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MIZUHO

WEEK AHEAD

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09-May-2022

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Economic Calendar

•Survey results from Bloomberg, as of 6 May 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
09 May	US	Wholesale Inventories MoM	Mar F	2.3%	2.3%
	JP	Jibun Bank Japan PMI Services	Apr F	--	50.5
10 May	**US**	**NFIB Small Business Optimism**	**Apr**	**92.9**	**93.2**
	GE	ZEW Survey Current Situation/Expectations	May	--/-41.5	-30.8/-41
11 May	**US**	**CPI/Core YoY**	**Apr**	**8.1%/6.1%**	**8.5%/6.5%**
	JP	Leading Index CI	Mar P	100.8	100
12 May	US	Initial Jobless Claims	07-May	--	200k
	US	**PPI/Ex Food & Energy YoY**	**Apr**	**10.7%/8.9%**	**11.2%/9.2%**
	JP	BoP Current Account Balance	Mar	¥1764.8b	¥1648.3b
	JP	Eco Watchers Outlook SA/Current SA	Apr	51.0/51.0	50.1/47.8
13 May	**US**	**U. of Mich. Sentiment**	**May P**	**63.8**	**65.2**
	EZ	Industrial Production WDA YoY/SA MoM	Mar	0.5%/-0.5%	2.0%/0.7%

Asia

Date	Country	Event	Period	Survey*	Prior
09-15 May	CH	Aggregate Financing CNY	Apr	2250.0b	4653.1b
09 May	**PH**	**Presidential Elections**			
	CH	Exports YoY/Imports YoY	Apr	1.8%/3.2%	14.7%/-0.1%
	ID	**GDP YoY/QoQ**	**1Q**	**5.0%/-1.0%**	**5.0%/1.1%**
	ID	**CPI /Core CPI YoY**	**Apr**	**3.4%/2.6%**	**2.6%/2.4%**
10 May	KR	BoP Current Account Balance	Mar	--	$6419.4m
	MY	Industrial Production YoY	Mar	--	3.9%
11 May	**CH**	**PPI/CPI YoY**	**Apr**	**7.3%/1.8%**	**8.3%/1.5%**
	KR	Unemployment rate SA	Apr	--	2.7%
	MY	**BNM Overnight Policy Rate**	**11-May**	**1.75%**	**1.75%**
12 May	**IN**	**CPI YoY**	**Apr**	**7.4%**	**7.0%**
	IN	Industrial Production YoY	Mar	1.3%	1.7%
	PH	**GDP YoY/QoQ SA**	**1Q**	**6.5%/1.6%**	**7.8%/3.1%**
13 May	IN	Trade Balance	Apr	-$20000.0m	-$18514.8m
	MY	BoP Current Account Balance MYR	**1Q**	**--**	15.2b
	MY	**GDP YoY/ QoQ SA**	**1Q**	**4.0%/--**	**3.6%/6.6%**

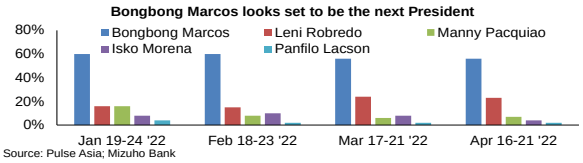
Week-in-brief: Hawkish Compulsions?

