MIZUHO

WEEK AHEAD

Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095

Vishnu Varathan | Tan Boon Heng | Tan Jing Yi

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Economic Calendar

•Survey results from Bloomberg, as of 2 Feb 2024; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

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Date	Country	Event	Period	Survey*	Prior
05 Feb	**US**	**ISM Services Index/Prices Paid**	**Jan**	**52.0/-**	**50.6/57.4**
	EZ	**PPI YoY**	**Dec**	**-10.5%**	**-8.8%**
06 Feb	JP	Labor/Real Cash Earnings YoY	Dec	1.4%/-1.5%	0.7%/-2.5%
08 Feb	JP	BoP Current Account Balance	Dec	¥1138.7b	¥1925.6b
13 Feb	**US**	**CPI/Ex Food and Energy YoY**	**Jan**	**--/3.7%**	**3.4%/3.9%**
	JP	**Machine Tool Orders YoY**	**Jan P**	**--**	**-0.1**
	GE	**ZEW Survey Expectations**	**Feb**	**--**	**15.2**
14 Feb	**EZ**	**GDP SA YoY**	**4Q P**	**--**	**0.0%**
	EZ	**Industrial Production WDA YoY**	**Dec**	**--**	**-0.1**
15 Feb	**US**	**Industrial Production MoM**	**Jan**	**0.4%**	**0.1%**
	US	**Empire Manufacturing**	**Feb**	**-10.0**	**-43.7**
	JP	**GDP SA QoQ**	**4Q P**	**0.3%**	**-0.7%**
16 Feb	US	PPI Final/Ex Food and Energy YoY	Jan	--/--	1.0%/1.8%

Asia

Date	Country	Event	Period	Survey*	Prior
05 Feb	**ID**	**GDP/Annual YoY**	**4Q**	**5.0%/5.0%**	**4.9%/5.3%**
	TH	**CPI/Core YoY**	**Jan**	**-0.9%/0.6%**	**-0.8%/0.6%**
06 Feb	**AU**	**RBA Cash Rate Target**		**4.35%**	**4.35%**
	PH	**CPI YoY 2018=100**	**Jan**	**3.1%**	**3.9%**
	TW	**CPI/Core YoY**	**Jan**	**2.1%/-**	**2.7%/2.4%**
07 Feb	KR	BoP Current Account Balance	Dec	--	$4059.7m
	MY	**Industrial Production YoY**	**Dec**	**0.3%**	**0.6%**
	TH	**BoT Benchmark Interest Rate**		**2.50%**	**2.50%**
	PH	**Unemployment Rate**	**Dec**	**--**	**3.6%**
08 Feb	**CH**	**CPI/PPI YoY**	**Jan**	**-0.5%/-2.6%**	**-0.3%/-2.7%**
	IN	**RBI Repurchase Rate**		**6.50%**	**6.50%**
12 Feb	**IN**	**CPI YoY**	**Jan**	**--**	**0.1**
	IN	**Industrial Production YoY**	**Dec**	**--**	**2.4%**
15 Feb	**AU**	**Emp. Change/Unemployment Rate**	**Jan**	**--**	**-65.1k/3.9k**
	PH	**BSP Overnight Borrowing Rate**		**--**	**6.50%**
14 Feb	**ID**	**Indonesia Elections**			
16 Feb	MY	BoP Current Account Balance MYR	4Q	--	9.1b
	MY	**GDP/Annual YoY**	**4Q/2023F**	**--**	**3.4%/3.8%**
	SG	**Singapore FY2024 Budget**			

