MIZUHO

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WEEK AHEAD

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11-Mar-2024

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Economic Calendar

•Survey results from Bloomberg, as of 9 Mar 2024; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

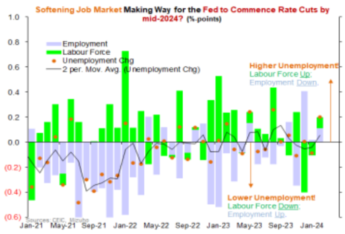
G3

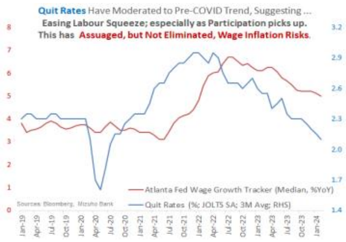
Date	Country	Event	Period	Survey*	Prior
11 Mar	**US**	**NY Fed 1-Yr Inflation Expectations**	**Feb**	**--**	**3.0%**
	JP	GDP Deflator YoY	4Q F	3.9%	3.8%
	JP	GDP Annualized SA QoQ	4Q F	0.4%	-0.4%
	JP	Machine Tool Orders YoY	Feb P	--	-14.0%
12 Mar	**US**	**CPI/ Core YoY**	**Feb**	**3.1%/3.7%**	**3.1%/3.9%**
	US	Real Avg Hourly Earning YoY	Feb	--	1.3%
	JP	BSI All Industry/Large Manufacturing QoQ	1Q	--	4.8/5.7
	JP	PPI YoY	Feb	0.5%	0.2%
13 Mar	EZ	Industrial Production WDA YoY	Jan	-3.0%	1.2%
14 Mar	**US**	**Initial Jobless Claims**		**219k**	**217k**
	US	PPI/ Ex Food and Energy YoY	Feb	1.2%/1.9%	0.9%/2%
	US	**Retail Sales/ Ex Auto and Gas**	**Feb**	**0.3%/--**	**-0.8%/--0.5%**
15 Mar	JP	Tertiary Industry Index MoM	Jan	0.1%	0.7%
	US	**Empire Manufacturing**	**Mar**	**-7.0**	**-2.4**
	US	Industrial Production MoM	Feb	0.0%	-0.1%
	US	U. of Mich. Sentiment	Mar P	77.1	76.9
	US	**U. of Mich. 1 Yr/5-10Yr Inflation**	**Mar P**	**3.1%/3.0%**	**3%/2.9%**

Asia

Date	Country	Event	Period	Survey*	Prior
11-15 Mar	CH	Aggregate Financing CNY	Feb	2340.0b	6500.0b
	CH	New Yuan Loans CNY	Feb	1550.0b	4920.0b
	CH	FDI YTD YoY CNY	Feb	--	-11.7%
12 Mar	**IN**	**CPI YoY**	**Feb**	**5.0%**	**5.1%**
	IN	**Industrial Production YoY**	**Jan**	**4.1%**	**3.8%**
	MY	Industrial Production YoY	Jan	2.0%	-0.1%
	MY	Manufacturing Sales Value YoY	Jan	--	-4.2%
	PH	Trade Balance	Jan	-$4695m	-$4013m
13-15 Mar	IN	Trade Balance	Feb	-$18900m	-$17491m
13 Mar	**KR**	**Unemployment rate SA**	**Feb**	**3.0%**	**3.0%**
14 Mar	IN	Wholesale Prices YoY	Feb	0.2%	0.3%
15 Mar	CH	1-Yr Medium-Term Lending Facility Rate		2.50%	2.50%
	CH	**New Home Prices MoM**	**Feb**	**--**	**-0.4%**
	ID	**Trade Balance**	**Feb**	**$2425m**	**$2015m**
	PH	**Overseas Cash Remittances YoY**	**Jan**	**2.8%**	**3.8%**

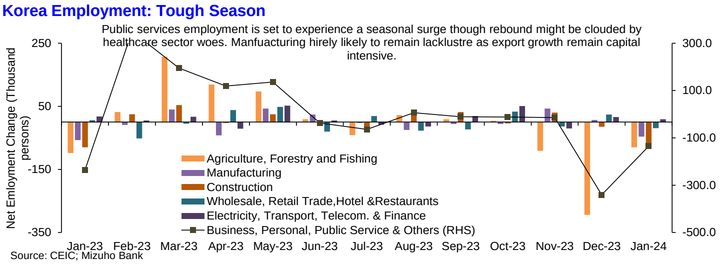
Week-in-brief: Higher Hopes & Lower Bars?





