MIZUHO
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# WEEK AHEAD

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08-Jan-2024

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## Economic Calendar

•Survey results from Bloomberg, as of 5 Jan 2024; The lists are not exhaustive and only meant to highlight key data/events

### G3

| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 08 Jan | **EZ** | **Retail Sales YoY** | **Nov** | **-1.5%** | **-1.2%** |
| | **EZ** | **Sentix Investor Confidence** | **Jan** | **-15.8** | **-16.8** |
| | | | | | |
| 09 Jan | US | Trade Balance | Nov | -$65.0b | -$64.3b |
| | **EZ** | **Unemployment Rate** | **Nov** | **6.5%** | **6.5%** |
| | | | | | |
| 10 Jan | JP | Real/Labor Cash Earnings YoY | Nov | -2.0%/1.5% | -2.3%/1.5% |
| | | | | | |
| 11 Jan | US | Initial Jobless Claims | | 210k | 202k |
| | **US** | **CPI/Ex Food and Energy YoY** | **Dec** | **3.2%/3.8%** | **3.1%/4.0%** |
| | **JP** | **Coincident Index/Leading Index CI** | **Nov P** | **114.5/107.9** | **115.9/108.9** |
| | | | | | |
| 12 Jan | US | PPI Final Demand/Ex Food and Energy YoY | Dec | 1.3%/2.0% | 0.9%/2.0% |
| | **JP** | **BoP Current Account Balance** | **Nov** | **¥2385.1b** | **¥2582.8b** |
| | JP | Eco Watchers Survey Current/Outlook SA | Dec | 49.8/49.5 | 49.5/49.4 |

### Asia

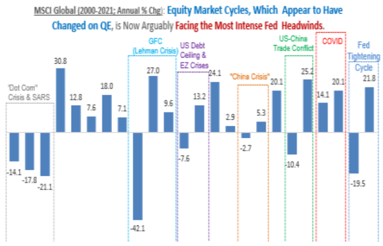
Yellow highlight indicate actual data

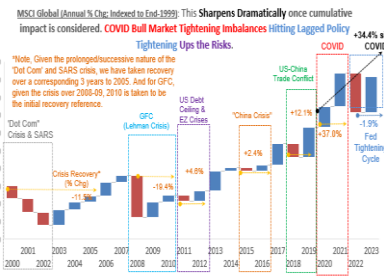
| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 09 Jan | AU | Building Approvals MoM | Nov | -2.0% | 7.5% |
| | **AU** | **Retail Sales MoM** | **Nov** | **1.2%** | **-0.2%** |
| | KR | BoP Current Account Balance | Nov | -- | $6796.1m |
| | TW | Trade Balance | Dec | $9.0b | $9.80b |
| | **PH** | **Unemployment Rate** | **Nov** | **--** | **4.2%** |
| | | | | | |
| 10 Jan | **AU** | **CPI YoY** | **Nov** | **4.5%** | **4.9%** |
| | **KR** | **Unemployment rate SA** | **Dec** | **2.9%** | **2.8%** |
| | PH | Trade Balance | Nov | -$4107m | -$4175m |
| | | | | | |
| 11 Jan | AU | Trade Balance | Nov | A$7300m | A$7129m |
| | **KR** | **BOK Base Rate** | | **3.50%** | **3.50%** |
| | MY | Industrial Production YoY | Nov | 1.3% | 2.7% |
| | | | | | |
| 12 Jan | CH | Exports/Imports YoY | Dec | 1.6%/0.0% | 0.5%/-0.6% |
| | **CH** | **CPI/PPI YoY** | **Dec** | **-0.4%/-2.6%** | **-0.5%/-3.0%** |
| | IN | Industrial Production YoY | Nov | 4.0% | 11.7% |
| | **IN** | **CPI YoY** | **Dec** | **5.9%** | **5.6%** |
| | | | | | |
| 09-15 Jan | CH | Aggregate Financing/New Yuan Loans CNY | Dec | 2150b/1350b | 2455b/1089b |