Week-in-brief: The "Papa-Mama Bear" Paradox & Binary Risks

- **Between US exceptionalism** underscored by a solid (353K) jobs print, tempered but not overturned by softer hours, **and** a suite of **potential financial risks** (ranging from *US regional banks, commercial real estate* and a stretched *consumer* choking on *credit*) the **US Fed is faced with binary risks**.
- Admittedly, **louder assertions of "soft landing"** achieved are **understandable**. *But framing* current conditions *as "Goldilocks" is misguided.* Worse, this **mis-characterization misgauges risks**.
- The often referenced **"Goldilocks" scenario** of "*not too hot/hard, not too cold/soft*" conditions that lights up "risk on" rallies is premised on the **perfect mix of policy accommodation** and **economic momentum**.
- Sure, "Goldilocks" enjoys the "perfect balance". But the **"just nice" mix are courtesy of "baby bear"**.
- Trouble is, the **current market** is **not "baby bear"** brand of "*not too hard/hot, not too soft/cold*".
- **Instead**, it is an eclectic, if not **awkward, juxtaposition of "Papa-Mama" bear conditions**; comprising of *spots of "hot/hard" data and/or risks* starkly at odds with *patches of "cold/soft" conditions.*
- Consequently, the **"Papa-Mama bear" paradox** may **require policy to be abruptly re-aligned** rather than gentle calibrations or reasonable comfort with policy equilibrium, that squares with "Goldilocks".
- Especially if *one end of opposing risks overwhelm; by definition underscoring attendant* ***binary risks***.
- It is in this context that the Fed is facing increasing likelihood **of lurching from substantial policy restriction to steep rate cuts**. Especially as the **prospects of engineering a gentle "glide path" down for rates** are **threatened** by glaring policy tensions and trade-offs.
- For now, a **chorus of Fed speak validates commitment to** the "*for longer*" **part of** "*higher for longer*" hawkish policy stance remains intact. This is **consistent with "peak Fed", but no guarantee of timing and depth of rate cuts** to come. Certainly **not the conditions under which cuts will be delivered**.
- Meanwhile, **mounting market tensions** are **evident**. **fervent US equity bulls hit records,** ***unfazed*** *by the jobs data pushback to Fed pivot;* instead *clinging on to the US exceptionalism* growth story. Whereas, **bonds conceded payback** on the policy front as **yields surged led by the policy-sensitive front-end**.
- A strong USD post-NFP vindicates our view of Greenback support on "competitive pivot". What's more, as Trump's campaign pronouncements gain air time, 'America First' takes are likely to underpin USD at the expense of other Majors and CNY. In any case, **FX binary risks are accentuated**.
- The **"Papa-Mama Bear" paradox** also **manifests in a few other forms**. The glaring conflict between **Wall St record high** and **Chinese equities languishing at fresh lows** despite policy assurances is one.
- *Binary risks feature* as bullish policy triggers/valuation bottom-picking collide with fears of catching falling knives amid entrenched confidence deficit from property-related balance sheet/cash-flow shock.
-And as **geo-political threats of tit-for-tat Red Sea/Houthi strikes** grow, "Goldilocks" looks as awkward.
- Ahead of the Chinese New Year, ushering in the Year of the Dragon (as the Rabbit makes for its hole - don't ask how deep it goes!), markets remain fixated on headline risks.
- From geo-political headlines, *specifics on Beijing's vague assurances of more emphatic equity market support,* and policy implications of US data (ISM, CPI), binary risks appear set to dominate.
- Elsewhere in Asia, Indonesia's elections next week (14th Feb) will be followed closely even as second round run-off looks highly likely. On the policy front, expect the RBA, BoT, RBI and BSP are expected to all stay on hold; albeit with varying degree of policy tensions/discomfort. Singapore is set to deliver a modest Budget surplus without yanking stimulus on 16th Feb as the political term balanced budget mandate binds.