- **US** non-farm payrolls (**NFP**) provided the **most distinct buffet** of "***something for everyone***" with regards to **US data interpretation** for **policy calculus**.
- It had **hotter than expected spots such as the stronger than expected 275K NFP headline** *to deter exuberance, yet* also had **delectably soft corners** such as the **bump-up in unemployment rate, downward revisions to past NFP** *capable of firing up "pivot bets"*.
- But all said, the inclination may be tilting to ***higher hopes*** and a ***lower bar for rate cut cheer***.
- Three reasons why that may be the case. First, simply as a **function of time**, and **having digested a no rate cut for March** proposition. And so **each passing week** diminishes March outcomes in favour of **accentuating mid-2024 rate cut prospects**.
- Second, as steady **policy guidance keeps a steady course on impending rate cuts**.
- **Fed Chair Powell's testimony to the Senate** last week **clarifying** that the Fed is "*not looking for better inflation readings ... just looking for more of them*" **lowers the bar** for rate cuts.
- Finally, **higher hopes of rate cuts** maybe pinned on **any softening in inflation** data alongside **soft spots in jobs/activity**, *even if broad-based deceleration is absent.*
- **In fact**, the *absence of broad-based cooling,* may be viewed as a **desirable nod to the "Goldilocks soft-landing"** *rather than an inconvenient impediment to rate cuts.*
- In that regard, it is a **lower bar for US data** this week **to be take on** a "*heads I win, tails you lose*" **appeal for "pivot bets"**. CPI coming in a bit softer will reinforce rate cut bets while any stickiness - so long as not excessive, will be brushed off as an delay (not May) not deal-breaker (for June).
- Similarly, **US retail sales**, the other data point being watched, **could deliver "risk on" one way or another**, *so long as it is not a major adverse demand jolt. US exceptionalism juxtaposed with Fed inflection makes for rather compelling "risk on narrative".*
- *The caveat though, if that for the short USD leg of "pivot bets", it will be a restrained two-way calibration dial rather than an emphatic one-way switch.*
- And here, two things matter. First, **while** the benefit of **peak inflation and attendant monetary policy calibration** has **justifiable** currency, the **jury is still out on the catch-down in "second-round" demand inflation risk** measures. Thus, *pivot bets must be on an appropriately short leash.*
- Second, the **Fed is not the only game in town with regards to risk sentiments**. And *if risk sentiments sour,* be it *on* account of *China, geo-politics* and/or *adverse global demand risks,* then the *case to be aggressively short USD will quickly be overturned.*

Korea Employment: Tough Season

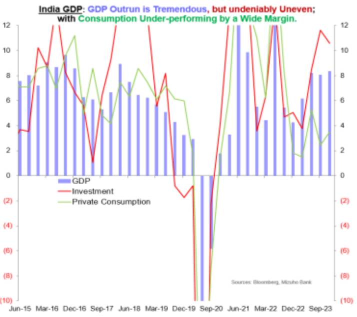


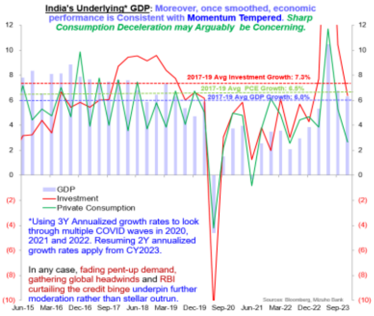
Source: CEIC; Mizuho Bank

- We expect Korea's **unemployment rate for February to rise despite** our estimates for **impovement in overall employment** after **3 consecutive months of hiring contraction.**
- The uptick in hiring will likely come from the **seasonal surge in from health care and social sector as well as public administration and defence** but this increase may fall short of a full recovery considering the medical enrolment debacle.
- Manufacturing employment is also expected to remain flat with any possible pickup likely subdued given **the capital intensive nature of the improving export demand**.
- Even for tourism related 'Wholesale, Retail Trade, Hotel & Restaurants' sector, **despite improving tourist arrivals in 2023, net hiring from Jan 23 to Jan 24 is actually a contraction of 2k workers.** On the supply front, with participation rates set to rise as **graduates enter the labour force to look for work**, unemployment rate is expected to increase without a lack of **corresponding** increase in labour demand. All in, **even the seasonally adjusted unemployment rate will have rise** to account for these idiosyncratic woes amid cautious services and narrow manufacturing hiring. This will in **turn dent already mellowed BoK hawks and rein in KRW bulls hoping to latch onto a Fed pivot wave**.

