MIZUHO

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WEEK AHEAD

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15-Jan-2024

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Economic Calendar

•Survey results from Bloomberg, as of 12 Jan 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
15 Jan	**EZ**	**Industrial Production WDA YoY**	**Nov**	**-6.0%**	**-6.6%**
	JP	Machine Tool Orders YoY	Dec P	--	-13.6%
16 Jan	**US**	**Empire Manufacturing**	**Jan**	**-5.0**	**-14.5**
	JP	PPI YoY	Dec	-0.3%	0.3%
	GE	**ZEW Survey Expectations/Current**	**Jan**	**11.7/-77.0**	**12.8/-77.1**
17 Jan	**US**	**Retail Sales Adv./Ex Auto and Gas MoM**	**Dec**	**0.4%/0.3%**	**0.3%/0.6%**
	US	**Industrial Production MoM**	**Dec**	**0.0%**	**0.2%**
	EZ	CPI/Core YoY	Dec F	2.9/3.4%	2.9/3.4%
	US	Federal Reserve Releases Beige Book			
18 Jan	**US**	**Housing Starts**	**Dec**	**1425k**	**1560k**
	US	Initial Jobless/Continuing Claims		206k/1845k	202k/1834k
	JP	Industrial Production YoY	Nov F	--	-1.4%
	JP	**Core Machine Orders YoY**	**Nov**	**0.2%**	**-2.2%**
	EZ	ECB Account of December Meeting			
19 Jan	US	U. of Mich. Sentiment/Expectations	Jan P	70.0/66.6	69.7/67.4
	US	**U. of Mich. 1Y/5-10Y Inflation**	**Jan P**	**3.1%/3.0%**	**3.1%/2.9%**
	JP	**Natl CPI/Ex Fresh Food, Energy YoY**	**Dec**	**2.6%/3.7%**	**2.8%/3.8%**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
15-18 Jan	CH	FDI YTD YoY CNY	Dec	--	-10.0%
15 Jan	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.40%**	**2.50%**
	ID	Exports/Imports YoY	Dec	-8.4%/0.2%	-8.6%/3.3%
	IN	Wholesale Prices YoY	Dec	1.2%	0.3%
	IN	Exports/Imports YoY	Dec	-/-	-2.8%/-4.3%
	PH	**Overseas Cash Remittances YoY**	**Nov**	**2.9%**	**3.0%**
17 Jan	**CH**	**Retail Sales YoY**	**Dec**	**8.0%**	**10.1%**
	CH	**Industrial Production YoY**	**Dec**	**6.8%**	**6.6%**
	CH	**GDP YoY**	**4Q**	**5.3%**	**4.9%**
	CH	**New Home Prices MoM**	**Dec**	**--**	**-0.4%**
	CH	**FAI/Property Investments YTD YoY**	**Dec**	**2.9%/-9.5%**	**2.9%/-9.4%**
	SG	**NODX/Electronics YoY**	**Dec**	**2.6%/-**	**1.0%/-12.7%**
	ID	**Bank Indonesia Monetary Policy**		**6.00%**	**6.00%**
18 Jan	**AU**	**Emp Change/Unemployment Rate**	**Dec**	**15.0k/3.9%**	**61.5k/3.9%**
19 Jan	**MY**	**GDP YoY**	**4Q A**	**4.4%**	**3.3%**
	MY	Exports/Imports YoY	Dec	-5.0%/4.7%	-5.9%/1.7%