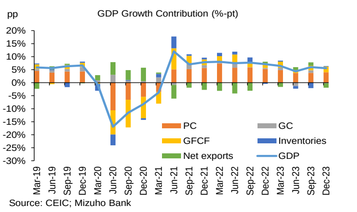
Why the RBI Has No Budget to Ease

- **All else equal**, **better than expected fiscal consolidation** set to be delivered (FY23/24) and dangled* for FY24/25 **ought to create space for the RBI turn monetary policy less restrictive**.
- **But this is simply not the case**. Fact is, the **RBI does not derive any effective policy catalyst from the Budget**; not unambiguously anyway.
- And ***not just because this is an interim budget***, subject to potential revisions after the elections.
- Instead, this also is a reflection of the **mixed impact from ramped-up infrastructure spending**, which is great for building economic capacity, but **in the near-term liable for spots of inflationary pressures**. *Especially* when this collides with **subdued subsidies**, which means that **cost-push risks are blended into the fiscal-demand pull risks**. Simply put, the **aggregated view of diminished fiscal impulse** not sufficiently nuanced, potentially even **misleading**.
- Admittedly, **incremental fiscal (consolidation) support** does **alleviate rupee stability risks**. ***But "incremental" with no effective policy influence*** is the operational reality for monetary policy.
- And so that takes the RBI back to square one, where it is confronted by lingering cost-push risks, in the context of "twin deficit" liabilities and Fed pushback on pivot.
- In which case, **prolonging the pause in restrictive settings**, ***whilst retaining the option to hike if rupee stability is unexpectedly jeopardized***, looks like the play book to avert "unforced errors".

*estimated FY23/24 deficit of 5.8% better than 5.9% target and 5.1% budgeted for FY24/25 exceeds consolidation trajectory targets.

BSP: Hawkish Talk, Not Walk

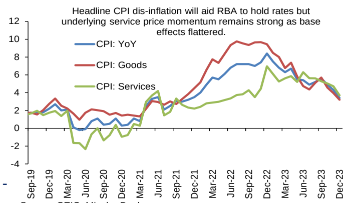
- We expect the **BSP to stand pat** on 15 Feb.
- To be clear, **BSP was arguably hawkish** in its rhetoric in late Jan, when BSP Governor Remolona remarked that BSP was open to the possibility of another hike as sufficiently strong 4Q growth provide policy and the central bank remains "***ready to adjust policy to anchor inflation expectations.***" However, **this may be all talk, and falling short of action**. Afterall, the worst of inflationary pressures could be over for the Philippines. Inflation looks to be within the BSP 3±1% target band on high base effects, after finally printing in the band in Dec (3.9% YoY).



Source: CEIC; Mizuho Bank

- Furthermore, while Q4 growth (5.7% YoY) beat consensus, overall 2023 growth at 5.6% remains lower than the official 6-7% target and headwinds persist for the year ahead.
- **Sticking to a hawkish stance would arguably provide more dovish scope in the future**. Point being, BSP would be wary of being front-run by the markets on any rate cut expectations, given that the PHP is only 1.5% away from the 57 handle (the level BSP had previously intervention at), and a weaker PHP could impart price pressures via the import channel.
- Nonetheless, another hike remains on the table should inflation pick up in coming months, but we think that there is no impetus to make the move now, as **policy tradeoffs of derailing growth further would restrain the BSP from hiking to pre-empt any inflation pressures at this juncture**.

RBA: Hold the Base



Source: CEIC; Mizuho Bank

- After the latest Dec CPI print, the **RBA remains on track to hold policy rate at their meeting** on 6 Feb. Nonetheless, **rate cuts are still off the mark**.
- The dis-inflation which saw headline CPI dip to 3.4% in December from 4.3% was **flattered by the high base effects (from holiday travel and electricity)** from a year ago as well as lower food prices. Reflecting so, **CPI ex-volatile items and holiday travel show a milder decline** from 4.8% in Nov to 4.2% in Dec.
- In fact, **services prices showed an ominous increase of 2% MoM** which contrasted with a 0.4% MoM decline on the goods front.
- Amid the Dec plunge in employment driven by full time roles, the RBA will need to remain vigilant on growth risks as well. **Retail sales contraction in December merely confirms** our earlier inclinations on the **November retail sales outperformance,** that much of it **was driven by frontloading of Christmas spending during the sales during Black Friday.**
- Looking ahead, policy tensions may become more acute in the **near** term as **inadequate disinflation does not allow monetary policy normalisation to assist likely softer private consumption and growth**.

