity constrained OPEC producers* elsewhere.
- As discussed before, **this will imaginably draw Russia's rebuttal and ire**. As a consequence of which, the **OPEC+ will be subject to far greater frictions**; *possibly being reduced back to OPEC configuration that excludes Russia.* The economic and diplomatic considerations are however complex and fraught with long-reaching ramifications. **Uncertainties are thus elevated** meantime.

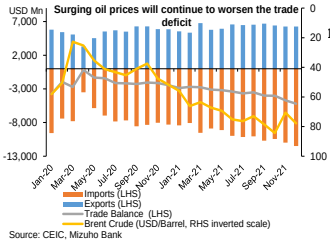
Korea BOP Current Account Balance - A Geo-Political Take



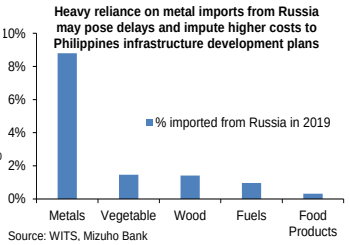


- In Korea, export growth has slowed down in recent months while import growth have continued to remain highly elevated. While current account surplus is expected to remain at 3.5-4% of GDP, **goods balance may ease gradually while the services balance pick up the slack**.
- Services balance continue to improve, mainly as a result of transportation services;
- **as freight services remain in demand (volume) and therefore able to command large premiums as a result of supply chain issues**.
- One key reason for the weaker goods balance is a **declining terms of trade, prices of imports are ascending at a faster pace than the price of exports. This situation is unlikely to reverse given the surge in commodity prices as a result of the Russian-Ukraine conflict.**
- On geopolitics, Korea's **import reliance on Russia** for certain imports may pose issues.
- With Russia's leading **24% share of fish and crustacean imports**, supply shortages may result in higher raw food prices. Admittedly, some of these fishery imports into Korean are in transit to other Asean nations, though that represents a **spread of risk rather than dissipation**.
- The **9% petroleum related imports from Russia** which fuels energy needs will also weigh on Korea's electricity costs and add to inflationary pressures.
- On **exports**, home related export category consisting **of furniture and prefabricated buildings** may be affected alongside **exports of Korean cars** into the Russian markets. Hyundai and Kia Corporation combined makes up more than 1/4 of the automobile market in Russia.
- While **these categories may not fall into the sanctions list** for South Korea, which currently leans towards electronics, semiconductors, computers, information and communications, sensors, **the cost, and time and growing risks of shipping goods between the two countries would have already swelled significantly.**
- Going forward, terms of trade in Korea is in fact likely to deteriorate as import prices increase due to increasing substitution effects as countries shift away from Russian exports and drive up demand across a broad range of commodities from metals, fishery products to crude.

Philippines Trade - Oil Not The Only Trouble



Source: CEIC, Mizuho Bank



Source: WITS, Mizuho Bank

- In the Philippines trade data release this week, **import growth is expected to continue to outpace export growth** which results in a **worsening trade balance**.
- The increase in nominal imports is a result of the **surging oil prices**.
- **This situation** of cost-push surge in commodity imports (eroding margins and the C/A)is expected to be further aggravated as Crude prices are already up more than 10% from Q4 2021.
- What's more, **export performance has not been stellar with contraction for three consecutive months in Q4 2021.**
- On the geo-political front, export revenue from Russia remains small and manageable. However, certain import categories such as metals have a heavy reliance on Russia.
- With ~9% share of metals sourced from Russia, cost of these raw material will increase and may delay construction works and hinder progress of their signature Build Build Build infrastructure program and impede economic growth.
- For now, as the Philippines elections imply a ban on public construction works from 25 March - 5 May, these needs may not be as acute for now.
- These **metal troubles will add to current account woes** and precipitate further build-up of inflationary pressures from the sky high oil prices. In turn, this will lead to **further headaches for the PHP and the BSP as they try to stem depreciation pressures as twin deficits worsen.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	114.82	-0.730	-0.63%	113.50	~	116.00
EUR/USD	1.0928	-0.0340	-3.02%	1.070	~	1.120
USD/SGD	1.3604	0.007	0.52%	1.3450	~	1.3700
USD/THB	32.607	0.141	0.43%	32.40	~	33.30
USD/MYR	4.1778	-0.024	-0.58%	4.150	~	4.200
USD/IDR	14387	23	0.16%	14,320	~	14,440
JPY/SGD	1.1851	0.013	1.14%	1.159	~	1.207
AUD/USD	0.737	0.014	1.99%	0.720	~	0.750
USD/INR	76.17	0.874	1.16%	75.4	~	76.9
USD/PHP	51.745	0.395	0.77%	51.4	~	52.0