- Last week's edition of this reported started off (and concluded) with the proclamation that "*the force is strong with this one!*"; in a **reference to the hard-to-miss May 4th FOMC meeting**.
- But more importantly, in an **allusion to the Fed being the main and dominant game in town** with a 50bps hike on the table alongside the kick-off for balance sheet run-off (QT) to be announced.
- The **surge in UST yields and the USD** contemporaneously with a **slump in equities** revealed the obsession with, and the **far-reaching impact of, a hawkish Fed;** as the *drag from higher rates* asserted amid growing worries of an inadvertent hard-landing from strident (Fed) tightening.
- **Perversely**, worries about unintended downturn resulting from **an aggressively hawkish Fed**, may invoke **hawkish compulsion across global** (and particularly **EM**) **monetary policy space**.
- This, **as a hawkish Fed kicks up macro-stability risks in its wake**.
- The **RBI was a case in point** as it pulled off an **unscheduled** hawkish surprise with a **40bp hike**, literally hours before the Fed delivered its 50bp hike and announced QT set to start in June.
- With **India's CPI (Thu) expected to accelerate** (Mkt: 7.4%; Mizuho: 7.6%), the RBI's hawkish shift will be validated. But arguably, the **40bp hike only partly satisfies hawkish compulsions**.
- To a lesser extent, the **RBA's 25bp hike**, a tad above the 15bp consensus, also delivered a pre-Fed surprise. And although the RBA was arguably playing to domestic factors (improving recovery and step-up in broadening price pressures), the Fed's impact is hard to ignore given the AUD's 6-7% drop from 0.75-0.76 levels to sub-0.71 (now testing 70 cents) since the April MPC.
- Admittedly, the **hawkish compulsions resulting from the Fed's aggressive tightening path** that has been mapped may be **difficult to quantify**, *but* there is **no denying its influence**.
- Very recently, **the BSP has changed to a more hawkish tack** to suggest *rate hikes as early as June,* partially walking back scope for patience given the uneven and tentative recovery.
- This week, the **question is whether the BNM (Wed) will deliver a surprise 25bp calibration**; so as to buffer against more pipeline Fed hikes (another 75-100 bp of hikes by July is being baked in).
- While the BNM has justifiable reasons not to rush the tightening given benign headline inflation and a fragile recovery with greater debt burden, the **case to backstop macro and MYR stability are compelling**. Although the jury is out on whether this tips over into a hawkish compulsion now.
- A slew of **Q1 GDP** releases from Indonesia (Mon), Philippines (Thu) and Malaysia (Fri) **ought to show recoveries extending *but* not with sufficient conviction to allay worries of the conflict presented by hawkish compulsions unleashed by the Fed**.
- A **strong USD could continue to weigh on EM Asia FX** this week as Fed hawks continue to swoop in, and PHP may be subject to additional volatility as Presidential elections are wrapped up.

Why Not to be Distracted from a Hawkish Fed

- **Any attempt at a dovish interpretation of the Fed is merely rearranging the deck chairs on the Titanic**. There is simply no papering over an aggressively hawkish Fed.
- This is validated **by the brutal, "morning after" sell-off** (on 5th May that followed through on 6th May) on Wall St that more than wiped out post-FOMC (4th May) gains; as earlier *relief that the Fed is not actively considering 75bps hikes proved egregiously misguided.*
- Fact is, with Fed's initial "transitory" inflation prognosis caught spectacularly wrong-footed, **fears of more profound, pervasive and persistent inflation have hijacked the Fed's policy agenda**; as geopolitical price shocks and rolling supply-chain disruptions compound pre-existing cost-push.
- The bigger and more accurate picture is one of an **unwaveringly and aggressively hawkish Fed; with attendant risks of economic and asset market turbulence in tow**.
- This is further accentuated as it is **accompanied by a stronger USD**; especially insofar it is driven by the confluence of *rapidly rising US rates* amid rate hikes and *tightening USD supply* from QT.
- And the **reverberations from the Fed's tightening is most to be most acute in EMs hit by a a confluence of rising rates, tighter USD supply and a more expensive USD**.
- Consequently, **downside volatility in EM Asia FX could easily persist into Q3** despite rate hikes (and presumably yield and attendant USD) being mostly baked in.

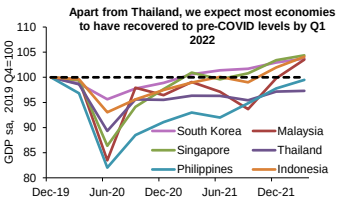
Philippines: A New President Awaits



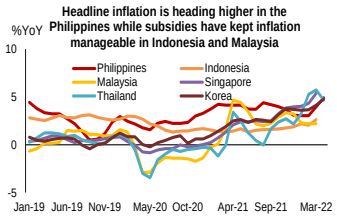
Source: Pulse Asia; Mizuho Bank

- **The elections on 9 May will**, according recent opinion polls**, turn out 'Bongbong' Marcos as the next President-elect of the Philippines.**
- According to the recent Pulse Asia survey, **Marcos has a significant lead over Leni Robredo, the current VP and Macros' closest competitor**. Although Robredo gained some ground in March and April, it does not seem sufficient to erode Marcos' lead.
- **Sara Duterte**, Marcos' running mate and the daughter of the current President, **is looking good for the position of Vice President** and the duo in combination have **promised to focus on infrastructure development by continuing President Duterte's "build, build, build" initiative**.
- They will also **focus on MSME development** as a key areas of focus in order to generate jobs.
- While the **most part we expect policy continuity is widely expected**, **there are some grey areas** including Marcos' **position on fiscal consolidation**, which **may trouble investors.**
- This, **along with the baggage that comes from Bongbong Macros' family lineage and legacy**, will at least in the **immediate aftermath of the elections, exert depreciation pressure on PHP while triggering outflows from Philippines asset markets.**

