MIZUHO

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WEEK AHEAD

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29-Jan-2024

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Economic Calendar

•Survey results from Bloomberg, as of 26 Jan 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
29 Jan	**US**	**Dallas Fed Manf. Activity**	**Jan**	**-11.8**	**-9.3**
30 Jan	**US**	**JOLTS Job Openings**	**Dec**	**8790k**	**8790k**
	US	**Conf. Board Consumer Confidence**	**Jan**	**114.0**	**110.7**
	EZ	**GDP SA YoY**	**4Q A**	**0.1%**	**0.0%**
	JP	Jobless Rate/Job-To-Applicant Ratio	Dec	2.5%/1.3	2.5%/1.3
31 Jan	US	ADP Employment Change	Jan	148k	164k
	JP	Retail Sales YoY	Dec	4.9%	5.4%
	JP	Industrial Production YoY	Dec P	0.1%	-1.4%
	US	**FOMC Decision (Upper/Lower Bound)**		**5.50%/5.25%**	**5.50%/5.25%**
01 Feb	US	Initial Jobless/Continuing Claims		210k/1843k	214k/1833k
	US	**ISM Manufacturing/Prices Paid**	**Jan**	**47.0/45.8**	**47.4/45.2**
	EZ	**CPI/Core YoY**	**Jan**	**2.7%/3.2%**	**2.9%/3.4%**
	EZ	**Unemployment Rate**	**Dec**	**6.4%**	**6.4%**
02 Feb	**US**	**Unemployment Rate**	**Jan**	**3.8%**	**3.7%**
	US	Durable Goods/Nondef Ex Air	Dec F	--	0.0%/0.3%
	US	Change in Nonfarm Payrolls	Jan	180k	216k

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
29 Jan	**SG**	**MAS Monetary Policy Statement Release (Unchanged Stance, As Expected)**			
	VN	Exports/Imports YoY	Jan	31.0%/30.5%	13.1%/12.3%
	VN	**Retail Sales/Industrial Production YoY**	**Jan**	**--**	**9.3%/5.8%**
	VN	**CPI YoY**	**Jan**	**3.3%**	**3.6%**
30 Jan	**AU**	**Retail Sales MoM**	**Dec**	**-1.8%**	**2.0%**
31 Jan	**CH**	**Mfg/Non-Mfg PMI**	**Jan**	**49.3/50.6**	**49.0/50.4**
	AU	**CPI YoY**	**Dec**	**3.7%**	**4.3%**
	KR	**Industrial Production YoY**	**Dec**	**5.0%**	**5.3%**
	TH	BoP Current Account Balance	Dec	$1000m	-$1244m
	TH	Exports/Imports YoY	Dec	--	3.9%/9.5%
	PH	**GDP YoY**	**4Q**	**5.1%**	**5.9%**
	TW	**GDP YoY**	**4Q A**	**4.2%**	**2.3%**
01 Feb	CH	Caixin China PMI Mfg	Jan	50.8	50.8
	AU	Building Approvals MoM	Dec	1.0%	1.6%
	ID	**CPI/Core YoY**	**Jan**	**2.5%/1.8%**	**2.6%/1.8%**
	KR	Exports/Imports YoY	Jan	18.5%/-7.7%	5.0%/-
	IN	**India Budget 2024-25**			
02 Feb	SG	Purchasing Managers/Electronics Index	Jan	--	50.5/50.2
	AU	PPI YoY	4Q	--	3.8%
	KR	**CPI/Ex Food and Energy YoY**	**Jan**	**2.9%/2.7%**	**3.2%/2.8%**

