

Economic Calendar

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

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 acted 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 headlines 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) it all. To be precise, **further sanctions and Russian warnings against (air-)space restrictions on the air** 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 is 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**, risks are that the **economy may inadvertently disappoint**; which 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

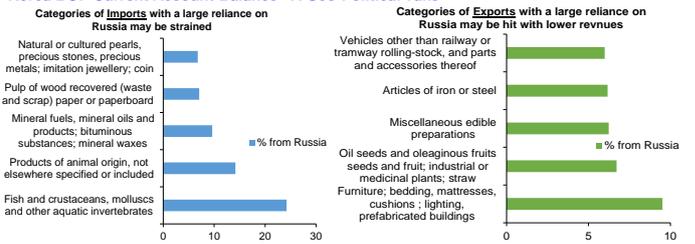
- **Brent crude flirting with \$130 is a clear and present threat to the global recovery**.
 - The **specter of stagflation has gone from a worrying whisper to a shrill alarm** that the world may be on the brink of a crisis. And this certainly warrants **policy exceptions** all around.
 - The **least 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.

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

Asia Actual Data Release

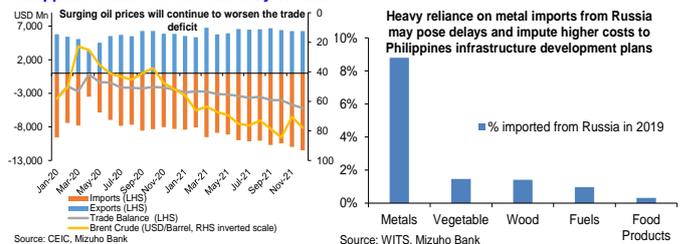
Date	Country	Event	Period	Survey*	Prior
07 Mar	CH	Trade Balance YTD	Feb	--	\$97.06b
	CH	Exports/Imports YTD YoY	Feb	--	60.6%/22.2%
	AU	ANZ Job Advertisements MoM	Feb	--	-0.3%
08 Mar	AU	NAB Business Conditions/Confidence	Feb	--	3.0/3.0
09 Mar	CH	Aggregate Financing CNY	Feb	2200.0b	6172.6b
	CH	New Yuan 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%

Korea BOP Current Account Balance - A Geo-Political Take



- In Korea, export growth has slowed down in recent months while import growth has 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 fishy imports into Korea are in transit to other Asian 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



- In the Philippines trade data release this week, **import growth is expected 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 up 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 unequivocal 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 (%)

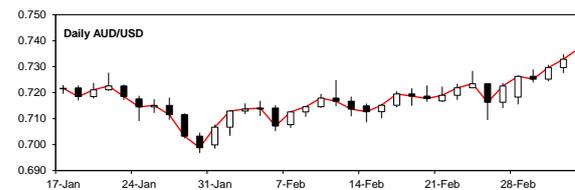
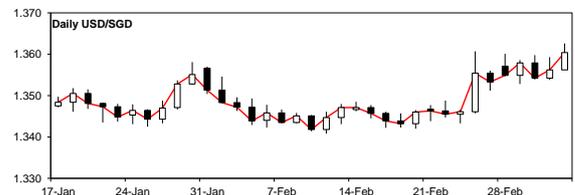
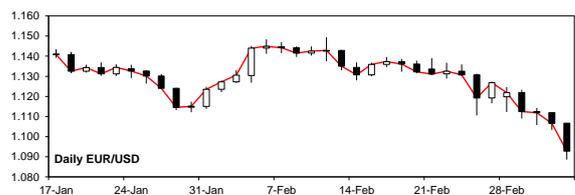
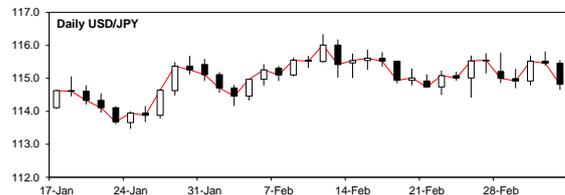
4-Mar	2-yr	Chg (bp) [^]	10-yr	Chg (bp) [^]	Curve
USD	1.476	-9.4	1.731	-23.1	Flattening
GER	-0.757	-36.1	-0.077	-30.3	Steepening
JPY	-0.044	-1.2	0.153	-5.1	Flattening
SGD	1.172	-0.6	1.824	-7.1	Flattening
AUD	1.103	-8.3	2.145	0.1	Steepening
GBP	1.041	-14.9	1.205	-25.0	Flattening

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.



Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice.

This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of S ingapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

© 2014 Mizuho Bank Ltd.