MIZUHO

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WEEK AHEAD

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19-Feb-2024

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Economic Calendar

•Survey results from Bloomberg, as of 16 Feb 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
19 Feb	JP	Core Machine Orders MoM	Dec	2.7%	-4.9%
20 Feb	US	Leading Index	Jan	-0.3%	-0.1%
21 Feb	**EZ**	**Consumer Confidence**	**Feb P**	**-15.6**	**-16.1**
	JP	Trade Balance	Jan	-¥1855.4b	¥68.9b
	US	FOMC Meeting Minutes			
22 Feb	US	Initial Jobless/Continuing Claims		218k/1880k	--
	US	**Chicago Fed Nat Activity Index**	**Jan**	**-0.25**	**-0.15**
	EZ	CPI/Core YoY	Jan F	2.8%/3.3%	2.8%/3.3%
	EZ	ECB Account of January Meeting			
		PMI Mfg/Services (JP, US, EZ)	Feb P		
23 Feb	**GE**	**IFO Business Climate/Expectations**	**Feb**	**85.5/83.9**	**85.2/83.5**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
19 Feb	**TH**	**Q4 GDP/Annual YoY**	**4Q/2023**	**2.6%/2.6%**	**1.5%/-**
	PH	BoP Overall	Jan	--	$642m
20 Feb	**CH**	**1Y/5Y Loan Prime Rate**		**3.45%/4.20%**	**3.45%/4.20%**
	AU	RBA Minutes of Feb. Policy Meeting			
	MY	Exports/Imports YoY	Jan	-3.0%/8.0%	-10%/2.9%
21 Feb	**ID**	**Bank Indonesia Monetary Policy Meeting**		**6.00%**	**6.00%**
	KR	PPI YoY	Jan	--	1.2%
22 Feb	AU	PMI Mfg/Services	Feb P	-/-	50.1/49.1
	ID	BoP Current Account Balance	4Q	-$36m	-$900m
	KR	**BOK Base Rate**		**3.50%**	**3.50%**
23 Feb	**SG**	**CPI/Core YoY**	**Jan**	**3.8%/3.6%**	**3.7%/3.3%**
	MY	**CPI YoY**	**Jan**	**1.6%**	**1.5%**

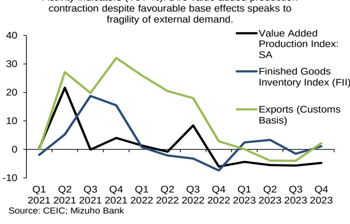
Week-in-brief: More Heat than Light

- Admittedly, there have been **no tectonic shifts, but markets are left in a state of** undecided **flux**; as the *mixed bag of data colliding with expectations* has **unleashed more heat than light**.
- US Pivot Bets Challenged: Despite soft spots in manufacturing and an unexpected pullback in retail sales, jobs remain solid and inconveniently hot readings in both CPI and PPI delivers one-two knock-out; not just for March pivot hopes, but arguably for May as well. And so, **for a Fed trained on Taylor Rule-based triggers**, *recent inflation-jobs dynamics challenge over-confident pivot bets.*
- Minutes Passé: The **hot run of inflation** data also means that the mulling often parsed in **FOMC Minutes may have diminished relevance/validation for pivot bets**. Consequently, FOMC Minutes may not meaningfully shed light on Fed rate cut plans. In particular, as **Fed speakers have mostly responded with more strident pushback against premature rate cuts**.
- Fed Speak: But to be clear, it is **not the case that Fed speakers are all perfectly aligned**. And so this **sets the stage for latent volatility** in UST yields and the Greenback; equities even. For example, Fed's Daly and Bostic counsel patience, if not restraint whereas Bullard is open to gradual cuts. So even on policy calculus, there is more heat (and not just from inflation) than light.