## Week-in-brief: Exceptionalism & Scepticism

- **Markets** are finding themselves **in an awkward place where exceptionalism** (and presumed, associated, confidence) and **scepticism don't just meet, but conspire**; lending to **risk retrenchment driven by unwinding "pivot" bets**; worsened by worries of soft spots elsewhere.
- To be sure, **US exceptionalism** had **another cheerleader**, by way of **NFP**. Sure, **216K jobs** is not a blockbuster, but it **properly beat a healthy 170-180K** range expected. What's more, the dip in unemployment to 3.7% (albeit from softer participation) was **bolstered by solid wage gains**.
- This conceivably ought to have lifted sentiments about economic gains. But instead, this is where the **first layer of scepticism** seeped in to dampen the grounds. Specifically, **reining in, and partially reversing, exceptionally emboldened 'pivot' bets**; premised on Fed rate cuts starting sooner (Mar) and going much further (150-175bp in 2024) than the 75bp of reduction flagged by the 'Dot Plot'.
- The result has been a conspicuous lack of rebound in equities (from the 2024 run of pullback) and bump-up in UST yields; accompanied by USD supported well off the lows tested in late-2023.
- What's more, a more nuanced, **second layer of scepticism** also appears to be at work.
- In particular, with regards to a **looming sense of adverse economic and geo-political risks**.
- On the economic front, **US exceptionalism** only **accentuates scepticism about Beijing's ability to pull off an economic turnaround**; durably reviving self-sustaining 5-6% pace of growth.
- And to be sure, China's risks are not confined to adverse supply-chain ripples, but also pervade financial markets; with an implicit threat to wider financial stability via currency and credit channels.
- In Europe, **hawkish flex by the ECB and BoE** do nothing to assuage concerns of economic gloom.
- In fact, *tyranny of economic pain rendered more acute by the policy dilemma* (now still biased to price stability) *is an uncomfortably high likelihood.* This means that the attendant **scepticism about ECB/BoE policy mastery is inevitable**. Yet a ***subsequent, sharp policy inflection*** **may prove too late** to deliver exceptionalism (in terms of pre-emptively arresting adverse economic shocks).
- Fact is, for all the **fuss about US exceptionalism**, **scepticism about growth risks remain**. Last week's ISM services miss (headlines and jobs sub-index) triggered USD buckle; driving home the point that *pivot "risk on" can quickly sour if "immaculate dis-inflation" cheer turns to "impacted growth" fear.*
- What's more, **threat of wider geo-political spill-over** from conflict is elevated as the involvement of a **wider range of mis-aligned actors amplifies odds of political/military miscalculations**.
- Against this backdrop, policy-makers in EM Asia are re-assessing policy positioning amid evolving (and possibly unstable) growth-inflation balance of risks. We expect the BoK to stand pat on rates but not stand idle on arresting brewing signs of de-stabilzing financial risk among constructors.
- RBA will be monitoring the breadth and depth of dis-inflation; set to hold steady.
- As for India, bumpy dis-inflation will prove premature and insufficient to discard a hawkish RBI hold.

## Risk Retrenchment & Pivot



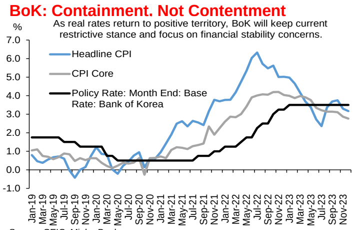




- Equity markets have not gotten off to the best of starts in 2024, with S&P500 down 1.5% and Nasdaq sliding 3.3% thus far.
- What's not clear is whether this is;
just *sanguine blood-letting* that positions for a another leg-up in 2024 after 24% (43%) surge in S&P500 (Nasdaq) last year, *or;*
the start of a *blood bath as a conspiracy of geo-economic threats impose binding* ***risk retrenchment*** into 2024.
- To be sure, equities have been exuberant even without the exaggeration of the 'Magnificent 7"; as is apparent from the MSCI Global index (Charts).
- Hence, **exceptional surge** in equities that defy elevated, if escalating, rates in 2023 **makes a case to lock in profits** *as more data and policy signals are awaited.*
- **But** our suspicion is that this is **not just a temporary, *tactical reflex***.
- For one, insofar that late-2023 surge was driven by enthused Fed rate cut bets, *US exceptionalism validating Fed push-back is cause to moderate "risk on" from pivot.*
- Crucially, *heightened policy and geo-political uncertainty* suggests that any **sharp rate cuts may be from adervse shocks**, ***not "immaculate dis-inflation"***.
- One way or another, **some degree of risk retrenchment** *from elevated valuations* looks to be **par for a bumpy, non-linear course**.