India Optimism: Don't be Consumed by It!

- There is **no doubt that India's growth has been absolutely stellar**, printing consistently *above 8% for three quarters running* (from Q2 through Q4 of CY 2023).
- Notably, the **8.6% clip in the final quarter of 2023** was even more **remarkable**.
- Especially **considering fading tailwinds from less favourable base effects**.
- It is in this context that the *"street's" consensus of 6-7% growth was blown away.*
- But **a look beneath the hood** reveals *evidence* that *suggests* that *optimism is best tempered.*
- In particular, consumption soft spots **warn against being *consumed* by headline exuberance**.

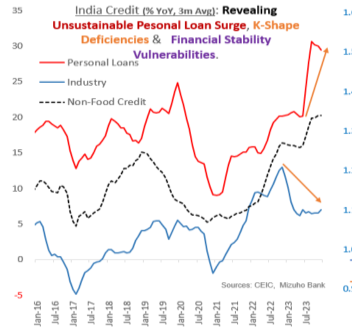


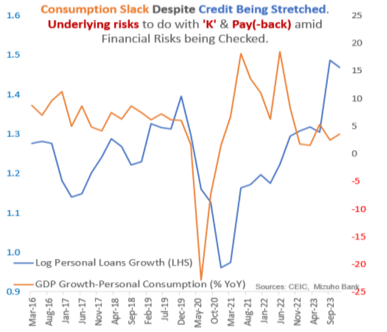


- Even with a **superficial decomposition of GDP** the **sustained disparity between investment surge and consumption swoon** forces bulls to **confront the reality of uneven growth**.
- What's more, a **dig deeper to assess the underlying momentum** (by taking annualized 24-month growth rates to look through post-pandemic distortions) not only **underscore rather dismal consumption patterns**, but ***challenge the notion of unfettered and durable investment offset***.
- Notably, we have *avoided the usual India GDP data criticisms* about;

  i) an *unusually large contribution from "Discrepancies"* of 3.5%-pt of the 8.4% YoY print for Q4 2023 hot on the heels of 3.3%-pt contribution (of Q3's 8.1%);

  ii) *GDP at 8.4% materially undershooting GVA* (at 6.5%), which adjusts for subsidies and government taxes.
- This as we concede the **benefit of doubt** that; i) **"Discrepancies" will re-distributed over time**, and; ii) **diminished subsidies** alongside **higher taxes** suppressing GVA.
- *Whereas* our **concerns are about consumption lag** and a **veneer of stronger investments concealing vulnerabilities** to *higher rates* and *global uncertainties* are not easily brushed off.
- Especially given the **contradiction of an exceptional boost in personal credit** in recent months, which is starkly at odds with flagging consumption (by GDP measure).





- Sure, the **former is nominal while the latter is real**. **But that does not explain a divergence in direction of travel**. Especially if the RBI is being credited with taming inflation over H2 2023.
- Crucially, the surge in personal loans that nevertheless failed to translate into consumption lift entails two particular risks for India's economic potential. Most worryingly, it warns of **K-shaped recovery**, where *middle-income credit boost* is *overwhelmed by economic pain unmitigated by the benefit of (lack of access to) credit in lower income households;* thereby **resulting in consumption drag defying personal credit surge**. What's more, **steps to moderate excessive and unsustainable personal credit growth may prompt payback** down the road **as tighter credit cools Middle Income consumption spurt**.
- All said, **with the economy 56-58% driven by consumption, the K-shaped consumer recovery remains a bugbear** that challenges narratives of 8-9% trend growth. *So best not to be consumed by headline exuberance.*

