MIZUHO

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WEEK AHEAD

21-Jun-2021

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Economic Calendar

•Survey results from Bloomberg, as of 18 Jun 2021; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
21 Jun	**US**	**Chicago Fed Nat Activity Index**	**May**	**0.88**	**0.24**
22 Jun	**US**	**Existing Home Sales**	**May**	**5.71m**	**5.85m**
	US	**Richmond Fed Manufact. Index**	**Jun**	**18.0**	**18.0**
	EZ	Consumer Confidence	Jun A	--	-5.1
	JP	Machine Tool Orders YoY	May F	--	140.7%
23 Jun	US	New Home Sales	May	882k	863k
	US	Current Account Balance	1Q	-$207.1b	-$188.5b
	EZ	Markit Eurozone Manufacturing/Services PMI	Jun P	--	63.1/55.2
	JP	**Leading Index CI/Coincident Index**	**Apr F**	**--**	**103/95.5**
	JP	Jibun Bank Japan PMI Mfg/Services	Jun P	--	53/46.5
	JP	BOJ Minutes of April Meeting			
24 Jun	US	Initial Jobless Claims	19-Jun	--	--
	US	Kansas City Fed Manf. Activity	Jun	--	26
	US	**GDP Annualized QoQ**	**1Q T**	**6.4%**	**6.4%**
	US	**Durables Ex Transportation**	**May P**	**0.7%**	**1.0%**
	US	Wholesale Inventories MoM	May P	--	0.8%
	US	Durable Goods Orders	May P	3.0%	-1.3%
	GE	IFO Expectations/Business Climate	Jun	--	102.9/99.2
25 Jun	**US**	**U. of Mich. Sentiment**	**Jun F**	**86.8**	**86.4**
	US	**PCE Core Deflator YoY/MoM**	**May**	**--/0.6%**	**3.1%/0.7%**
	US	Personal Spending/Personal Income	May	0.3%/-2.9%	0.5%/-13.1%

Asia

Date	Country	Event	Period	Survey*	Prior
21-Jun	**CH**	**5-Year/1-Yr Loan Prime Rate**	**21-Jun**	**4.65%/3.85%**	**4.65%3.85%**
	AU	Retail Sales MoM	May P	0.50%	1.1%
22-Jun	KR	PPI YoY	May	--	5.6%
23-Jun	TH	Customs Exports/Imports YoY	May	33.5%/53.4%	13.1%/29.8%
	TH	Customs Trade Balance	May	$1038m	$182m
	SG	**CPI YoY/Core CPI YoY**	**May**	**2.2%/0.7%**	**2.1%/0.6%**
	TH	**BoT Benchmark Interest Rate**	**23-Jun**	**0.50%**	**0.50%**
24-Jun	**PH**	**BSP Overnight Borrowing Rate**	**23-Jun**	**2.00%**	**2.00%**
25-Jun	KR	Business Survey Manuf./Non-Manuf.	Jul	--	97/81
	MY	**CPI YoY**	**May**	**4.7%**	**4.7%**
	SG	**Industrial Production YoY**	**May**	**24.2%**	**2.1%**
	CH	BoP Current Account Balance	1Q F	--	$75.1b
25-30 Jun	**VN**	**GDP YoY**	**2Q**	--	**4.5%**
	VN	CPI YoY	Jun	--	2.9%
	VN	Retail Sales YTD YoY	Jun	--	7.6%
	VN	Industrial Production YoY	Jun	--	11.6%

Week-in-brief: Reining in (Run-away) Hawks?