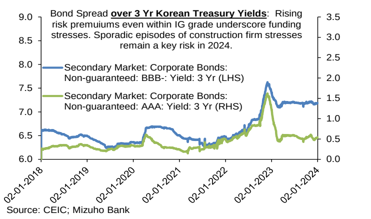
## China's Policy Paradox

- **China's policy paradox** is that ***in spite of deflation*** and a *conspicuous* ***absence of demand****-pull dynamics* underlining ***flagging growth*** momentum, the **PBoC has its hands tied**.
- And this is **not due to the technical limitation of policy**.
- In fact, the ***PBoC has*** at its disposal, by any gauge, ***an abundance of "dry gunpowder"***.
- It has **neither hit the traditional zero bound** (*which is in any case now overthrown by an era of negative rates* ) of policy rate limitations on its wide range of rate tools;
- **nor** has it in any deliberate and dedicated fashion **employed balance sheet tools** (be it broad-based QE-type bond purchases or more targeted balance sheet expansion).
- **Nonetheless**, the **PBoC's limitations**, of which there are *two main dimensions,* **are binding**.
- First, is all manner of **credit constraint**. In particular, risks associated with a *sharp,post-Lehman build-up of leverage compounded by mis-allocation.*
- This not only *dampens credit intensity,* which **diminishes policy efficacy** and in turn dims the benefit-cost ratio of easing, but also *accentuates financial (in)stability* threats.
- Compelling incentives/imperative to *avert a "Minsky moment"* (credit-asset implosion) that could set off a prolonged "balance sheet recession", underpin one dimension of PBoC restraint.
- Second, pertains to the **currency**. **Excessive policy easing has adverse impact on CNY, exacerbated by confidence deficit** that amplifies capital outflows from rate differentials.
- And perversely, *destabilizing CNY dynamics could tip a slow burn economic slowdown into financial meltdown that triggers a crash.* Fact is, **CNY stability is necessarily a competing, and arguably more urgent/important, objective that supplants policy easing**.
- Upshot being, the **overarching paradox** is *less that the PBoC must exercise restraint despite economic headwinds* and **more that well-intended easing could backfire horribly**.

## BoK: Containment. Not Contentment



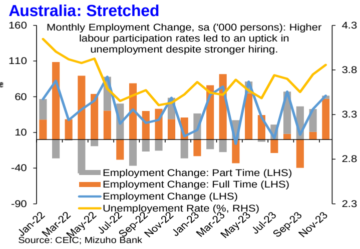
Source: CEIC; Miuho Bank



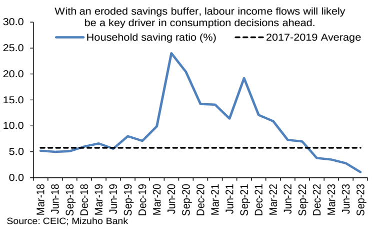
Source: CEIC; Mizuho Bank

- At their first meeting of 2024, the **BoK will be expected to keep policy rates at 3.50% and maintain their current restrictive policy stance**.
- Afterall, real rates are back in positive territory amid headline and core dis-inflation. That said, **headline and core inflation** at 3.2% and 2.8% in December **remains far too elevated** above recent history (2016-19 average: 1.2% for headline, 1.3% for core inflation) **for the BoK to be contented**.
- As such, the BoK will retain the current real rates in order to arrest these underlying inflationary pressures as labour market conditions remain tight. Looking ahead, any reduction in nominal rate rates in 2024 will require a **durable** bout of disinflation on **both** core and headline to below 2.5% but **still ensure real restriction**. Specifically, this will not turn into being accommodative policy.
- Meanwhile, **ensuring financial stability by containing spillovers from real estate project financing loans stresses** in the construction sector remains a key concern. To be clear, the **contagion from the Taeyoung E&C debt restructuring remains limited** as the authorities stepped up to allow continuation of housing projects amid **the debt workout plans with state owned KDB.**
- From a broader perspective, this episode epitomises the **backdrop of elevated risk premiums exerting stresses on the financing flows of the troubled real estate sector**.
- Consequently, this dampens capital inflows and **hobbles the KRW recovery** even as the semi-conductor sector recovers. While our 2024 growth estimate at 3% (consensus: 2.1%) is on the back of stronger external demand, the economic recovery in H1 2024 will be dampened by restrained investment spending amid weak confidence and costly capital.
- All said, **while inflation ought to remain relatively contained, the BoK will have to contend with financial stability risks are, rather than be contented with improved growth.**