^ Changes are on weekly basis

FX: Commodities, CNY & Caveats

- **As geo-political "risk off" intensifies**, the *demand for safe-haven does so too.*
- USD has surged (USD index above 98), while JPY has managed to gains against the GReenback.
- EUR has slumped given the literal and economic proximity to the war in Ukraine, with the single currency slumping below 1.09. Meanwhile USD/SGD has been bumped upa above 1.36, suggesting sell-off in EM (including EM Asia) FX asserts its have superiority (further reinforced by impending Fed hikes).
- And **Gold, unsurprisingly, has surged** to test $2000 (though currently slightly off) **amid haven demand in the face of intensifying "war risks"**.
- So far, so good. *Almost* all the currencies are sticking to script. "Almost" being the operative word here.
- **Two key exceptions** in our part of the world worth look at.
- One is the CNH that has held its ground very firmly, if not appreciating on some counts. And this has ostensibly on the premise of quasi haven demand.
- We concede that **Russia may increase demand for CNY** as it deepens bilateral trade with, and reliance on, China after being locked out of international financial systems. What's more, **other regimes that fear being subject to sanctions may also take a leaf and diversify their assets in CNY**.
- **But this geo-political and trade expedience has limitations** *and should not be mistaken for bona fide "safe haven" status.* A **last passage is not the same thing as a safe-haven**.
- The other is the **AUD, which has soared** amid the **mind-boggling surge in gas and coal prices** lifted by Oil **gives Australia's** (increased energy exports) **terms of trade** (ToT) **a huge boost**. And so the AUD is reflecting this strength. In addition, being low-yielding now, AUD may also sell-off less on "risk off".
- Be that as it may, the point is that AUD's structural buoyancy may have a higher threshold to geo-political risks, but is far from impervious. And so **extreme "risk off" scenarios may result in sell-off**, which in turn means that the potential for **two-way volatility in AUD cannot be discounted**.
- Caution remains warranted, and the **apparent buoyancy in CNY and AUD comes with caveats**.

JPY: Oil-Recoil Tensions

- USD/JPY slump below 115 despite a broadly stronger USD does indeed reflect the "safe haven" status of the JPY. And corresponds to sliding global yields and equities.
- But JPY outperformance is neither unequivoal nor unchallenged.
- Point being, EUR/JPY drag is partly offset by AUD/JPY buoyancy.
- What's more, surging energy prices will also be a blow to the C/A position, thereby diminishing JPY's structural safe haven support.
- Especially cost-push impact is enlarged. So consolidation (rather than unbridled slide) amid sub-114 to mid-115 looks likely for now.

EUR: On the Back Foot

- The EUR suffered a 2.6% decline last week with the Russian-Ukraine conflict showing little signs of de-escalating, falling sharply to test 1.09.
- While the US and EU continues to avert being directly dragged into the conflict serves as prevention of uncontrolled global spillovers, the EUR looks to continue being on the backfoot despite humanitarian corridor efforts.
- We remain focused on the ECB's forward guidance at the policy meeting this week, a more tempered language on rate hikes in 2022 with repeated focus on geo-political uncertainties is very likely.
- With record inflation at 5.8% in Feb, stimulus normalisation will continue to be on the cards for the ECB though the pace and end point will likely be milder toward end-2022.
- EUR will likely continue declining towards 1.08 with sharp drops precipitated by each escalation event in the conflict ranging from Russian responses, control of cities to further sanctions.