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	147.06	-3.060	-2.04%	145.00	~	149.00
EUR/USD	1.0939	0.0102	0.94%	1.083	~	1.100
USD/SGD	1.3305	-0.013	-1.00%	1.3250	~	1.3400
USD/THB	35.420	-0.525	-1.46%	35.10	~	35.80
USD/MYR	4.6835	-0.063	-1.32%	4.640	~	4.710
USD/IDR	15590	-110	-0.70%	15,500	~	15,700
JPY/SGD	0.9053	0.010	1.15%	0.889	~	0.924
AUD/USD	0.6624	0.010	1.49%	0.652	~	0.672
USD/INR	82.79	-0.120	-0.14%	82.5	~	83.0
USD/PHP	55.579	-0.447	-0.80%	55.3	~	56.0

^Weekly change.

FX Outlook: Revisiting "Competitive Pivot"

- Admittedly, we concede that some degree of "pivot bet" dynamics will subdue, perhaps even compromise, the USD for now. But equally, we warn this will be neither linear, nor unchallenged.
- A key point is that , **Fed pivot under-accounts for more dire economic conditions in Europe**, which will probably force ECB (amongst other Major central banks) *to quickly catch down with Fed cuts;* if not leap-frog in terms of emergency easing.
- This erodes the rates differential casse for USD selling. And more so if considered in real terms.
- In which case, the **appropriately nuanced narrative is one of "competitive pivot"**, *to the exclusion of Fed-ECB/BoE divergence play that singles out USD for weakness.*
- Necessarily, this **entails two-way FX volatility involving USD resilience**, perhaps even bullish outburst; in sharp contrast to overly-simplistic expectations of unfettered, linear USD decline.
- And this is even before USD strength from Trump 2.0 outcomes are considered (see link). [https://www.mizuhogroup.com/binaries/content/assets/pdf/singapore/macro/ad-hoc/insights/mizuho-brief_usd_trump_240304.pdf]
- Crucially, FX dynamic associated with **"competitive pivot", suggests stand-out JPY out-performance**, and not unambiguous USD slump.
- Point being, violent compression of global yield spreads vis-à-vis JGBs as global rates/yields fall sharply amid "competitive pivot" squares with unilateral JPY spikes (Cross/JPY slump).
- Especially accentuated in a world where JPY dominates as the only "funding currency".
- What's more, if a brutal, self-reinforcing contagion of (JPY-funded) "carry" unwind is set off, then the consequent deterioration in risk sentiments is more likely to underpin USD.
- Typically to the detriment of other Major currencies, apart from JPY and maybe CHF.
- For now though, extension of AXJ strength will be a cautious endeavour; and preferably backed by corresponding CNH gains. But **watch for "easy come, easy go" FX shifts.**

Bond Yield (%)

8-Mar	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.474	-5.7	4.075	-10.5	Flattening
GER	2.752	-13.0	2.265	-14.6	Flattening
JPY	0.185	0.9	0.724	1.9	Steepening
SGD	3.317	-3.2	2.966	-10.5	Flattening
AUD	3.714	-8.5	3.971	0.1	Steepening
GBP	4.224	-4.0	3.971	-13.8	Flattening

Stock Market

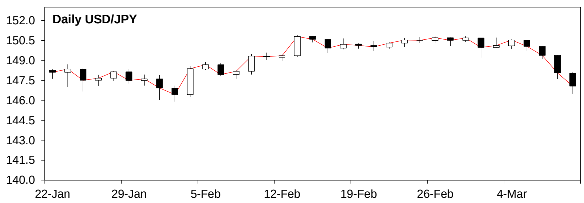
	Close	% Chg
S&P 500 (US)	5,123.69	-0.26
Nikkei (JP)	39,688.94	-0.56
EuroStoxx (EU)	4,961.11	1.35
FTSE STI (SG)	3,147.09	0.36
JKSE (ID)	7,381.91	0.96
PSEI (PH)	6,942.21	0.33
KLCI (MY)	1,539.86	0.12
SET (TH)	1,386.42	1.39
SENSEX (IN)	74,119.39	0.42
ASX (AU)	7,846.98	1.31

US Treasuries: Inflation and Inversion

- With 2Y yields declining 5.7bp and 10Y yields plunging 10.5bps, the **yield curve inversion deepened last week even as Fed Chair Powell touched on not far from confidence on rate cuts.**
- Increasingly, with Fedspeak on shifting the proportion of the balance sheet toward short term treasury bills, **yield curve steepening should be at the back of minds even if an outright reversion is far from happening this week given the 10Y-2Y UST spread at** .
- This is especially into the later parts of the year amid prospects of Trump 2.0.
- The end of last NFP print also softened the ground for Fed doves.
- This week, with a likely mellowing of February inflation, UST bulls might be back in force on the short end. We expect downside bias with estimated range of 4.35%-4.6% for 2Y UST and a 3.95%-4.15% range for 10Y USTs.