Bank of Thailand: At the Core

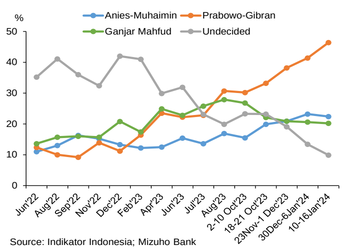
- **Core inflation remains the core** issue at the BoT's upcoming meeting on 7 Feb. **Our base case is for the BoT to keep their neutral policy stance unchanged.**
- Admittedly, the **latest headline inflation print at -0.8% YoY** is a relief for households as **both food and fuel prices fell** in December relative to November. Nonetheless, **the deflationary headline is not sufficient grounds for a rate cut** given that **core inflation stay unchanged at 0.6% YoY**.
- That said, the **continued contraction in manufacturing production** alongside falling export revenues hint at weak external demand and the consequent drag on **growth** will **increasingly worry policy makers.** To be clear, with GDP levels already exceeding pre-Covid levels, the **level of economic activity has normalised.**
- Beyond the headline grabbing dissonance between the PM and BoT Governor over the Digital Wallet plans (which looks to be delayed till H2 2024), the **immediate core concern is the THB weakening which worsens imported inflation** at a inconvenient time of rising energy and shipping costs. A **current account suplus in December is also little relief for the THB** considering that it was driven by sharp import compression which offset lower exports revenue compared to November.
- The lower import expenditure was also driven by the lower energy prices in December which has now seen a resurgence with Brent crude being buoyed above US$80/barrel.
- All in, the BoT will stick to their current monetary policy settings.

Indonesia Q4 GDP: Stable

- We expect Indonesia GDP to print at 5.2% YoY (Q3: 4.9%), bringing overall 2023 growth to 5.1%.
- For the primary sector (~20% of GDP), **mining industry is expected to improve** in the upcoming print, on **faster growth in mineral product and base metal export volumes** (as prices plummet).
- Meanwhile, the manufacturing sector (Q3: 5.2% YoY) which accounts for ~20% of GDP, is expected to remain stable on acceleration in investments and rebound in export volumes.
- Within the tertiary sector (~52% of GDP), **wholesale and retail trade should hold up** (Q3: 5.1% YoY), as retail sales in Q4'23 remain resilient. This portends continued growth in private consumption (Q3: 5.1% YoY). Meanwhile, **construction sector** should grow at a faster pace with **acceleration in cement consumption indicating robust activity.**
- In 2024, **Indonesia should continue to grow at around 5%.** Even as we expect private consumption growth to moderate somewhat, renewed acceleration of foreign investments inflows post-elections and government's continued infrastructure drive will power growth in the coming quarters.

Indonesia Elections: Prolonged Season

- Indonesians will be heading to the polls on 14 February. Despite **Prabowo-Gibran** (who has Jokowi's support) taking the lead at the polls, the candidate pair **could still fall-short of securing 50% of the votes** required for an outright victory.
- The **IDR is likely to remain subdued into the second round of campaign (25 june)**. On the one hand, while **Anies-Muhaimin** proceeding to the second round may mean higher chance of winning for Prabowo-Gibran, the pair's opposition stature could incite divisions across the country.
- On the other hand, **Ganjar-Mahfud** (PDI-P candidate pair) proceeding to the second round could see more nuanced differences on PDI-P's and Jokowi's economic policy directions, with a focus on **potential and extent of fiscal slippages**.



Source: Indikator Indonesia; Mizuho Bank

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	148.38	0.230	0.16%	147.00	~	149.50
EUR/USD	1.0788	-0.0065	-0.60%	1.074	~	1.090
USD/SGD	1.3448	0.002	0.16%	1.3290	~	1.3490
USD/THB	35.250	-0.377	-1.06%	35.20	~	35.65
USD/MYR	4.7635	0.031	0.65%	4.720	~	4.790
USD/IDR	15658	-162	-1.02%	15,660	~	15,950
JPY/SGD	0.905	0.000	-0.02%	0.889	~	0.918
AUD/USD	0.6512	-0.006	-0.96%	0.645	~	0.680
USD/INR	82.93	-0.191	-0.23%	82.7	~	83.4
USD/PHP	55.925	-0.395	-0.70%	55.8	~	56.5

^Weekly change.