Week-in-brief: Between Pivot, Pressures & Politics

- Between **Fed pivot bets**, **persistent China** (asset market) **pressures** and **emerging political risks**, markets must confront ***obscured outlook rather than obviated risks***.
- Admittedly, in a meeting that is expected to be devoid of action, the **post-FOMC presser could still be a trigger for potentially emphatic pivot bets**; *albeit liable to be faded.*
- Whilst no rate action or significant shifts in the statement guidance are expected (with no updates to economic projections/'Dot Plot"), the **press briefing has potential to be a live wire**. Specifically, with regards to tyre-kicking on *Fed Chair Powell's (presumed sanguine) view on "last mile dis-inflation".*
- *If validated,* this could *materially soften views of (hawkishly-biased) "keeping at it"* policy approach; which effectively **diminishes projected lags between rate cuts and dis-inflation**.
- Attednnat scope for **front-end led drop in yields with corresponding USD pullback** is par for the course, but this may be a move to fade in the wider scheme of US exceptionalism and mixed post-ECB messaging (on wage inflation) checking EUR advantage from imputed Fed-ECB divergence.
- **MAS had held steady**, biasing policy for a prolonged hold; as two-way risks and heightened uncertainty (to both inflation and growth) are backed by baseline expectations for stronger growth.
- Elsewhere, ***China asset market headwinds are addressed, albeit arguably still not adequately assuaged***. Latest measures by Beijing to curb short-selling complement 50bp RRR cuts and reported plans for CNY2trl in offshore funds to be deployed by the "national team" to buy equities.
- But **measures do not appear to have decisively restored confidence from a deep deficit**; especially not in the context of balance sheet shocks from property and policy opacity.
- And despite received wisdom about Fed pivot bets priming markets for "risk on", *sentiments in Asia* may be *circumspect.* Not just from China spill-over, but crucially **as political risks begin to feature**; demanding to be re-evaluated/imputed in the Asia-US risk premium.
- The **overlay of Trump 2.0**, and the *attendant trade/market/FX uncertainties* **collide with local political risks**; *Indonesia's reported Cabinet fractures hitting IDR last week being a case in point.*

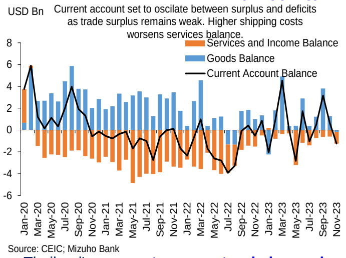
FOMC - Short Action & Long Re-Action?

- There is expected to **be absolutely no action at the Jan FOMC; with another rate hold**.
- Point being, **in-coming economic evidence** suggest that the underlying delicate balance of risks strongly favour purposeful inaction and patient surveillance.
- Fact is, *dis-inflation* has been *sufficiently encouraging to underpin* peak rates at 5.25-5.50%.
- *Yet not conclusive and substantial enough to initiate unencumbered rate cuts.*
- Especially given **robust consumer sentiments** (after latest iteration in UoM sentiments rebound) matched by spending (retail sales). The upshot is that, **as reiterated by quite a few Fed speakers**, it remains ***"premature"* for policy inflection**, and **more data is awaited**.
- **Scripted guidance could also be limited**, as we expect very nuanced shifts in the statement, while there are **no fresh economic projections** (SOMP) and **'Dot Plot'** until March.
- But ***despite*** being ***short on action*** (and guidance), the FOMC may be ***long on reaction***.
- In particular, markets may overlook the pause and paucity in fresh guidance, the **press conference could be fertile grounds to elicit a significant reaction** one way or another.
- Specifically, there could be further *"tyre-kicking" of the Fed's view on "last mile dis-inflation".*
- Especially **in the context of perceptions from the December FOMC that Fed Chair Powell watered down risks of final stretch of dis-inflation** being more difficult; presumably **no longer requiring "higher for longer" rates** to be maintained despite softer inflation.
- In turn this *may prompt faster and deeper cuts being priced in tandem with dis-inflation* trajectory.
- The **assessment of "last mile"** risks in the context of; i) *consumer-driven US exceptionalism* being underpinned by recent data, and; ii) contrast against ECB view of not considering cuts till H2 .
- **Reactions to Fed Chair Powell's assertions on "last mile" dis-inflation** and the *inferred scope/appetite for cuts* will likely *heighten volatility in UST yields* (more pronounced at the front-end) and *USD;* **although** the **ECB's softened view on wage inflation risks will mute EUR/USD upside**.

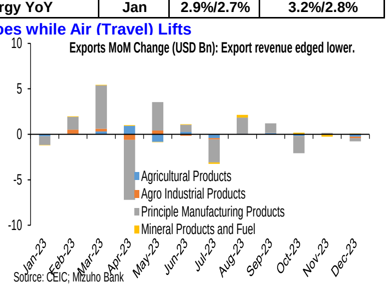
MAS: Extended Hold; Exhausted (SGD) Out-performance?