ASEAN-3: Discordant Growth Recoveries Complicates Path To Tighter Monetary Policy



Source: CEIC; Mizuho Bank; Notes: 1. India GDP seasonally adjusted using CEIC; 2. We use Mizuho Bank Q1 GDP growth estimates



Source: CEIC; Mizuho Bank

- **The Q1 GDP prints for Indonesia, Malaysia and the Philippines** will show improving growth momentum but to varying degrees and with differing drivers, **confirming continued but discordant recoveries across the bigger economies in the ASEAN region**.
- **In the Philippines, domestic demand will be the biggest driver of growth** supported by an easing of stringent social restrictions and a boost to the vaccination program.
- **While growth may still be slightly below pre-COVID levels**, the pace of catch-up is among the fastest in the region, even if temporarily supported by a front-loading of infrastructure spending ahead of the 9 May elections.
- **For Indonesia and Malaysia, solid commodity export growth** will complement domestic demand improvements, mirroring a continuous easing of social restrictions, and **pushing GDP convincingly back to pre-COVID levels for both economies.**
- Even so, the extent of the improvement will be more modest for Indonesia compared to Malaysia as the coal price tailwinds for the former faded in Q1.
- More fundamentally, **we see Malaysia as better positioned compared to Indonesia to enjoy the boost from global commodity prices** that got a leg up from the Ukraine-Russia situation in March.
- **Historical precedence shows that higher commodity prices tend to 'lift all boats' in Malaysia from private consumption to manufacturing output to exports.**
- Moreover, even as a net petroleum importer, the fiscal revenue impact from higher global petroleum and palm oil prices more than offsets the fuel subsidy spend.
- By contrast, **the impact from higher global oil and other commodity prices is not clear cut for Indonesia. A case in point is the export ban on palm oil** (including CPO), the largest export item; instituted to redirect exports for domestic consumption (and stymie the rise in cooking oil prices).
- But in the process, **the ban will weigh on growth and the worsen the current account position.**
- **This will complicate the timing for Bank Indonesia to start raising rates**. BI's focus on growth, while justified to some extent amidst still contained inflationary pressures, **suggests rate hikes will commence only in H2 risking IDR depreciation and macrostability concerns.**
- For Bangko Sentral ng Pilipinas, **the solid Philippines Q1 GDP print, along with the large breach in BSP's headline inflation 2-4% target range** (April CPI: 4.9%) will, in all likelihood, push **BSP to commence its rate hiking cycle at its May meeting.**

Bank Negara Malaysia: Time For Lift-Off

- **For BNM, we believe it is a toss up between initiating rate hikes at its 11 May meeting or 6 July meeting. We expect the scales to tip in favour of the earlier meeting.**
- **The US Fed's aggressive rate hiking calendar** suggests that by June it would have hiked its policy rate by another 50bp, adding to 75bp from March to May, **significantly narrowing Malaysia's interest rate differentials to the US.**
- **This exposes Malaysia to volatile capital outflows and MYR depreciation.** Indeed, MYR has already depreciated more than regional peers against the USD since the Fed started its rate hiking cycle in March. The depreciation is also apparent in REER terms.
- Although the **current account surplus mitigates macro stability risks, currency depreciation considerations,** particularly in light of rapidly tightening global liquidity will be of concern to BNM.
- **Furthermore, economic growth is poised to accelerate in Q2 and Q3** as the benefit from higher global commodity prices coincides with a further easing of social restrictions and the re-opening of borders ushering much needed tourist arrivals.
- **Palm oil exports may get an additional boost as importers such as India and China look to substitute Indonesia's palm oil supply with its Malaysian counterpart.**
- Additionally, **government revenues will benefit from higher global coomodity prices, providing some fiscal buffer to support the economic recovery, if necessary.**
- These factors collectively will give BNM enough confidence that the economic recovery will be able to withstand tighter domestic monetary policy.
- Importantly, **we believe BNM will not defer to headline inflation, which has eased in recent months largely on base effects** and suppressed price pressures from fuel and food subsidies.
- Instead**, it will largely focus on core inflation pressures, which have been building recently.**
- As such, we expect BNM would prefer to start the process of raising rates sooner and **cumulatively raise rates by 75bp this year.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	130.56	0.860	0.66%	128.00	~	132.00
EUR/USD	1.0551	0.0006	0.06%	1.030	~	1.070
USD/SGD	1.3852	0.002	0.13%	1.3700	~	1.4000
USD/THB	34.345	0.093	0.27%	34.00	~	35.10
USD/MYR	4.3665	0.013	0.29%	4.320	~	4.400
USD/IDR	14497	0	0.00%	14,390	~	14,700
JPY/SGD	1.0613	-0.005	-0.42%	1.038	~	1.094
AUD/USD	0.7076	0.002	0.21%	0.680	~	0.730
USD/INR	76.93	0.498	0.65%	76.0	~	77.3
USD/PHP	52.497	0.304	0.58%	51.8	~	53.1