Week-in-brief: Relief, Not Rejoice

- The week is set up for **welcome relief; but fair warning not to mistake this for unfettered rejoice**.
- To kick things off, **markets have grasped at tantalizingly soft US PPI data** to *temper the pushback against premature pivot bets; by both Fed speak* as well as *US CPI data* that surprised on the hotter side in terms of sub-components and propensity for inconvenient stickiness. That **set "risk on" in motion**.
- **But relief that the Fed may be on course for rate cuts** by mid-2024, even if delayed from March initiation, is **not the same as bona fide rejoice**. In particular as exuberance about "soft landing" amid "immaculate dis-inflation" are challenged by sticky aspects of inflation on one side and lagged effects of elevated rates on the other of the precarious knife's edge that the economy is navigating.
- So, **acute cognisance of the distinction between relief and rejoice** remains **not just pertinent, but crucial**, to actively assess general risk appetite; even if that distinction is not imposed this week.
- Elsewhere, **Taiwan elections** was also **relief** both in terms of the expected DPP win (with diminished legislative grip) that assures current geo-political alignment without escalating Taiwan Straits agitations.
- *Although* there will be **no rejoice in terms of policy** breakthrough given the fractured legislative.
- **China**'s slew of economic releases are also set to be a case of **encouraging relief but elusive rejoice**.
- In particular, headline activity pick-up underlined by 5.2% GDP growth for 2023 is likely to underscore **relief** about *on-going recovery* in the context of *Beijing's propensity for further economic stimulus.*
- But equally, **unbridled rejoice** about Beijing unshackling growth multipliers and achieving "lift off" to comfortably restore self-sustaining 5-6% growth momentum (or more) will prove **wholly unfounded**; as property sector woes, shadow banking wobbles and local government overhang undermine stimulus.
- It is in the context of this **relief** (spilling over as rupiah backstop) that **Bank Indonesia is set to hold policy** this week; which means that *conclusions and **rejoice** on policy inflection will still remain premature*.
- **Aussie jobs data** will **stop short** of confirming **another RBA hike**, and so *limit additional AUD boost.*
- Malaysia: **Q4 GDP**, despite **relief of accelerating past 4%** *may **not** unleash ringgit **rejoice** just yet.*

Taiwan Elections Wrap

- As expected, the **DPP's Lai Ching-te will be Taiwan's next President**. But not without challenges as his **40.1% share of votes**, while adequate to surmount emerge victorious in the three-way fight, is **insufficient to provide an unfettered mandate**. **Especially given the loss of legislative majority**.
- Apart from the fact that Lai's **winning percentage is the lowest** since 2000, the DPP's 51 legislative seats falling short of the 57 seats required to **secure a clean majority is a deterioration from the last two terms and compromises Lai's legislative and policy sway**.
- Inconveniently, this hands a lot of leverage to the **TPP that now holds 8 seats; and is in a position to play King-maker with the tipping votes giving it a disproportionate leverage**.
- What this means is that **attempts to pass policies may be frustrated**, prolonging unhappiness with perceptions of the DPP under-delivering on the economy and livelihood. The *TWD could be somewhat dampened, reflecting the risks of sub-optimal policy outcomes.*
- *But* **on the diplomatic front, this is could be a double-edged sword**. On one hand, the *DPP win* that aligns Taiwan with the US at the expense of China could be *a thorn on Beijing's side.*
- *Yet,* forced tempering of an antagonistic position on China (from a fragmented legislature) could ***alleviate the risks of imminent escalation on Cross-Straits friction***. More so, with US President Biden reiterating a long-standing diplomatic position that US will not support Taiwan independence.
- All said, while the headlines of Taiwan's Presidential elections was expected, the details suggest that a fluid state of political friction and attendant geo-political uncertainty.
- So **despite low inflation** (bolstering real rate backstop) and **solid Current Account surplus**, two-way TWD volatility entailing distinct *risks of sell-off on (geo-)political threats cannot be dismissed.*