- After last week's FOMC, the **question is not whether market perceptions of hawkishness have gotten ahead of the FOMC intent**; they almost certainly have! Rather it is whether (and probably) ***at what thresholdf the Fed may have to step in to rein in run0-away hawks***.
- To be fair, the **fervour surrounding the 'Dot Plot' that now prices in two rate hikes in 2023** (from none in March) was not completely unexpected by the Fed. Afterall**, Fed Chair Jerome Powell took pains to advise taking the 'Dot Plot"** "with a pinch of salt". **Markets clearly need more seasoning**!
- Meanwhile, a spirited buying of USD (more precisely covering USD shorts) alongside an unravelling of reflation trades has left a pool of blood in FX markets and shaken down equities.
- Long-end bond yields are down presumably on the belief that hawks will tame inflation, while **2Y yields are up as markets price in the 'Dot Plot' hikes**. The flatter yield curve though is not really doing many favours for EM markets or risk appetite as liquidity driven buoyancy is being questioned.
- To be clear the **Fed's primary remit is not to prevent volatility in emerging markets**.
- ***But*** a continued decline in asset markets and contagion risks between equities and commodities as reflation trades unwind will not be ignored. Specifically a **tightening of overall financial conditions** - which is Fed speak for equity/credit market sell-off - could jolt Fed into dovish gear.
- For now, the **Fed will probably gauge how far hawkish interpretations of the 'Dot Plot' will run**.
- But if markets fall into old habits of over-indulgence (as they are prone to), then **Fed attempts to rein in run-away hawks down the road should not surprise anyone**.
- Which is to say, **USD bulls may want to exercise some restraint** along the way. The **same restraint that BoT and BSP will require** in holding back additional easing even as COVID impact lingers.

Malaysia's 'National Recovery Plan': Cautious, Contingent & *Challenging!*

- On 15 June, **15 days into a complete nationwide lockdown**, **PM Muhyuddin Yassin outlined a four phase 'National Recovery Plan' (NRC)**.
- The **recovery is based on three main indicators**: the **average daily infection rate**, **ICU bed capacity** and the **percentage of the population completely vaccinated**. The government wants to move into ***phase 4 after*** October this year, with ***60% of the population vaccinated***.
- As we discussed earlier, Malaysia' vaccination procurement plans are in place to receive adequate supplies to meet their vaccination goals for the year (see *Mizuho Insights: 27 April 2021: ASEAN-6 and India: Renewed Virus Outbreaks Threaten Growth Recovery Amidst Slow Inoculations*).
- That said, some delays are inevitable given high global demand for vaccine doses.
- Notwithstanding, mobilising the population to get vaccinated and adhering to social restrictions will remain challenging; yet critical in hitting the expected timelines on this NRC.
- From a economic standpoint, **GDP growth in Q2 and Q3 will be impacted by the tighter social restrictions**. There *could be some spillover into Q4 as well, especially if the timeline to enter Phase-4 is delayed*. We expect 2021 GDP growth to come in at 4.7%, with the risks titled to the downside.
- While **Bank Negara Malaysia has some room to maneouver** in terms of cutting the policy rate (although not our base case) and **providing additional credit/liquidity support** (our base case), its **flexibility will diminish as the US Fed signals a clear intent to tighten monetary policy**.
- **Fiscal policy still has some legs to support growth** and the **self-imposed debt ceiling could be raised again**, if need be. But increasingly high debt levels will add to the financing burden and borrow from future growth as the economy looks to weave itself out of the pandemic.

Phase	Average daily infections rate	ICU bed capacity	% of population fully vaccinated	Expected timelines	Other comments
Phase 1	>4000	Full capacity	4.6%	The country is currently in Phase-1	The current daily average case count is above 5,000 and although the pace of vaccinations is picking up, progress remains slow.
Phase 2	<4000	Not at a critical stage	10%	July	Under Phase-2, movement controls will still be tight but economic activities can be reopened in stages subject to 80% workforce on site. Interstate travel and social activities are still banned
Phase 3	<2000	ICU bed capacity reduced; healthcare system is "comfortable"	40%	End-August	Under Phase Three, all economic sectors (other than those on the high-risk list) will be reopened at workforce capacity of 80%. High-risk economic activities are considered to be close-contact and crowded spaces. Sports and education related social activities will be eased. Parliament could reconvene (September or October).
Phase 4	<500	No stress on the healthcare system	60%	After October	In this final phase, all economic sectors will be fully reopened, while social activities, interstate travel and domestic tourism will be allowed under tight standard operating procedures.