FX Outlook: Exceptionalism, Trump 2.0 & Other Stories

- Defiant surge in US equities, insofar that it reflects US exceptionalism more than unilateral global "risk on", is a narrative that has a lot of sympathy for a strong USD view.
- Especially as a **strong jobs number validates t**he growing chorus of views that stymie an unimpeded initiation of rate cutting cycle by the Fed.
- What's more, with risk sentiments elsewhere undermined on account of geo-political flares, and Beijing's inability to arrest the gloom in Chinese equities, the **case for USD support is strong**; whilst the *proposition for USD strength is fairly compelling.*
- Finally, while it is admittedly still in the early days of firming up the two candidates for US Presidential elections, the prospects of **Trump 2.0 simply cannot be ignored**.
- And with global leaders, businesses, and markets not inclined to be caught on the back foot, the implications of **Trump 2.0** have gotten off to a rousing start.
- On FX, crudely put, **'America First'** and **'MAGA' making an unabashed come-back**, *featuring the threat of US "shooting from the hips" on tariffs,* **USD** (at least initially) looks **positioned to come out on top** *with a corresponding rise in long-end UST yields.*
- Will Trump 2.0 play out imminently and emphatically in the short-run? Arguably not, given a fair amount of run-way with not-so-great visibility.
- But **with more campaign-style bombast and bluster** being picked up by the wires, at a time when geo-politics is adding on to risk premium and China continues to stumble, the **Greenback appears to be on a trampoline of bounce-back tendencies**.
- As the Year of the Dragon rolls in, and the Rabbit ducks into (we suspect a deep, deep, hole), the FX narrative will increasingly be exposed to more binary risks and volatility.
- For now, expect Beijing to backstop CNH into the long holidays (9th-16th Feb; returning 19th Feb).
- This may **help backstop AXJ**; ***but*** likely to fall **woefully short of decisive and durable boost** against the Greenback.

Bond Yield (%)

2-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.364	1.5	4.020	-11.7	Flattening
GER	2.551	-7.3	2.238	-5.8	Steepening
JPY	0.076	4.0	0.662	-3.9	Flattening
SGD	3.105	-12.2	2.835	-9.0	Steepening
AUD	3.656	-23.5	3.975	0.1	Steepening
GBP	4.392	7.4	3.912	-4.7	Flattening

Stock Market

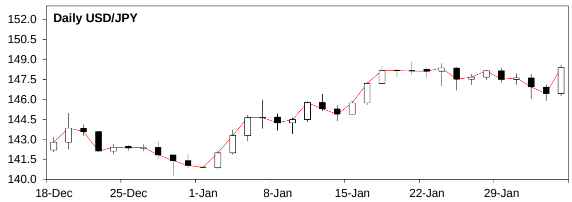
	Close	% Chg
S&P 500 (US)	4,958.61	1.38
Nikkei (JP)	36,158.02	1.14
EuroStoxx (EU)	4,654.55	0.41
FTSE STI (SG)	3,179.77	0.64
JKSE (ID)	7,238.79	1.42
PSEI (PH)	6,707.25	0.32
KLCI (MY)	1,516.58	0.68
SET (TH)	1,384.08	1.16
SENSEX (IN)	72,085.63	1.96
ASX (AU)	7,699.40	1.91

US Treasuries: No Surrender

- Last week, the UST yields curve flattened as 10Y yields dropped 11.7bp while 2Y yields closed the week 1.5bp higher on the outperformance from NFP.
- This week, US exceptionalism remains in focus at the start of the week with **ISM services questioning the prospects of soft landing and last mile disinflation**.
- In particular, it is worthwhile to **see if a better services index came alongside higher prices paid** as it was the case for ISM manufacturing last week.
- **US CPI print will then put in focus Powell's Sunday off transcript comments on the possibility of a Mid year rate cut.**
- All in, with the prospects of lower UST yields is in the works in the weeks ahead, the upside in UST yields restrained this week.
- That said, caution against one way slide in yields as UST bears are not surrendering at this juncture given supply chain woes and risks of higher energy prices.
- **2Y UST yields expected to trade in the 4.15-4.45% range while 10Y yields trade in the 3.9-4.15% range.**