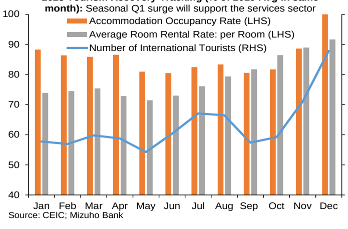
> Bostic: *"victory (against inflation risks) is not clearly in hand .... not yet comfortable that inflation is inexorably declining to our 2% objective"*
> Daly: *"to finish the job will take fortitude ... need to resist the temptation to act quickly when patience is needed"*
> Bullard: *"probably wiser to go sooner but slower... I'm worried that you're going to get into the third quarter, and the policy rate is going to be too high ..., so why not go now"*

- Eclectic Exceptionalism, Not "Immaculate Dis-inflation"*: Admittedly, **US exceptionalism is hard to refute**; with its stellar US GDP in sharp contrast to technical recessions across UK and Japan slipping whilst Germany only narrowly averting one. ***But*** equally, *stumbles in* US *retail sales* and *manufacturing* **warn of unevenness/soft patches**. In which case, the **reality of sharpening policy trade-offs must check exuberance about** rate cuts from **"immaculate dis-inflation*"**.
- Dragon or Drag-On?: **Optimism** has ostensibly been unleashed by the *Year of the Dragon* celebrations, with record Box Office taking/broader travel and spending over the holidays. To be sure, in-coming data will look rosy as activity fired up after a prolonged break will flatter in coming weeks. **But with fundamental confidence deficit** - related to jobs, property, wider markets - **not necessarily resolved**, it is **premature to declare** that some **malaise will not drag on**.
- Binding Policy Constraints: Especially as *Beijing continues to grapple with the delicate balance and sharp trade-offs involved in policy stimulus.* **Holding off on the MLF rate cut** today was not a surprise per se. Nonetheless, it has disappointed some camps hoping for more unbridled credit stimulus. And arguably, the net CNY1bn infused was unimpressive. But the flip side is that this **restraint on monetary stimulus may be necessary to enhance CNH traction**. Market watchers are split on LPR cut prospects. And a strong USD renders a cut less desirable insofar that the economic boost (from 0-20bp cut) is not unconditional yet CNY stability risks may be perceptible.
- Bank Indonesia's Political Rupiah Backstop: Inadvertent as it may be, Bank Indonesia benefits form relative rupiah stability from averting extended political uncertainty as well as assumed policy continuity. This however just makes for a more comfortable hold, not a free pass for a cut.
- Bank of Korea: References to "last mile" dis-inflation commitments suggests a hold by the BoK. But sticky core on one hand does not negate credit risks on the other; and policy tensions persist.
- RBA (Minutes): It is unlikely that RBA Minutes will sufficiently clarify a position to tighten without hurting the economy. And so the AUD will at best get a reprieve not an invocation of rallies.
- Thai Economy Heating Up, But No Light (Yet): Improving annual GDP numbers is a low bar given base effects. And while the economy is heating up amid tourism revival and industrial recovery, it is not quite basking in the light yet. Resultant tensions between the BoT and government heightens risks to the THB in the near-term.
- Caution & Calibration: The "more heat than light" situation suggests that caution might underline any knee-jerk rallies as Shanghai returns (and catches up). Aggressive AXJ longs may thus be hobbled by the inclination for USD backstop.

Thailand Q4 GDP: Struggles



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- **Thailand's Q4 GDP looks set to improve from the 1.5% YoY** print in Q3 but **is likely to struggle to hit the 3% mark despite favourable base effects**. Reflecting so, **the sequential QoQ pace on a seasonally adjusted basis is expected to slow from the 0.8% QoQ SA in Q3.**
- With nominal exports revenue only expanding 0.3% QoQ on NSA terms, the weak external **demand saw value added production contract 4.3% QoQ SA in Q4.**
- As such, **manufacturing sector is likely to post another dismal** performance as firms continue to remain cautious and draw down on inventories.
- On the services front, **tourism related sectors will enjoy a end of year pick up in activity** from strong tourist arrivals **as occupancy rates soared alongside room rates**.
- Domestically, private consumption remain tepid as expenditure levels (proxied by the monthly indicators) edged lower sequentially despite the 6.8%YoY growth which serves as a key support to overall GDP growth. Unfortunately, **government capital expenditures plunging** in Q4 as **a result of budget delays due to the election last year** adds more drag to Q4 GDP growth.
- All in, **2023 growth is likely to have slowed to about 2.3%** from the already lacklustre growth from 2.6% in 2022. Looking ahead, 2024 growth will likely pick up amid firmer global growth but may fall shy of its historical growth pace.