Source: Today Online, Bloomberg, Malay mail, Mizuho Bank

Vietnam: Q2 GDP growth to be hit by the ongoing virus outbreak

- After doing a standout job at containing the pandemic in 2020, **Vietnam finds itself currently faced with greater challenges than at another point during the pandemic for two reasons.**
- First, **the resurgence in COVID-19 cases**, especially of new more virulent and transmissible strains, **has made it way to numerous provinces and cities** across the country forcing authorities to re-impose tighter social restrictions.
- At last count, 39 provinces and cities had been impacted by the latest wave of infections.
- Of these, **crucial provinces such Bac Ninh, home to Samsung and Apple suppliers in Vietnam, have become virus hotspots** with the factories itself being the epicenters of the outbreaks, forcing closures of four industrial parks.
- **The bigger cities of Hanoi and Ho Chi Minh have not been spared either** as tighter social restrictions forced street vendors, some forms of public transport and some retail outlets to close.
- Second, **Vietnam is lagging badly in vaccinations**; in both procurement and progress.
- **The latest data shows that only 0.07% of the population has been fully vaccinated while around 1.8% of the population has recieved one dose.**
- After initially relying solely on AstraZeneca vaccines, the government has diversified vaccine sources to include China's Sinofarm and Russia' Sputnik, and the government is also in talks to acquire Pfizer and Moderna vaccine doses but these have not been formally endorsed yet.
- **According to Vietnam's Health Ministry, the country will obtain 125mn doses of vaccines this year, which will be able to vaccine 64% of the population. But these are still subject to delays** and also fall short of the government goal to obtain 150mn, i.e. for 75% of the population.
- This underscores ongoing efforts to build on its vaccine pipeline to attain higher vaccination rates.
- Inevitably, the interim **impact to growth will be noticeable.**
- Industrial production and retail sales slowed in May from April despite broadly favourable base effects and will likely slow further in June given the recent wave of infections continues to intensify.
- **Officials are acknowledging this hit to growth. The Ministry of Planning and Investment cut H1 GDP growth forecast to 5.8% from 6.2% in Jan**; implying 7.1% growth (Q1: 4.5%).
- From a policy perspective, **both the government and central bank remain in a strong position to provide further support to growth if needed.**
- The government ran a budget surplus for the year until April 2021 while the central bank has some

Bank Sentral ng Pilipinas: Still hamstrung by high inflation

- Although headline **inflation** has remained stable at 4.5% YoY for the 3 months since March 2021, **it remains elevated and above the the BSP's 2-4% headline inflation target range.**
- This **will no doubt constrain BSP's ability to cut the policy rate** even **as a sharp resurgence in COVID-19 infections forced the authorities to institute more stringent lockdowns** and tighter social restrictions in many parts of the country since April.
- The slow vaccination drive is not helping either as the country still struggles to obtain enough vaccination doses to allow the population to reach 'herd immunity'.
- **That said, BSP still has other non-rate tools** in its monetary policy kit which it can use as it deems fit. This includes another 200bp in Reserve Requirement Ratio cuts and additional credit/liquidity support measures for banks and households.
- In all this, it is worth nothing that USD/PHP has been relatively resilient. The Balance of Payments position shifted to a large suplus in April following three consecutive months of deficit. Moreover, BSP has continued to build FX reserves to buffer against shocks to the currency.
- With the US Federal Reserve expected to raise rates sooner-than-previously forecasted, some depreciation pressures on the PHP may start to build.
- Unfortunately for BSP, this could also coincide with a decelerating inflation profile once again putting the central bank in the midst of conflicting outcomes, which could constrain policy space.

Bank of Thailand: Status Quo

- **BOT will keep its policy rate unchanged at historical low of 0.50%**; with no motivation for the BOT to make any major to its policy as it continues to defer pandemic support to fiscal policy.
- Although **BOT lowered its 2021 GDP growth forecast in May to 2%** for this year from 3% previously, it will likely formalise this downgrade at its June meeting when it also releases a quarterly update coinciding with its June meeting.
- **Even with this downgrade, the risks to the growth outlook are titled to the downside**.
- For one, **the government is missing its vaccination targets** on account of a shortfall in vaccine supplies. And regardless of intent to, acquiring more vaccine will take time.
- Second, it will **take even longer for the tourism sector to kick start** as not only do vaccinations domestically need to speed up, but also globally.
- Even with the US Federal Reserve sounding a tad more hawkish at the margin, the **BOT will remain comfortable holding onto its firmly dovish bias** on account of the rather dismal state of recovery in key sectors of the economy; especially as subdued inflation buys policy space.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	110.21	0.550	0.50%	108.80	~	111.80
EUR/USD	1.1864	-0.0245	-2.02%	1.170	~	1.205
USD/SGD	1.3451	0.019	1.44%	1.3300	~	1.3540
USD/THB	31.489	0.402	1.29%	31.30	~	32.00
USD/MYR	4.1395	0.031	0.75%	4.122	~	4.175
USD/IDR	14375	186	1.31%	14,200	~	14,650
JPY/SGD	1.2202	0.011	0.93%	1.190	~	1.244
AUD/USD	0.7479	-0.023	-2.97%	0.742	~	0.773
USD/INR	73.86	0.785	1.07%	73.2	~	74.8
USD/PHP	48.433	0.732	1.53%	48.2	~	49.0