- As almost universally expected, the **MAS maintained status quo**. But as we have asserted, this is **not a passive, comfortable policy equilibrium**. Rather, it is **underscored by dynamic tensions**.
- For a start, **worries of sticky inflation linger** (headline and core) are *compounded by uncertain inflation/expectations interactions* as *external cost shock risks* from on-going geo-politics/conflict colliding with *onshore administrative* (GST/carbon tax) *price hikes.*
- As alluded to by the MAS, *"(b)oth upside and downside risks to the inflation outlook remain*". Which is to say, an **unconditional shift to neutral stance** that drops all hawkish refrains is **unlikely in the near-term**. **Certainly not in a mechanical response to Fed/global central bank pivot**.
- Equally, despite **baseline expectations for growth to improve** amid (broader) strengthening of the economy; this assessment is ***subject to major global demand shocks being averted.***
- And so **"two-way" risks pervade both inflation and growth**.
- To be sure, **semi/electronics led turnaround in manufacturing** is expected to **bolster** the more **resilient service sector** (amid on-going global travel/commerce narrative); thereby ***diminishing*** the ***negative output gap*** by second half of 2024 and underscoring current policy setting.
- All else equal, this underscores current policy settings (restriction) to be maintained as a default.
- **But heightened uncertainty** from *lagged impact of global monetary policy tightening* (that has resulted in elevated rates at two decade highs) conspiring with *"live" geo-political risks* means **sharp downside risks to an otherwise bumpy recovery path cannot be dismissed** either.
- This necessitates that **policy hold amid growing dynamics tensions** remains the default.
- What's more, it is worth noting that **MAS' FX-based policy calibrations are more dynamic** (than rates-based policy); therefore **requiring less "active adjustments" either way**.
- That's to say, the **bar is higher for overt easing** (or tightening for that matter) *in sympathy with Fed/global policy inflections. Meanwhile the (presumed) 2% appreciation path of the S$NEER slope ought to anchor inflation expectations so long as the broader dis-inflation trend holds.*
- But ***despite MAS' relative restrictive stance***, continued **SGD out-performance is not a given**.
- Especially *as a rich S$NEER* close to the policy band ceiling *only leaves scope for 10-40bps of trade-weighted out-performance.* In particular, **absent CNH or wider Asia FX rallies, distinct SGD out-performance has been mostly exhausted**.
- Instead, **USD/SGD is likely to be driven by overarching USD trends/shifts**.

Thailand Current Account: Sea (Shipping) Woes while Air (Travel) Lifts



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- Thailand's **current account balance in December is likely to have oscillated back to a surplus** given the **upside surprise from customs trade balance** and **likely narrower services deficit**.
- **Optimism on the goods front ought to be restrained** as the **customs trade balance surplus** belies the **underlying sharp broad based import compression offseting the lower exports revenue**.
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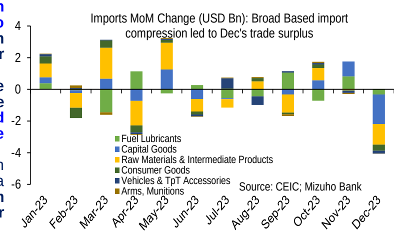
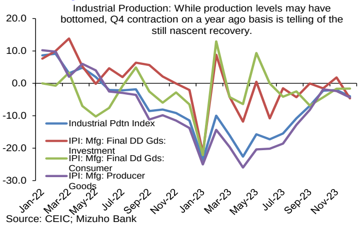


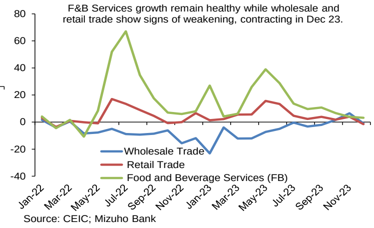
Source: CEIC; Mizuho Bank

- **Optimism on the goods front ought to be restrained** as the **customs trade balance surplus** belies the **underlying sharp import compression offseting the lower exports revenue**.
- On the **services balance, the deficit from November is likely to narrow** on sharp seasonal increase in tourist arrivals in December which saw higher occupancy and room rates.
- Unfortunately, the **services receipts improvement is likely to be modest** as balance of transport will likely suffer on **higher freight costs** from the Red Sea woes as the Baltic Dry Index surged.
- All in, **a surplus for the current account while welcomed is no cause for outright THB optimisim given the backdrop of unresolved Red Sea woes and elevated oil prices**, notwithstanding **domestic** fiscal concerns surrounding the government's Digital Wallet Plans.