Indonesia Elections: Victory In, Jury Out

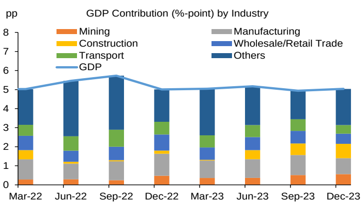
- Prabowo has scored an all but confirmed victory in the three-way Presidential race, accompanied by his Vice-President Gibran (the son of incumbent President Jokowi).
- And to be sure, this **bodes well for relief rallies in rupiah** and wider **Indonesian asset markets** as *prolonged elections uncertainty is averted* and *policy continuity is assumed.*
- But these are low hanging fruits that fall short of sustained valuation boost to rupiah/equities/bonds.
- Whereas, the **critical challenges to surmount if economic optimism, and attendant surge in the currency/asset markets are to be sustained** are;

i. necessary *political capital and savvy to* navigate various political factions to *form an effective, coordinated government;*
ii. efficacy in delivering *policy clarity and certainty;*
iii. to induce investments to lift potential growth (to 6-7%) and;
iv. significantly *bolster structural fiscal strength*

- The **jury is still out**. It follows that **investors may not quite be "all in"**; and justifiably so.
- Hence, *"caution"* is the operative function that *ought to rein in initial rupiah cheer.*
- On the aside, *falling short of fiscal/MoF high bar risks wider credit premium* (spreads).

For full report, click here see Mizuho Flash - What to Make of Indonesia's Presidential Elections

BI: Rupiah Signals



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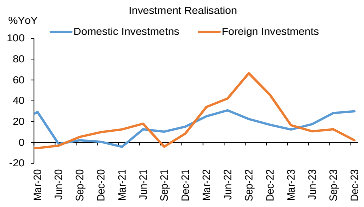
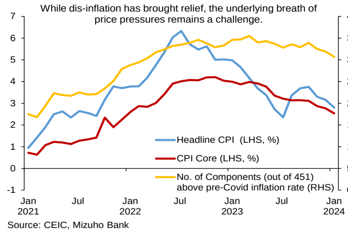


Source: CEIC; Mizuho Bank

- Even though the outright election win by Prabowo does not overturn USD strength, it **lifts elections uncertainty and will lend some marginal backstop for IDR.**
- This consequently **solidifies a hold for Bank Indonesia at their next meeting** on 21 February.
- Indonesia's macrofundamentals remain broadly supportive of a hold.
- Indonesia's **GDP growth has stayed resilient**, although risks are tilted to the downside.
- While domestic investments continue to power through, foreign investments flows moderated in December on a year ago basis prior to the elections.
- Private consumption could potentially slow as rising non-performing consumer loans and moderating retail sales growth could be incipient signs of stretched consumers.
- **Meanwhile, inflation remains contained within the 2.5±1% target range.**
- **Governor Warjiyo** has pointed to **IDR acting as a signpost for possible easing in H2 2024**. Specifically, **strengthening of the IDR in a consistent manner** until a level **that indicates the inflation is no longer a concern.** In our view, this would **not only require lower nominal rates from Fed cuts and also sustained dis-inflation to sustain the real rate allure of the IDR.**
- This is further conditional on overall global backdrop being **a risk-on one.**

BoK: Of Rates and Recovery



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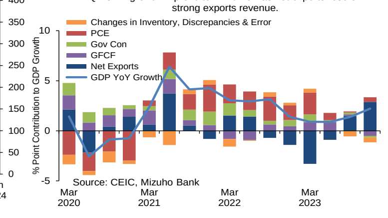


- The **Bank of Korea will continue to hold onto policy rates** as Governor Rhee hones in **on achieving last mile dis-inflation amid nascent signs of economic recovery.**
- Headline and core inflation in January posting 2.8% and 2.5% respectively was a relief but not outright rejoice. The **trajectory of headline and core inflation ahead is likely to hover above 2.5% and 2.3% respectively for much of H1** with upside risks denting confidence of policy makers.
- Q4 2023 GDP outturns at 2.2% YoY on **strong net exports allowing a 6.5% YoY growth in the manufacturing sector bodes well for this year.**
- This was also **reflected via the improved current account** in December which recorded USD 7.4bn **on record high goods balance** (USD 8bn) since September 2021.
- In turn, the **BoK will be in no hurry to begin policy normalisation** from their current "restrictive" stance in Q1 or early Q2 as they concentrate on inflation risks. This is especially so as any dovish talk may send the KRW weaker and raises inconvenient imported inflation risks.
- Meanwhile, **the focus on financial and real estate risks have not abated** as US real estate exposure concerns on the Korean banking sector add to already prevalent project financing risk in the construction sector.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	150.21	0.920	0.62%	148.00	~	151.00
EUR/USD	1.0777	-0.0007	-0.06%	1.074	~	1.090
USD/SGD	1.3442	0.000	-0.04%	1.3290	~	1.3490
USD/THB	36.020	0.105	0.29%	35.50	~	36.10
USD/MYR	4.7793	0.014	0.30%	4.740	~	4.790
USD/IDR	15620	-15	-0.10%	15,600	~	15,850
JPY/SGD	0.8969	-0.005	-0.52%	0.880	~	0.911
AUD/USD	0.6531	0.001	0.11%	0.645	~	0.680
USD/INR	83.02	-0.016	-0.02%	82.7	~	83.4
USD/PHP	55.967	0.048	0.09%	55.8	~	56.5