## Australia: Stretched



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- Down Under, while the **focus this week will be on the CPI print (10 Jan) and the retail sales performance (11 Jan)** for November, earlier reports on consumer confidence as well as the November jobs report may hint at the underlying currents.
- First, while **strong hiring driven by full time gains hint at the possibility of consumers staying resilient**, the **higher participation rates** which drove the higher unemployment **is telling that the marginal households found it necessary to step back in the labour market to look for work amid inflationary pressures.**
- On that note, while the headline dis-inflation trajectory ought to continue from the 4.9% in October, the extent of dis-inflation may be rather mild as robust wage growth ought to remain supportive.
- Accordingly, while **nominal retail sales may see a resumption of mild MoM growth In November** following October's contraction, we **caution against excessive optimism as services PMI and consumer confidence for November point to latent weakness.**
- Furthermore, plunging household savings **ratio depicting an eroded stock of savings** also imply that households are becoming **increasingly dependent on labour income flows for consumption.**
- For now, both inflation and retail sales prints may still mask the underlying state of consumers.

## Taiwan Elections: Business As Usual?

- To be upfront, the base case for the upcoming Taiwan Elections (13 Jan) is for the ruling DPP's candidate incumbent Vice President Lai Ching-te to succeed President Tsai. While opinion polls have consistently showed Lai being in the lead, **margins are much smaller compared to the previous two elections**. Consequently, we estimate the odds for a KMT win to about two in five.
- Nonetheless, a **DPP win may not be exactly business as usual** as **Beijing** is likely to continue viewing Lai as an obstacle towards re-unification and may **step up measures such as import bans alongside military drills.** A **pushback of a more discernible return of tourist from China**, which currently stands at 10% of pre-Covid levels, also appears inevitable.
- **TWD may be subjected to initial weakness from the prospects of strained cross Straits relations**, though broad USD direction and the underlying semiconductor cycle remain key drivers.

***Forex Rate***

| | Close* | Chg^ | % Chg^ | Week Forecast | | |
|---|---|---|---|---|---|---|
| **USD/JPY** | 144.63 | 3.590 | 2.55% | 143.00 | ~ | 146.00 |
| **EUR/USD** | 1.0943 | -0.0096 | -0.87% | 1.076 | ~ | 1.102 |
| **USD/SGD** | 1.3296 | 0.009 | 0.70% | 1.3250 | ~ | 1.3480 |
| **USD/THB** | 34.722 | 0.582 | 1.70% | 34.50 | ~ | 35.10 |
| **USD/MYR** | 4.6553 | 0.061 | 1.33% | 4.610 | ~ | 4.690 |
| **USD/IDR** | 15515 | 118 | 0.77% | 15,400 | ~ | 15,700 |
| **JPY/SGD** | 0.9192 | -0.016 | -1.75% | 0.908 | ~ | 0.943 |
| **AUD/USD** | 0.6713 | -0.010 | -1.45% | 0.658 | ~ | 0.682 |
| **USD/INR** | 83.16 | -0.047 | -0.06% | 83.0 | ~ | 83.6 |
| **USD/PHP** | 55.575 | 0.188 | 0.34% | 55.3 | ~ | 55.9 |

^Weekly change.