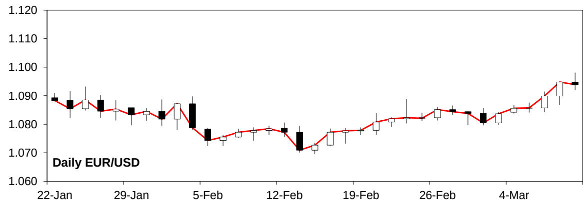
JPY: Charged Up Bets and Bulls

- Admittedly the sharp JPY gains last week was on the back of **solid wage data** as well as reports of **BoJ** Board Member Junko Nakagawa becoming **more confident on wage growth prospects**.
- Furthermore, early **negotiations from labour unions saw record wages increases. In addition, press reports of YCC tweaks and NIRP exit as early as March emboldled JPY bulls.**
- This week, JPY bulls may continue to reign as more results of wage negotiation start to trickle in.
- While still elevated UST yields can slow the USD/JPY slippage, we still expect a 145-149 range this week.



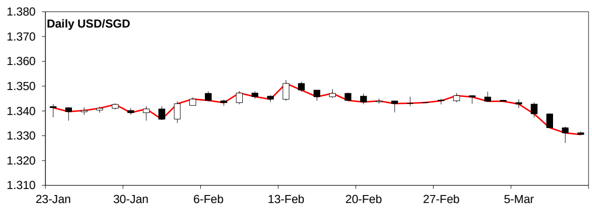
EUR: Restrained Gains

- While a broad USD weakening last week saw EUR closed above 1.09, the fact that the ECB lower both growth and inflation forecast alongside President Lagarde hinting at the possibility of June cut implies that even a convergence of cut timing vis-a-vis the Fed remains probable.
- After the ECB policy decision, ECB's Villeroy stated that a first rate cut in spring is very probable. Specially he mentioned that spring goes from April until June 21 which includes both the April 11 and June 6 meetings.
- As such while the USD trend dominates, gains for the EUR may end up being more restrained relative to other peers.
- All in, the EUR looks to trade in the 1.085-1.10 region.



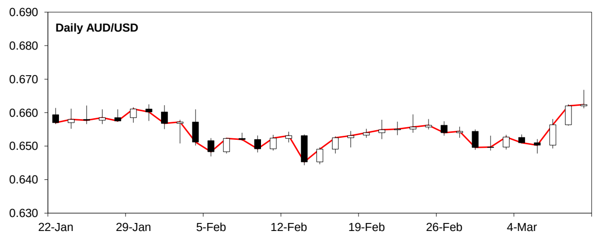
SGD: Little CNY Cheer

- A 1% appreciation of the SGD was in deference to the broad USD weakness as the USD/SGD dropped towards 1.33.
- While China's inflation boost on LNY effects may bring relief for those fretting a further economic worsening, it remain no durable boost for CNH beyond what is induced by aggregate bets for a weaker Greenback for Fed dovish need.
- This is especially so as the PBoC retain a dovish bias.
- As such, amid the CPI print likely to affirm dis-inflation progress, USD/SGD looks set to test sub-1.33 repeated and may see consolidation in the mid-1.32-mid-1.33 range.



AUD: Far From Swift

- Admittedly, the AUD outperformed regional peers amid the USD weakness last week even as their GDP growth outturn remains worrying.
- That said, the **weaker consumption from households will remain a worry for AUD bulls and looks to restrain rallies above mid-67 cents this week.**
- While February inflation may rise on the the 'Swift' effect, RBA bulls will rightfully look past it but it remains inevitable that any policy certainty need from the inflation trajectory is then delayed to later months.
- As such, we caution against swift rallies while acknowledging RBA relatively "not ruling out" hawkish stance to backstop 65 cents.



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