SGD: Bellwether or Safe Haven?

- With the CNH/CNY relenting against the USD, SGD weakness followed suit as USD safe haven demand asserted at the end of last week with the DXY breaking 98.5.
- However, opportunistic buying and likely MAS tightening meant a 0.4% decline last week and the USD/SGD staying just above 1.36.
- As regional peers continue to weaken alongside any CNH/CNY resilience buckling further, the USD/SGD may attempt to test mid-1.36 for this week.
- For now, these test may be shallow as investors remains well aware of possible MAS tightening opportunities while the regional safe haven anchor backstops.
- That said, as the region's trade bellwether, transmission of global growth worries may be acutely felt on the SGD.

AUD: Commodities Joyride?

- Amid Russia-Ukraine conflict, commodities prices continue their surge, with iron ore, coal, and natural gas futures increasing in excess of 16%, 50% and 12% respectively last week.
- These commodity tailwinds led AUD gains against the USD, in spite of "safe haven" demand, past 0.73 levels last seen in mid-November.
- Indeed, AUD looks set to test 0.75 as commodity prices continue to bolster, especially with substitution demand away from Russia (17% of global thermal coal).
- On the flip side, disappointment could easily follow expectations if current prices prove unsustainable. AUD may retreat in haste though the retreat level is still a high line.
- With uncertainties abound, we expect AUD to trade in the ballpark of mid-0.72-mid-0.74 levels.

With acknowledgements of contributions from our Research Associate Matthew Ng

Bond Yield (%)

4-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	1.476	-9.4	1.731	-23.1	Flattening
GER	-0.757	-36.1	-0.077	-30.3	Steepening
JPY	-0.044	-1.2	0.153	-5.1	Flattening
SGD	1.172	-0.6	1.824	-7.1	Flattening
AUD	1.103	-8.3	2.145	0.1	Steepening
GBP	1.041	-14.9	1.205	-25.0	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,328.87	-1.27
Nikkei (JP)	25,985.47	-1.85
EuroStoxx (EU)	3,556.01	-10.44
FTSE STI (SG)	3,226.78	-2.05
JKSE (ID)	6,928.33	0.58
PSEI (PH)	7,342.01	1.80
KLCI (MY)	1,603.94	0.77
SET (TH)	1,671.72	-0.49
SENSEX (IN)	54,333.81	-2.73
ASX (AU)	7,110.83	1.62

US Treasuries: Transmissions

- With the 2Y yields sinking ~9bps and 10Y plunging ~23bps last week, the yield curve flattening and the magnitude of drop implied that the 2-10Y yield difference has narrowed to a mere ~25bps.
- While the UST bearish movements across all tenors underscored the continued flight to safety, the flattening of the yield curve is resembling a **transmission of worries**.
- The Fed hike being a certainty restrains the short end dip of UST yields.
- On the longer end, inflation and growth worries are becoming apparent as 10Y breakeven inflation rates rose which indicates lower real 10Y yields and in turn highlighting **subdued long term potential real economic growth.**
- What's worse, these worries seem unlikely to abate anytime soon.
- This week, retaking 1.9% is a bar too high for 10Y yields while further dips below 1.6% cannot be ruled out in such volatile times, successful humanitarian relief may attempt to buoy yields between mid-1.6% to 1.8% while **risk off transmissions continue**.
- On 2Y UST yields, we expect to see multiple attempts to stay above 1.5% as the base case, with Fed's Evan's implied 7 quarter-point hike supported by a strong jobs report last Friday.