^ Changes are on weekly basis

Bond Yield (%)

18-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	0.254	10.7	1.438	-1.4	Flattening
GER	-0.675	1.7	-0.205	7.0	Steepening
JPY	-0.131	0.5	0.045	2.2	Steepening
SGD	0.338	2.6	1.451	8.2	Steepening
AUD	0.039	4.5	1.589	11.3	Steepening
GBP	0.120	7.7	0.750	4.4	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,166.45	-1.91
Nikkei (JP)	28,964.08	0.05
EuroStoxx (EU)	4,083.37	-1.05
FTSE STI (SG)	3,144.16	-0.44
JKSE (ID)	6,007.12	-1.45
PSEI (PH)	6,851.38	-0.82
KLCI (MY)	1,589.05	0.88
SET (TH)	1,612.98	-1.44
SENSEX (IN)	52,344.45	-0.25
ASX (AU)	7,368.85	0.77

FX Theme: Of Bulls & Hawks

- The **post-FOMC USD upswing was not entirely unexpected** given overdone USD sell-off heading into the FOMC (especially amid hot inflation data and sustained economic recovery).
- But **how severe and sustained USD resurgence may be** at this point appears to be **dependent on and driven by** the conviction behind**;**

i) rising short-end yields moved by the "Dot Plot", and;
ii) higher real yields provoked by the Fed's inflation-fighting chops

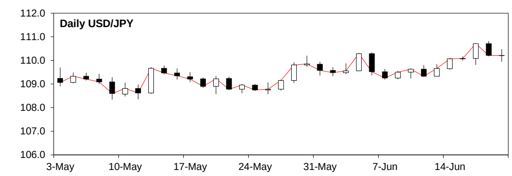
- And the latter (higher real yields) is specifically being inspired by **the assumption** that a **Fed** moving considerably sooner than earlier flagged **will rein in inflation expectations** (hence falling breakeven).
- In other words, the current **USD bulls are driven by FOMC hawks**.
- Which is to say, **any clarification that dials back and/or qualifies the projected hawkishness** of the Fed **may very well lead to some reversal of the recent bout of USD strength**.
- At the very least, **check sharp USD surges that have been sustained since the FOMC**.
- As such, **a more cautious approach to one-way long USD bets** - especially as USD short squeeze peters out and deliberate long USD positions are required to extend Greenback strength.
- What's more, **exaggerated drop in commodity currencies due to the sharp unwind in reflation bets may also be due for soul-searching** in coming sessions/weeks as the underlying intent of the Fed to reflate the economy is merely calibrated not cast out.
- The upshot is that **USD bulls are unlikely to remain on an unbridled rampage** as the Fed is likely to check overdone hawkish interpretations of June FOMC.
- We expect that EUR will be bought back on drops below 1.17, while AUD at 0.74 may look like a bargain. Meanwhile, USD/CNH will be watched for any sharp moves above 6.50-6.52.
- To be sure, **"taper" risks down the road also align with a stronger USD**. ***But one-way USD***

US Treasuries: Overdone UST Yield Curve Flattening?