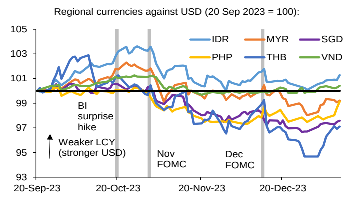
China: Of Sails & Storms

- Purely looking at the **headlines may suggest that China is smooth-sailing**, restoring pre-COVID growth momentum. ***But*** a look **under the hood** warns that the **storms have not all passed**.
- And so, it might be a bad idea to **keep the seat belts fastened** as we **dynamically assess interaction between** the **on-going drip-feed of stimulus** and **unremitting headwinds**.
- The latter imposed by a *conspiracy of entrenched property sector slump, precarious shadow banking* and unresolved overhang *in local government finances.*
- To be sure, **Q4 GDP** release is slated for mid-week, where China's growth is expected to have accelerated to above 5% (Mizuho: 5.2%; Consensus: 5.3%), on course **to comfortably take full year to 5.2%**; on the *stronger side of the "around 5%" guidance* that Beijing had set for itself.
- But coming from a soft base of 3% growth in 2022, the 5.2% print in 2023 is undeniably flattered.
- Crucially, the reality of **stuttering growth recovery** through 2023 **amid prolonged exports** (and attendant industrial) **drag** exacerbated by signs of **chronic confidence deficit** in the private sector **warns against prematurely declaring that China is out of the woods**.
- What's more, heightened geo-political risks may further sharpen pre-existing trade-offs for Beijing.
- This further **complicates, and inadvertently compromises, monetary policy**.

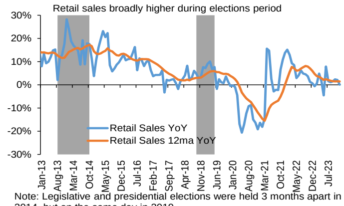
PBoC RRR Cut Will be a Reflection, Not Resolution, of a Crisis

- Whispers growing louder about RRR cuts in the offing merely confirm writings on the wall.
- With the overhang of sluggish demand showing up in slipping PMIs, **it is a matter of time** - and sooner rather than later - **before our (earlier) call for 50-100bp of RRR cuts is validated**.
- But this is low hanging reflex **not an adequate**, much less resounding, **resolution to China's deep-seated confidence deficit** that will likely still hamper an unfettered rebound.
- As we had flagged before, merely increasing the capacity for credit supply (which RRR cuts will do) will not guarantee a restoration of unimpeded cash-flow.
- Fact is, the **depth and breadth of inextricably linked real estate, shadow-banking and local government debt overhang** (exemplified by Zhongzhi's recent bankruptcy filing) **cannot simply be waved off with RRR cuts**. **Nor are piece-meal backstops adequate** to convincingly provide requisite **balance sheet support**. Fact is, it still appears like ***a case of a steak knife in a gun fight***.
- Especially as wider **concerns of capital outflows**, which is **inextricably linked to CNY stability**, **impose binding limitations on the PBoC's ability to engage in monetary stimulus** (that comes at a potentially prohibitive cost of macro stability).
- For now, **welcome as the additional capacity for banking liquidity may be**, it merely a ***reflection of**, but woefully short of a resolution for,* the **on-going financial stresses in China**.

BI: Abiding By Status Quo



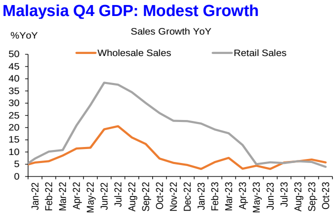
Source: Bloomberg; Mizuho Bank



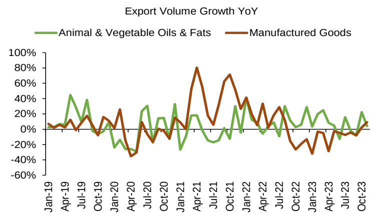
Note: Legislative and presidential elections were held 3 months apart in 2014, but on the same day in 2019.
Source: CEIC: Mizuho Bank