## FX Outlook: Scepticism Amid Exceptionalism

- Admittedly, a **solid** (bit not stepuendous!) run in **US jobs has not quite fired up USD bulls**;
- with the Greenback **consolidating ~2% above late-2023 lows rather than embarking on a fresh surge**.
- Arguably, that derives from underlying ***scepticism about US exceptionalism***, as the latter used to be a resounding source of USD out-performance back in Q2 2023.
- That being the case, **USD bulls remain wary even though aggressive USD bears** (from late-2024) have been **derailed from unchecked Fed pivot bets**.
- **US CPI data is set to be one of the more emphatic triggers** for UST yields and the Greenback this week; although nothing tectonic ahead of the end-Jan FOMC meet.
- ***But*** for the time being, **more volatile two-way FX moves may be inevitable**.
- Not so much from data in and of itself - we don't expect wild swings in economic numbers.
- Rather the **policy inferences** may be **subject to tyre-kicking**.
- Notably on *precarious EUR expectations.*
- Specifically, EUR *benefitting from upside inflation surprise in Germany* on the assumption that this will spell a hawkish ECB response;
- with attendant EUR boost from projected yield spreads (vis-a-vis Fed/UST yields/USD).
- Whereas, **a more strategic view** entailing;

*less appealing real rate spreads for EUR* alongside;

relative US exceptionalism suggesting *greater degree of policy dilemma*/over-tightening risks and *associated hard landing*

- **point to the exact opposite case for bearish EUR risks**.
- Clarity could elude for now regardless. And that may consolidation amid two-way volatility.
- Meanwhile, CNH slippage will stall follow-through AXJ gains; as s**cepticism about China stimulus and US exceptionalism overtake**;
- reversing impetus to exploit a bearish USD wave amid "risk on".
- **Defensive positioning trimming long AXJ may be preferred** if bump up in India's inflation and financial risks in Korea hog some of the attention.

***Bond Yield (%)***

| 5-Jan | 2-yr | Chg (bp)^ | 10-yr | Chg (bp)^ | Curve |
|---|---|---|---|---|---|
| **USD** | 4.381 | 13.1 | 4.046 | 16.7 | Steepening |
| **GER** | 2.560 | 18.1 | 2.154 | 13.5 | Flattening |
| **JPY** | 0.030 | -0.4 | 0.598 | -0.4 | Steepening |
| **SGD** | 3.262 | 4.8 | 2.761 | 9.4 | Steepening |
| **AUD** | 3.869 | 16.8 | 4.131 | 0.1 | Flattening |
| **GBP** | 4.208 | 28.3 | 3.783 | 26.1 | Flattening |

***Stock Market***

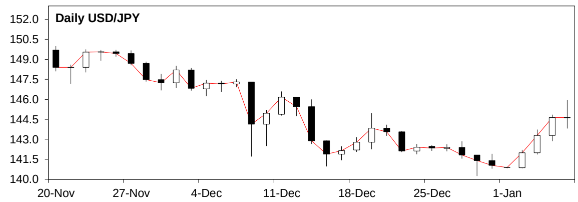
| | Close | % Chg |
|---|---|---|
| **S&P 500 (US)** | 4,697.24 | -1.52 |
| **Nikkei (JP)** | 33,377.42 | -0.26 |
| **EuroStoxx (EU)** | 4,463.51 | -1.28 |
| **FTSE STI (SG)** | 3,184.30 | -1.73 |
| **JKSE (ID)** | 7,350.62 | 1.07 |
| **PSEI (PH)** | 6,629.64 | 2.78 |
| **KLCI (MY)** | 1,487.61 | 2.27 |
| **SET (TH)** | 1,427.96 | 0.86 |
| **SENSEX (IN)** | 72,026.15 | -0.30 |
| **ASX (AU)** | 7,489.07 | -1.34 |

## US Treasuries: Checks and Checked

- As we had alluded to previously, **pre-loaded pivot bets were at risks of being check.**
- To be clear, they still are at risks of being checked further, though slightly diminished give the run up in to a smaller extent.
- Last week, 2Y UST yields rose 13.1bps to 4.38% while 10Y yields rose 16.7bps to head back above the 4% mark as **resilient labour market prints** and FOMC minutes **warning checked the over extended Fed pivot bets**
- This week, **US CPI print will be a critical checkpoint for near term 2Y yields** especially with odds of a March cut still having a 62% odds.
- As such, 2Y yields are expected to trade in the 43%-4.5% range.
- A mild bear steepener may in fact play out on **US blank checks for geo-political conflicts. Concerns intensify on longer term US financing needs given the potential for Israel-Hamas conflict spilling into Lebanon.**
- Consquently higher oil prices also backstop longer end yields.
- As such, 10Y UST yields is expected to range from 3.95%-4.20% with the downside stemming from surfacing opportunistic bids.