^Weekly change.

FX Outlook: CNH Backstop, Not Boost

- Admittedly, a confluence of **stimulus hopes** and **signs of activity pick-up over Lunar New Year** and to some extent, refrain from MLF rate cut, has **buoyed the CNY** (and **CNH**).
- And this is **not without attendant lift for EM Asia currencies**; although this may also be partly be aided by the fizzle in USD's pick-up late last week.
- The triggers for a **stronger CNH from policy stimulus though are not unambiguous**.
- Point being, while **policy measures to boost consumption, construction** and/or provide **relief for the beleaguered property eco-system** will likley **buoy CNY**;
- **outright rate cuts may inadvertently challenge CNY traction**; *especially if a strong USD asserts amid further pushback on pivot expectations.*
- And in any case, the bar may be higher to decisively restore confidence about self-sustaining acceleration past 5% growth for China.
- An already challenging proposition rendered even more so by emerging geo-politics (and US elections).
- Accordingly, it is **difficult to substantiate a case for sustained CNH boost** even if Lunar New Holiday spending looks justifiably encouraging.
- Afterall, it is difficult to dis-entangle the substitution effects flattering consumption across alternatives (travel outside of China/big-ticket purchases) and across time (future consumption brought forward).
- For now, **opportunistic CNH rallies and spill-over boost to EM Asia FX will present windows to take profit rather than pile into low-conviction, low visibility trades**.

-More so, as FOMC Minutes may be set up for interpretation/validation of rate cut restraint that buoys yields and the Greenback. Elsewhere ...

- THB may be prone to wobbles of GDP details do not impress.
- RBA likely to infuse volatility that may lean into CNH backstop, but will likely fall short of sustained surge.
- BoK restrained is well flagged, and so KRW lift from CNH may be reined in.
- SGD's post-Budget buoyancy is also rather calibrated.

Bond Yield (%)

16-Feb	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.642	16.2	4.279	10.4	Flattening
GER	2.809	10.0	2.399	2.1	Flattening
JPY	0.136	3.8	0.724	1.0	Flattening
SGD	3.277	10.4	3.025	9.1	Flattening
AUD	3.856	6.9	4.191	0.1	Flattening
GBP	4.602	2.5	4.103	2.3	Flattening

Stock Market

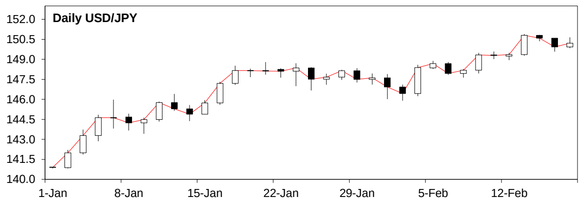
	Close	% Chg
S&P 500 (US)	5,005.57	-0.42
Nikkei (JP)	38,487.24	4.31
EuroStoxx (EU)	4,765.65	1.06
FTSE STI (SG)	3,221.94	2.67
JKSE (ID)	7,335.55	1.39
PSEI (PH)	6,873.23	0.34
KLCI (MY)	1,533.55	1.41
SET (TH)	1,386.27	-0.15
SENSEX (IN)	72,426.64	1.16
ASX (AU)	7,658.32	0.18

US Treasuries: Closing the Gap!