- **BI is expected to stand pat** at the next policy meeting (17 Jan). The paring back of risk sentiments (and subsequent rupiah depreciation) since the turn of the year was likely within BI's expectations.
- Back in the December 2023 meeting, BI was warily cautious of 2023 year-end's pivot-led "Santa rally". Of note, BI had expected only 50bps of Fed rate cuts in 2H24, a much lower and delayed rate cutting process compared to markets and even the Fed.
- With elections due in a month imparting some **uncertainty on fiscal policy continuity**, **current macroeconomic circumstances allow BI to provide an anchor of monetary policy stability** and this also allows time for more clarity on the fiscal trajectory before embarking on policy shifts.
- While domestic consumption would hold up into election season, the slower retail sales expansion of 0.4% in Dec'23 (Nov: 2.1%) sounds caution on durability of household spending post-elections, especially as non-performing consumption loans have been registering double-digit YoY growth since Apr'23. Meanwhile, investments could also take a temporary dip before recovering post-elections.
- While upside risks to inflation persists on El Nino-induced food inflation, inflation in Indonesia seems relatively contained within the food sector, and has not seen visibly spillovers to other components. Reflecting so, with the exception of food inflation (6.2% YoY in Dec) and Personal Care slightly above 3.5%, the rest of the CPI components registered YoY price increases of <2.5%. With Dec'23 headline inflation coming at 2.6%, **inflation should be contained within BI's 2024 2.5%±1% target range**.

Malaysia Q4 GDP: Modest Growth



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- We expect Malaysia's Q4 GDP to expand 4.1% YoY (consensus: 4.4%), accelerating from 3.3% in Q3. Nonetheless, this will still be a **sequential slowdown in growth momentum** on a seasonally adjusted basis. This would bring Malaysia's 2023 full year GDP growth to come in at 4.0%, down sharply from 2022's 8.7%.
- The **services sector would remain the biggest contributor to growth** on the back of continued tourism inflows and still strong wholesale and retail sales growth. While arrivals and receipts recovery (YTD as of Sep) recovery to about 72% and 68% of 2019 Jan-Sep respectively imply further room for growth, the **pace of expansion is expected to slow from previous quarters**.
- The **manufacturing sector may see a modest YoY expansion in Q4** after the 0.1% YoY contraction in Q3. To be sure, there are budding signs of bottoming external demand, as seen from the **acceleration of export volumes of manufactured goods** over Oct-Nov period from a year-ago.
- That said, these could have been **fulfilled by inventory drawn down**. Afterall, **manufacturing production (+1.5% YoY in Oct-Nov)** was led by domestic-oriented industries (+6.2% YoY).
- In a similar vein, our restrain stems from **still poor terms of trade** as **unit value of exported manufactured goods continue to post declines** (-0.8% YoY in Nov). Furthermore, **manufacturing sales remain in contraction territory** (-2.6% YoY in Nov) since Jun'23.
- **Agriculture growth could also take a lift from improved palm oil exports** given that export volume of Animal & Vegetable Oil & Fats saw 12.8% YoY% growth over Oct-Nov period.
- Meanwhile, continued large on-going infrastructure projects could see **construction sector** activity expand by the fastest rate (on a year ago basis) across industries. Monthly production indicators on crude petroleum and natural gas point to growth in the **mining & quarrying sector activity.**
- All in, Q4 GDP growth is supported by a modest uptick in Malaysia's manufacturing sector, while broad trends in other sectors remain.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	144.88	0.250	0.17%	143.00	~	146.00
EUR/USD	1.0951	0.0008	0.07%	1.076	~	1.102
USD/SGD	1.3314	0.002	0.14%	1.3250	~	1.3450
USD/THB	35.057	0.335	0.96%	34.70	~	35.20
USD/MYR	4.6477	-0.008	-0.16%	4.620	~	4.690
USD/IDR	15550	35	0.23%	15,400	~	15,700
JPY/SGD	0.9189	0.000	-0.03%	0.908	~	0.941
AUD/USD	0.6686	-0.003	-0.40%	0.658	~	0.675
USD/INR	82.92	-0.242	-0.29%	82.7	~	83.3
USD/PHP	55.934	0.359	0.65%	55.6	~	56.1

^Weekly change.