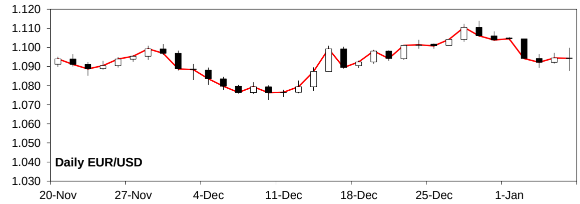
## JPY: Gaps and Distances

- A resurgence in UST yields and associated USD strength saw a dismal weak for JPY bulls.
- While much focus has been on the earthquake in Japan shifitng odds of BoJ moves, it should not distract from the situation that it is the **substantial gap between Fed's intended nominal rate cuts and market expectations that are the nearer term risks** of closing rather than the **hope for a much calibrated BoJ move which are in the rather more distant future.**
- On that, the USD/JPY is expected to remain buoyed above 143 but stay restrained below 146 this week.



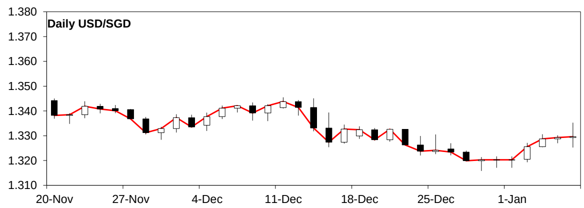

## EUR: Conflicted

- EUR bulls ought to feel conflicted as **signs of resurgent inflation pare back odds of a ECB rate cut but worsen the real rate differentials.**
- In fact, the worries seem to escalate as a **more proximate geo-politcal conflict and rising oil prices stress test growth pospects** relative to the US.
- This week, EZ retail sales and labour markets may be tellingly of the cross atlantic contrast and set back attempts to durably retake 1.10.
- On balance, the **EUR is prone to slippages** and trade between 1.08-1.10.



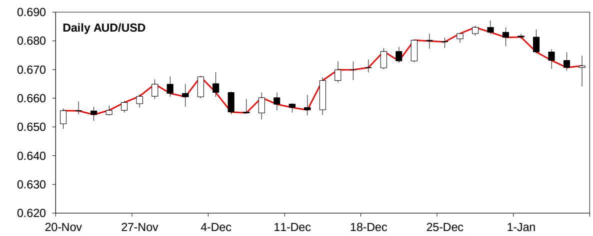

## SGD: Cautious Weakening

- Guarded caution in FedSpeak on markets' rate cut bets, sluggish EZ economy and weak sentiment on the Chinese economy would continue to lend SGD a depreciating bias.
- In particular, US inflation print that confounds "immaculate dis-inflation" epectations could send the USD/SGD towards (and above) the1.34 handle.
- However, momentum above 1.34 would likely be tempered by cautious positioning ahead of MAS January policy decision.
- With both headline and core still above 3% and the effects of January GST hike feeds through, a hawkish hold by MAS would likely be the base case.




## AUD: Inflated Hopes?

- Neither China headlines nor Aussie inflation data are likely to inspire fresh and sustained rallies in the AUD; likely capping upside at mid-0.68 rather than breaking through tantalizingly to the 69-70 cents range that would invoke interest in a "big" big-figure shift for 2024.
- For one, inflation will be in no man's land. Not soft enough to incite the allure of surging real returns (frioim inflation adjustment) but yet not so worryingly sticky that it will inflame bets of an unequivocally hawkish RBA being joltyed into hiking action.
- So neither the nominal lever nor the inflation denominator will bost real rates to lift AUD.
- And while China is still engaged in backstopping, this is unlikely to progress to a convincing narrative of economic boost that fires up the commodity channel boost for AUD either.
- Expect a wider consolidation in the mid-0.66 to 0.68+ range; with any premature excitement likely to prove inflated.

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