Taiwan Q4 GDP: Of Bottoms & Base



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- **Taiwan Q4 2023 GDP is likely to surge above 3%** from the 2.3% YoY in Q3. This print will be **flattered by the statistical low base effect** when growth contracted -0.7% YoY in Q4 2022.
- On a sequential basis, we expect the QoQ growth to slow from the 1.9% QoQ in Q3 but likely to **remain above the historical** 0.7% QoQ **pace** recorded in the decade pre-Covid given this **phase of semiconductor recovery after the bottoming in H1 2023.**
- **Industrial production levels improved** in Q4 and portends further recovery in the manufacturing sector. Nonetheless, given that **wafer production pickup appears to have been led by prices rather than volumes**, a substantial **real GDP boost may have yet to come to fruition** in Q4 2023.
- The services sector growth will remain supportive but a slower pace of expansion is on the cards.
- **Slowing growth in retail trade as well as Food and beverage services sector** is likely to outweigh the mild expansion in the wholesale trade sector.
- **Tourism** related sectors such as accommodation ought to enjoy **robust activity given the 17% increase in average monthly arrivals** during the Nov-Oct period over Q3.
- All in, Taiwan's **2023 annual growth is likely to be at 1.1%.** Given the **low base, growth in 2024 is likely to print at 3-4%** as they revert to their potential **sequential** growth pace.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	148.15	0.030	0.02%	147.00	~	149.00
EUR/USD	1.0853	-0.0045	-0.41%	1.076	~	1.095
USD/SGD	1.3426	0.001	0.05%	1.3250	~	1.3450
USD/THB	35.627	0.105	0.30%	35.20	~	35.65
USD/MYR	4.7327	0.014	0.30%	4.700	~	4.730
USD/IDR	15820	205	1.31%	15,750	~	15,950
JPY/SGD	0.9052	0.000	0.02%	0.889	~	0.915
AUD/USD	0.6575	-0.002	-0.33%	0.650	~	0.680
USD/INR	83.12	0.049	0.06%	82.7	~	83.4
USD/PHP	56.32	0.348	0.62%	56.0	~	56.5

^Weekly change.

FX Outlook: FOMC Flinch for USD?

- Despite a widely expected non-move or guidance status quo...
- Question is, whether further *suggestions by Fed Chair Powell that "last mile" dis-inflation is less worrying* could *accentuate Fed piviot over ECB inflection*, thereby *knocking the USD back in relative terms.*
- Perhaps so. **But** to **bet on an unfettered southern turn in the USD** along with **UST yields** is to **ignore the tensions** from *US exceptionalism* and some *remnants of "keeping at it" policy wisdom* about not immediately cutting rates the moment inflation eases (lest inflation rebound 1970s style)
- And so, **while the USD may flinch, it may not quite falter**. ***Certainly not irredeemably so.***
- For a start, there **is every risk that US NFP continues to underpin a strong job** markets that underscores on-going "second-round" services inflation;
- which in turn may knock back any overdone euphoria about rate cuts that come through sooner and deeper.
- What's more, with the **ECB watering down wage inflation risks** and being **confronted with sharper policy trade-offs**, will also take some edge off opportunistic EUR buyers.
- And so, **linear and emphatic USD drop driven by G10 FX gains elsewhere** while plausible for a short burst this week, it **remains highly unlikely**.
- Moreover, **less so for EM Asia FX**; insofar that *generalized risks sentiments remain tentative,* while *CNY/wider China risks are no less pronounced.*
- The upshot is that **USD will remain bouncy on dips** .. and the *USD accordingly subject to, if not driving, more two-way dynamics* in FX land.

Bond Yield (%)

26-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.349	-3.6	4.137	1.4	Steepening
GER	2.624	-10.6	2.296	-4.3	Steepening
JPY	0.036	1.6	0.701	4.8	Steepening
SGD	3.227	-6.2	2.925	0.7	Steepening
AUD	3.891	-6.0	4.238	0.1	Steepening
GBP	4.318	3.1	3.959	3.6	Steepening

Stock Market

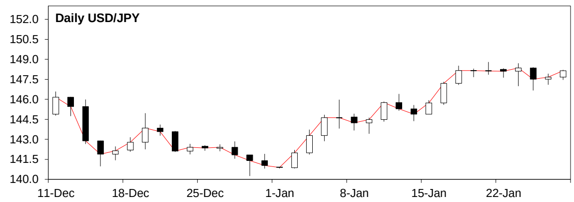
	Close	% Chg
S&P 500 (US)	4,890.97	1.06
Nikkei (JP)	35,751.07	-0.59
EuroStoxx (EU)	4,635.47	4.20
FTSE STI (SG)	3,159.53	0.23
JKSE (ID)	7,137.09	-1.25
PSEI (PH)	6,686.09	2.81
KLCI (MY)	1,506.28	1.34
SET (TH)	1,368.15	-1.04
SENSEX (IN)	70,700.67	-1.01
ASX (AU)	7,555.36	1.81

US Treasuries: Landing?