FX Outlook: Restraining CNH Bets

- ***On the surface,*** **the case for CNH boost, and attendant lift for other AXJ looks compelling**.
- *Upbeat China data headlines,* boosted by *hopes for stimulus,* including but not limited to, RRR cuts, and a complaisant *USD mellowed by a resumption of "risk on"* (in particular with pivot bets re-energised after soft US PPI data) all make a case for markets to run with bullish CNH (and CNY) bets.
- And perversely, the **PBoC holding back on MLF rate cuts may actually bolster CNH** (via rate differentials), in contrast to RRR boost that is deemed less detrimental to the currency.
- **But** this is at a minimum an overstated bullish CNH proposition. And the wider warning is that some **clouds clearing** is **not the same as the stars aligning** (certainly not durably!).
- For one, the **details in China data could suggest sputters** in economic momentum under the hood; *especially as favourable base effects dissipate alongside overdone stimulus bets.*
- What's more, it appears that scope for the Fed and in-coming data to continue to restrain an extension of pivot bets; thereby limiting scope for unchecked USD declines.
- Finally, **inherent checks in the scope and breadth of Beijing's policy stimulus** will be a stark reminder of binding restraints from *competing socio-political and economic policy objectives* exacerbated by geo-political headwinds.
- Hence, **best to temper bullish CNH bets**, and perhaps not completely rule out unexpected bearish CNH convulsions, that will remain in place. And by extension, that aligns with **restraining CNH bets one way or another**. By extension, this suggests that cautiously taking profits on AXJ gains rather recklessly extending long positions may be more desirable for the time being.
- Meanwhile **Japan's CPI data could nudge, but arguably not dislodge, JPY** a little as **Aussie jobs data is look at as a source of potential AUD swings**.

Bond Yield (%)

12-Jan	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.144	-23.7	3.939	-10.7	Steepening
GER	2.506	-5.4	2.182	2.8	Steepening
JPY	-0.002	-3.2	0.574	-2.4	Steepening
SGD	3.194	-6.8	2.766	0.5	Steepening
AUD	3.797	-7.1	4.069	0.1	Steepening
GBP	4.136	-7.2	3.788	0.5	Steepening

Stock Market

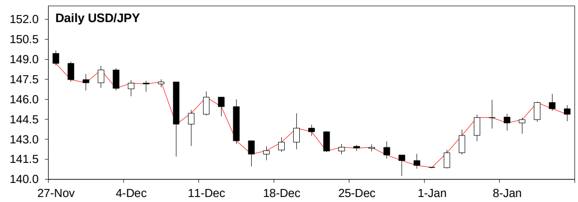
	Close	% Chg
S&P 500 (US)	4,783.83	1.84
Nikkei (JP)	35,577.11	6.59
EuroStoxx (EU)	4,480.02	0.37
FTSE STI (SG)	3,191.72	0.23
JKSE (ID)	7,241.14	-1.49
PSEI (PH)	6,643.18	0.20
KLCI (MY)	1,487.34	-0.02
SET (TH)	1,413.53	-1.01
SENSEX (IN)	72,568.45	0.75
ASX (AU)	7,498.28	0.12

US Treasuries: Divergence

- Last week, UST yields plunged as the UST yield curve bear steepened.
- With Fed funds furtures pricing in more than 70% odds of a March rate cut, the **divergence between markets and the FOMC appear to have grown.**
- This divergence was **despite US CPI suprising on the upside**.
- Notably, the end of week **PPI printing below expectations** on both headline and core further emboldened UST bulls. Nonethless, it is **worthwhile to note the underlying driver being skewed towards goods rather than services**.
- Meanwhile, amid possibility of geo-political conflict, haven UST demand may also have prevailed at the margin.
- At this junture, **the risk is that the greater the divergence, the greater the risk of a snapback. UST supply and budget financing concerns may rear its ugly head again as conflicts drag on.**
- While Uni of Michigan inflation expectations may not pivot to Q1 Fed policy, it may very well be the excuse for markets to scale back on their bets.
- **All in, 2Y UST yields to trade in the 4.0-4.3% range while 10Y yields navigate the 3.85%-4.1% range. Reversion to upward slopping UST yield curve may be fleeting at this juncture.**

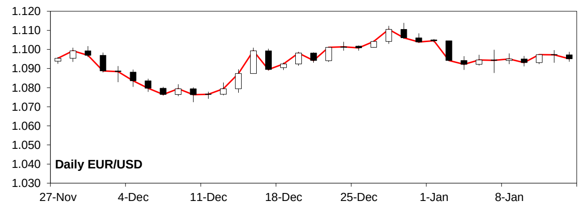
JPY: Dashed Hopes?