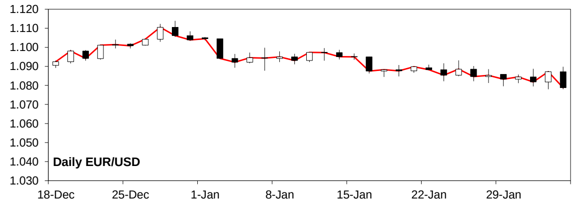
JPY: The Long and Short

- **JPY bulls playing a long game for BoJ pivot** had their mid week gains diminished as the NFP print and Fed speak pushed back on near term rate cuts. USD/JPY closed above 148.
- While the temptation is for the pair to follow UST yields higher**, intervention prospects are elevated alongside opportunistic JPY bulls.**
- As such, even **JPY bears hoping for outsized gains may fall short especially as Fed Chair Powell kicks off the week with a pushback on March cuts.**
- All in, we retain the case for rallies to be restrained below mid-149 while buoyancy above 147 is duly retained.



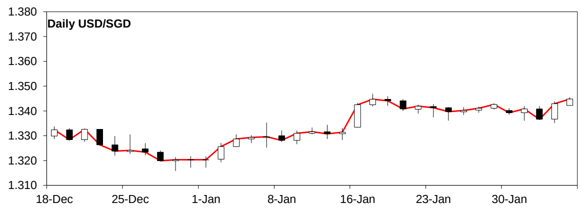
EUR: Crawling Lower?

- EUR continue its pesistent weakeness against the Greenback as growth worries remain a key concern.
- In fact, ECB's Vujcic while urging patience on rate cuts has stated that the **ECB and Fed differed on the way up and while do so when cutting.**
- Given the weak growth propsects, EUR bulls may perhaps be hoping that the difference doesn't lie in magnitudes with the ECB cutting more than Fed cuts.
- Nonetheless, given the proximity of geo-graphical conflicts, EUR recovery remains absent with the base case of trading in the 1.07-1.09 range.



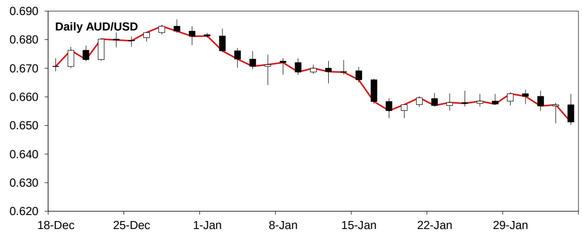
SGD: Of Pushback & Holiday

- Stronger USD (on higher UST yields) as rate cut pushback takes hold would lend a weakening bias to the SGD.
- Attention would be zoomed in on US CPI (13 Feb) as markets seek affirmation to the "immaculate dis-inflation" hypothesis; disappointment in the print tempts USD/SGD testing 1.35 handle.
- Meanwhile, EUR provides little support as rallies on ECB rate cut pushback would be contained by competitive pivot dynamics vis-a-vis the Fed, while spillovers from CNH may be somewhat subdued as China enters a week-long Lunar New Year holiday.
- All in, USD/SGD expected to trade around (and above) 1.34.



AUD: RBA Hold & AUD Slip

- Softer inflation numberrs will not only underscore a hold by the RBA, but perhaps more decisively removes the option of/need for further hikes.
- Instead the question of the RBA now emphatically shifts to one of tensiosn between "sticky" components of inflation and signs of consumer/household strains.
- Especially in the context of negative terms of trade effects from on-going, unresolved China risks.
- With the Greenback also backed by exceptionalism, caution and Trump 2.0 risks, it looks like AUD will be struggling to retain any durable traction above 0.65 to 0.66.
- Recent slip below 0.65 highlights the unuderlying stress.



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