- Headlines suggest **that last week's FOMC was a hawkish surprise**. And this is **true insofar that the "Dot Plot" suggested two rate hikes** being baked into 2023 (**from none previoulsy**).
- What is however **less clear is why this would trigger a flattening of the UST yield curve**, which that entails softer long-end and higher short-end yields.
- At face value, the **rise in 2Y yields being attributed to rate hikes being factored in** *as a response to a more "hawkish" "Dot Plot"* for 2023 is perhaps not odd per se.
- But the **softening in long-end yields requires some reconciliation** given current experience of cost-push pressures that may be set to grow.
- In particular **if the Fed is going to transition into normalization with "taper" as the first port of call** (and with appreciable lead over rate hikes)
- Point being, **"taper" as we know it from 2013 usually leads with UST yield curve steepening** (driven by rising long-end yields) at least **in the early stages** before **flipping to UST curve flattening (left by rising 2Y yields) as rate hikes come into view**.
- Question is **whether the flatter yield curve has gotten too far ahead of "taper"** and **rising 2Y yields out of sync with the Fed's intent**. If so, current flattening may subside. 2Y yield upside looking capped around 0.3%, while 10Y sub-1.4% dips may be rendered unsustainable.

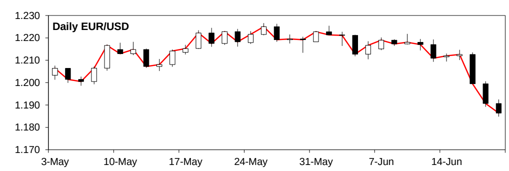
JPY: Coss Currents

- **USD/JPY bulls are not as charged up as broad-based USD upwings** suggest.
- For one, the unexpected and sudden **USD squeeze has led to a meltdown in Cross/JPY**;
- which in turn is **checking upside in USD/JPY**.
- What's more, **softer long-end UST yields** that have accompanied this bout of USD surge is **also leading to some top-end pressures on USD/JPY**; **hindering a sustained move aup above 111 at this juncture**.
- For now, USD/JPY could thus be traopped in aloftier consolidation in the 109-112 range as USD direction is stress tested. And knock-back on advance may be par for th course on "risk off".



EUR: Suppressed

- **EUR bears could have further to go** on two accounts.
- First, the **post-FOMC bout of USD strength** that is sweeping across FX land; especially amid the **entrenching view that the ECB will lag the Fed in terms of normalization**.
- Second, this EUR lag (owing to ECB defernece) being further emphasized by **resurgence of COVID in Europe led by the more transmissible delta variant**.
- This is also expected to cast a shadow on the EUR.
- That said, a lot of the weakness has been baked in since FOMC, and thus **EUR drop below 1.18 to 1.17 could potentially induce some reversal** given the C/A surplus backing of the single currency.
- **Near-term range of sub-1.17 to 1.20 is likely** to hold most headline triggers.

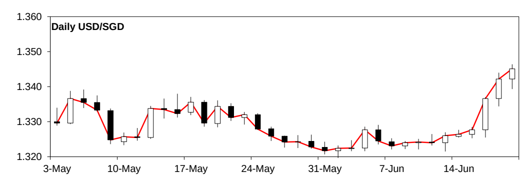


SGD: EUR & CNY Cues to Dominate

- How far broad-based USD strength can extend will determine the range of the USD/SGD in strict sense.
- Point being, SGD moves are not a reflection weak fundamentals and or MAS monetary policy response being priced in. In fact the trade-weighted S$NEER remains at stronger half of the policy bands.
- Instead **broad-based USD strength showing up as weaker trade partner currencies** is what is **driving SGD weakness at this point**.
- In particular;

i) **CNY cues** (how much the PBoC allows itto depreciate from price setting signals) and;
ii) **how far the EUR falls** are two key determinants of (USD/)SGD moves that are consisten with a fairly buoyant S$NEER.

- At this juncture, we expect that **USD/SGD will be traded 1.33 to low-1.35 as USD retains tone, but perhaps the ferocity of USD gainsis tamed.**



AUD: Tempering Reflation Unwind?

- A **double whammy of commodity sell-off** and a **strong USD** may well **set course for a sub-0.75 AUD** that goes on to test the 0.74 handle.
- And it certainly doe snot help that hawkish interpretations of the Fed's 'Dot Plot' accentuate the Fed-RBA divergence that feeds into AUD weakness.
- Specifically a more state-dependenmt Fed compared to the "time-dependent" RBA tah has batted away any till 2024.
- That said, we are not betting on a one-way slide in AUD either as unravelling reflation trades are likely to run out of room as would overdone hawkish bets on the Fed. So a consolidation amid low-0.74 to high-0.76 appears par for the course as markets check overdone moves.