- Despite plunging UST yields, USD/JPY closed above mid-144 last week.
- This underscores the disappointment for JPY bulls as **domestic wage growth remains dismal** and pares back the odds of a BoJ pivot.
- Amid the backdrop of global pivot bets to ease monetary policy, **it perhaps has even raised doubts on whether the BoJ should pivot.**
- **As such, JPY bulls have been unable to latch onto lower UST yields.**
- **End of week Japan CPI this week may yet again dash hopes of JPY bulls. That said, considering UST yields and USD/JPY levels, one should wonder how much hope is left.**
- **On balance, the USD/JPY to trade in the 143-146 region.**



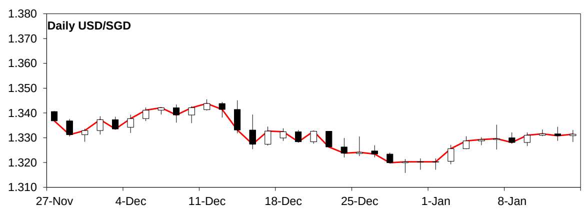
EUR: Risks Abound

- Yet again, the EUR's inability to rally above 1.10 despite falling UST yields is testament to the growth headwinds.
- The **problems associated with higher energy prices and geo-political conflict risks have in fact risen with the US-UK strike on Houthis.**
- As such, even a push back from ECB's Lane on rate cuts could not excite EUR bulls.
- Perhaps the rate cut bets are now premised on growth woes rather than "substantial" progress on EZ inflation.
- All in, the **EUR continues to be prone to slippages** and trade between 1.08-1.10.



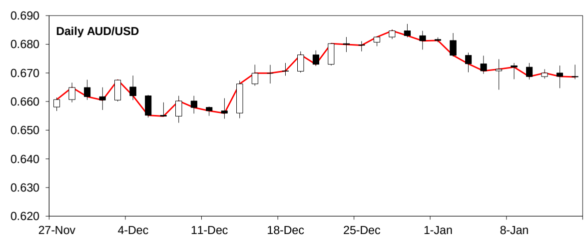
SGD: Range Trading

- USD/SGD ranged traded around the 1.33 handle last week. We expect USD/SGD to continue range trading, but could see a drift up towards mid-1.33 levels.
- A slew of US Tier-2 data due ahead of 31 January FOMC meeting will see markets adjusting positioning, with spillovers to the SGD. With still buoyant bets on early Fed pivots, probability of USD bears disappointed by new data releases remains higher, guiding the bias towards a weaker SGD.
- Volatility heightened on US retail sales and industrial production numbers, while Beige Book will be watched for resilience of labour markets and dis-inflation process.
- While EUR could provide the SGD with some support with the tone of pushback from ECB officials on rate cuts likely to remain consistent, China woes lends an overhang on appreciation bias.
- Meanwhile, SG exports data could see some light positioning for MAS Jan decision, but reaction not expected to be outsized.



AUD: More Work

- Jobs data is a necessary, but insufficient, condition for AUD bulls to charge.
- Admittedly, Aussie **jobs data could underpin the narrative of a resilient jobs market**;
- which in turn may **reinforce the RBA's scope for further tightening**.
- Especially *if misgivings about still elevated inflation* (despite cooling) are *inflated (pun intended) by risk of demand-pull "second round" effects* infusing potential for upside volatility in inflation.
- But that is more a backstop for AUD as it eyes 0.68 rather than a decisive boost that lifts it into sub-0.70 territory.
- Point being, concerns about stretched household balance sheets and demand shocks from China remain uncomfortable enough such that even RBA hawks may not durably seduce AUD bulls.



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