- Amid the persistent Fed pushback and more crucially the hotter than expected CPI print, UST yields were sent soaring.
- Consequently, markets have been forced to close the gap with the Fed's Dot Plot.
- Fed funds futures are now pricing in 97% odds of a rate cut in June with a total of just 88bps of cuts, a far cry from the 112bp just a week ago.
- For the week, 2Y UST yields will trade in the 4.50%-4.75% as room on the upside becomes increasingly constrained.
- Meanwhile, the FOMC minutes might be on the hook for details on when to commence any possible tweaks to QT schedule and add to volatility.
- On the long end, geo-political risks colliding with China return from holiday euphoria may send oil prices and longer end UST yields higher in the 4.20-4.40% range.

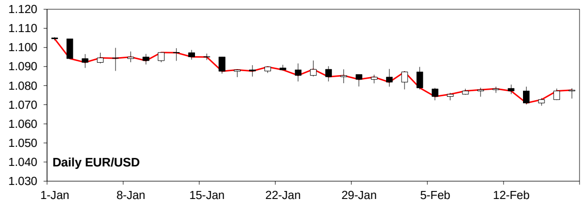
JPY: Retreating Bulls

- **Soaring UST yields** took it out on JPY bulls as the USD/JPY soared above 150.
- Furthermore, the Q4 GDP contraction in Japan marking a technical recession will still worry JPY bulls despite BoJ Governor Ueda playing a "long game" with a holistic approach citing the need to be watchful of watch price interactions.
- Nonetheless, what is to be watched for is intervention risks. While the weaker JPY on higher UST yields is arguably "sound", it is far from being comfortable.
- All in, these levels, JPY bull may be tempted to add to long JPY positioning for a case of trading in the 148-151 range this week.



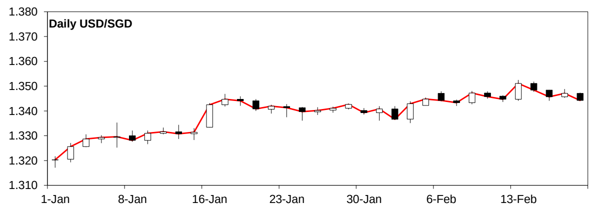
EUR: Flat

- While the EUR indeed crawled lower as UST yields rose, the fact that the warning on premature rate cuts will similarly apply to the ECB implies that the flatish performance of the EUR is likely to be retained.
- Specifically, outsized EUR rallies remain constrained by elevated UST yields and even any dents to US exceptionalism which sends UST yields lower will have EUR bulls worried about growth contraction throughout the EZ.
- All in, consumer confidence may oddly play a notable part in a quiet week for data releases for EUR to cosolidate 1.07-mid-1.08 region.



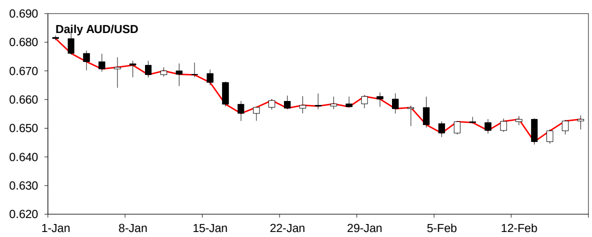
SGD: Caution on Inflation and Sentiments

- While SGD pared most of its losses following US CPI print going into end of the week, SGD still remains a tad weaker against the USD compared to pre-US CPI print, suggesting some **cautious notes on a sticky inflation**.
- With **EZ CPI final print** due this week, SGD could get some support from a stronger EUR, should the data **further unseats the "immaculate dis-inflation story" and test conviction on early pivot bets**.
- Meanwhile, as China returns from holiday, a **temporary boost from CNH** from PBoC's MLF hold and early indications of improved Lunar New Year spending could **fizzle out**.
- Point being, **investor sentiments still appear weak** with latest data showing a material slump in foreign direct investments into the country.
- All in, USD/SGD expected to trade within the 1.34-1.35 band.



AUD: Not Moving Needle?

- Admittedly, AUD has regained some semblance of traction at mid-0.65 (from lows testing mid-0.64)
- This was partly motivated by USD coming off the peak. And could ostensibly be reinforced by a firmer CNH post-LNY.But those factors may be losing steam as Fed speak leans towards pivot postponed, keeping USD firm.
- And while the RBA has not ruled out rate hikes, keeping all policy choices open ....
- closer reading reveals false choices .. Essentially, the RBA is biding time.
- And insofar it will probably not lag the Fed by too much in timing of cuts ..
- We expect AUD to cautiously consolidate sub-0.65 to 0.66 as FOMC-RBA Minutes are digested.



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