^Weekly change.

Bond Yield (%)

6-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	2.731	1.6	3.126	19.2	Steepening
GER	0.305	5.9	1.126	19.1	Steepening
JPY	-0.053	0.9	0.232	2.1	Steepening
SGD	2.122	13.4	2.765	26.1	Steepening
AUD	2.723	30.3	3.465	0.1	Flattening
GBP	1.469	-9.9	1.992	8.9	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,123.34	-0.21
Nikkei (JP)	27,003.56	0.58
EuroStoxx (EU)	3,629.17	-4.57
FTSE STI (SG)	3,291.89	-1.94
JKSE (ID)	7,228.91	0.00
PSEI (PH)	6,759.90	0.43
KLCI (MY)	1,564.34	-2.26
SET (TH)	1,629.58	-2.27
SENSEX (IN)	54,835.58	-3.90
ASX (AU)	7,205.64	-3.09

FX: King USD the Prize for the "Only Game in Town"

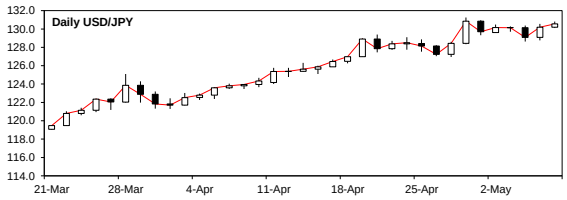
- The **hawkish Fed** was the "**only game in town**", despite Chair Powell talking down the prospects for a 75bp hike in the foreseeable future (not as the base case, anyway); and the **attendant surge in UST yields** (10Y notably emphatically breaching 3%) left **"King USD" as the only prize in town**.
- To be sure, there are factors outside of the Fed (and the standalone May FOMC), which appear to be underpinning the Greenback with such gusto.
- For one, the **BoE and the Norges Banks dialing back on hawkish intensity** (amid concerns about headwinds to the recovery) have **accentuated the hawkish Fed divergence narrative**.
- And the **FX impact of spurring USD bulls** across the board has been accentuated even more after the BoJ's dovish stance just before alongside the ECB's reservations despite non-negotiable normalization.
- What's more, amid **"risk off" liquidation** in equities (and bonds), the lack of risk appetite means that investors might have a **propensity to hold proceeds in USD** rather than recycling this back into assets denominated in other currencies. And this **boost USD** from this ramped up demand.
- Finally, the extent of the **Fed's cumulative hawkish positioning may also be building into USD demand** as markets begin to wrap their heads around the rising cost of USD (as rates and yields rise) colliding with the prospects of shrinking USD supply (as balance sheet run-off drains USD liquidity).
- The upshot is that **even with much of the Fed's rate hikes baked into OIS markets** (and yields), **upside tendency in yields, inclination for more asset market correction** (sell-off) and a general risk re-pricing could **continue to favour the Greenback**.
- Especially as the Fed's hawkish divergence id expected to widen further for now.
- And so, we expect AXJ to be sold into rebounds while underlying caution could continue to underpin, if not generally lift, USD/AXJ for the time being.

US Treasuries: Fed's Cruise Control

- Last week, UST **yield curve bear steepened.** Though **2Y yields** did test above 2.8% mid-week, the overall **increase was a very modest 2bps as Fed Chair Powell pushed back on 75bps hikes**.
- Meanwhile, **10Y yields shot up ~19bps to above 3.1% as balance sheet run off plans firm** for US$45bn (30bn of Treasures and 17.5bn of MBS, monthly) starting in June before stepping up in Sept to a combined US$90bn monthly.
- This week, UST looks set to be on **cruise control mode** based on the Fed's hawkish trajectory laid out last week which implies **buoyant yields**.
- 2Y yields will range between 2.6%-2.9% while **10Y yields look to consolidate above the 3% mark; with some momentum building t o test 3.2%.**
- Mid-week **CPI print may be the speed booster to launch yields higher**, though given Powell's rejection of 75bps hikes, it will take a huge upside surprise to up the ante on Fed's already hawkish path, therefore 2.9% looks to be too high a bar for short end 2Y yields for this week.