- In general, **UST yields remain elevated as ground for deep rate cuts continue to evade. 2Y yields slipped 3.6bp while 10Y yields edged higher 1.4bp.**
- With the FOMC in focus this week, reactions to Fed Chair Powell's press conference will likely **heighten volatility in UST yields** (more pronounced at the front-end).
- The dependency certainly rest on the extent in which Fed Powell alludes to possibility of reaching their inflation target and the associated time line.
- Given that the Fed Chair has toned down the challenges from the last mile inflation, it remains likely that he project a smiliar tone.
- That said, given the tendency to also emphasize on the **exceptional US growth aiding prospects of soft landing,** he will continue to push back on the depth of those deep cuts made by markets.
- All in, 2Y yields is likely to trade in the 4.1-4.45% range while 10Y yields remain buoyed above the 4.0% mark.

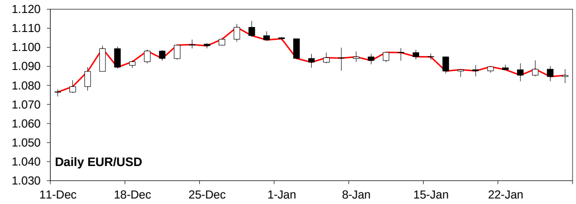
JPY: Complications

- While higher UST yields saw a weaking of the the JPY last week, things are getting increasingly complicated for both bulls and bears.
- The BoJ may have kept the status quo while appearing to be open to the **possibility of an exit from NIRP to ZIRP** as Governor Ueda signalled that there has been early data on wages.
- Nonetheless, they maintain that a tigthening cycle is not in sight. **Even the BoJ faces complication as Tokyo CPI dis-inflation may infact dial back hopes of JPY bulls** who were priming for an April exit.
- On our end, we maintain that the Fed remains the key driver and as such elevated UST yields imply buoyancy above 145. On the top side, soft landing hopes restrain rallies above 149.



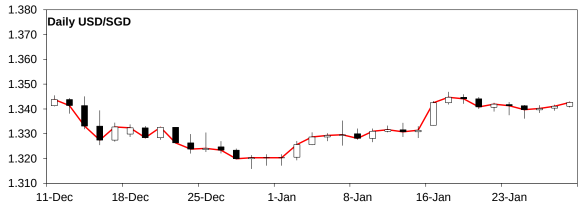
EUR: Data & Pivots

- Following ECB pushback at last week's policy meeting, **attention will be zoomed in a slew of data releases** (GDP advance print on Tuesday, and CPI and unemployment on Thursday) as markets **seek further evidence of faltering growth/dis-inflation** to adjust their expectations of an ECB pivot.
- In particular, rallies could be seen on a sharper than expected contraction in GDP, while CPI/unemployment would be watched for interrupted dis-inflation process and resilient wage gains.
- **Competitive pivot would also be at play this week**, with FOMC due Wednesday, and wide FX swings plausible. A dovish (hawkish) Fed should and signs of sticky inflation (continued dis-inflation) in the EZ could tempt the EUR above 1.10 (below 1.07).



SGD: Unchanged MAS; Unimpressed S$NEER

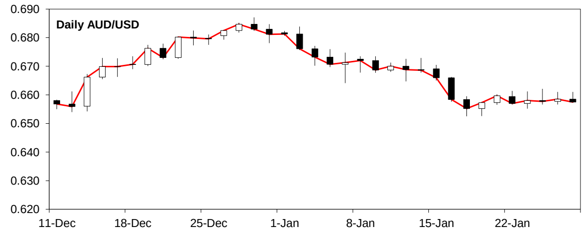
- MAS kept policy on hold as widely expected. And with a rich S$NEER that is "unimpressed" (and having no meaningful headroom) scope for SGD out-performance remains highly limited.
- For one, even if SGD belated pounces on remnant (relative) hawkish stance left in the current policy stance, actual scope to rise within the policy bands is 10-40bp with reference to te S$NEER.
- And so, SGD moves are more likely to be a function of, and catalyzed by, broader USD trend.
- For which FOMC may be a brfief bioost for SGD vs. USD.
- But on ther other hand, lingering China risks (and attendant CNY weakness) could undermine SGD boost given heavy CNY influence on S$BNEER basket. This will likely leave USD/SGD in tye mid-1.33 to mid-1.34 range for wider consolidation.



AUD: Backstops Not Boost

- The inability of AUD to pick up decisievly past 66 cents speaks to pass-through from China risks conspiring with RBA hawkish capacity being reined in.
- We expect that AUD will continue to trade around mis-0.65 to sub-0.67.
- The latter being mostly a baerish USD trigger post-FOMC rather than a distinct shift in China or RBA asssessment; at leats for now.
- More heightened volatility though could be par for the course as Aussie retail sales and CPI data are assessed this week. But enduring AUD shift may be a hhigher bar.

amid low-0.65 to 0.67 looks likely; with bottom-picking below and caution above.



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