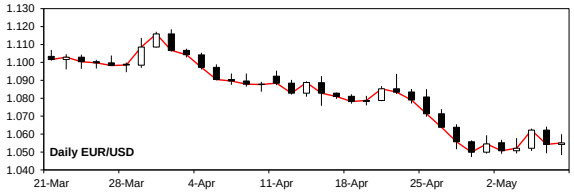
USD/JPY: Ascendancy Intact?

- There was nothing in the BoJ's actions of rhetoric last week to induce a convincing turnaround in the JPY.
- And so, USD/JPY buoyancy could very much be the enduring flavour as USD bulls rule the roost amid rate hikes and QT.
- Oil prices bouncing back on supply diruption risks alongside more strenuous Russia oil embargo (being planned) add to JPY woes via the Current Account drag.
- And against this backdrop, the positive correlation between equities and USD/JPY (equities falling and JPY rising) may also be difficult to restore durably.
- For now, we expect the USD/JPY to consolidate in the low-129 to mid-132 range.
- Ascendancy in USD/JPY may remain intact, although more as an inclination than a imminent impulse.



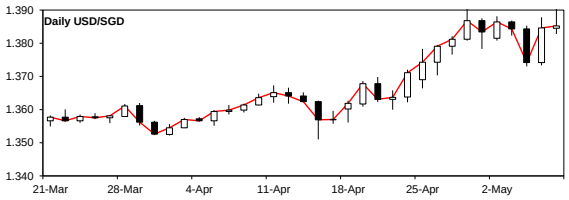
EUR: Buffeted by Dollar Strength

- The downward trajectory of EUR/USD is unlikely to end this week even with expectations for the ECB to raise rates as early as Q3, narrowing the Fed-ECB divergence.
- While this may slow the pace of EUR depreciation, the downward direction has been set in motion by the strong US dollar trend, which is becoming more entrenched with strong US data, volatile risk sentiment and an aggressive path of tightening from the US Fed.
- EUR/USD spot below 1.05 may be par for the course with only intermittent EUR support coming through.



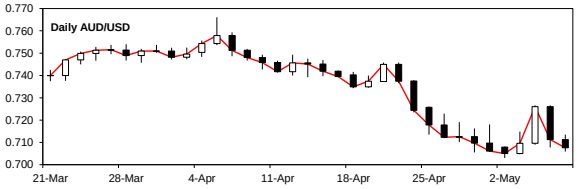
SGD: MAS Hawks Defer to King USD

- USD/SGD climbing towards the 1.39 appears to be in defiance of a hawkish MAS;
- Especially given the mid-point re-centring higher (of the SNEER), which is designed to deliver front-loaded tightening to the S$NEER (trade weighted-SGD)
- But this is precisely why the SGD (vs. USD) will defer to broad-based USD strength that gas resulted from a hawkish Fed.
- While the trade-weighted S$NEER is undeniably stronger, the effects are diluted by weaker trade partner currencies (e.g. EUR, CNY, MYR, JPY).
- Whereas this means that USD/SGD upside in the wake of imposing USD strength is merely mitigated, not fully insulated.
- And so, with sweeping USD strength, we expect USD/SGD to consolidate in the sub-1.38 to 1.40 range for the time being.



AUD: No RBA Kicker

- It was an action packed week. The RBA's mildy surprising 25bp rate hike, and Governor Lowe's allusion to a "further lift in interest rates over the period ahead" failed to deliver upside for the AUD.
- Following which, the Fed's 50bp rate hike (and push back against 75bp hike) seemingly re-calibrated hawkish expectations, with the USD adjusting downwards accordingly. As such the AUD was still able to muster a move beyond 0.72, but once again receding to 0.71.
- The AUD ultimately finds itself swimming against an imposing tide of USD bulls and a proportionally more hawkish Fed, with all but absent tailwinds from commodity prices.
- Indeed, the current outlook for the AUD remains bleak and it is likely to remain at the lower ends of 0.68-0.73.



With acknowledgements of contributions from our Research Associate Matthew Ng

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