MIZUHO
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WEEK AHEAD

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Year-end edition
18-Dec-2023

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Economic Calendar

•Survey results from Bloomberg, as of 15 Dec 2023; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

G3

Date	Country	Event	Period	Survey*	Prior
18 Dec	GE	**IFO Current Assessment/Expectations**	**Dec**	**89.5/85.6**	**89.4/85.2**
19 Dec	JP	**BOJ Policy Balance Rate/YCC Target**		**-0.10%/0.00%**	**-0.10%/0.00%**
22 Dec	US	New Home Sales	Nov	688k	679k
	US	**PCE/Core Deflator YoY**	**Nov**	**2.8%/3.3%**	**3.0%/3.5%**
	US	Durable Goods Orders/Nondef Ex Air	Nov P	2.2%/0.1%	-5.4%/-0.3%
	JP	**Natl CPI/Ex Fresh Food, Energy YoY**	**Nov**	**2.8%/3.8%**	**3.3%/4.0%**
26 Dec	JP	Jobless Rate/Job-to-Applicant Ratio	Nov	2.6%/--	2.5%/1.3
28 Dec	JP	Industrial Production YoY	Nov P	--	--
03 Jan	US	JOLTS Job Openings	Nov	--	8733k
	US	**ISM Manufacturing/Prices Paid**	**Dec**	**47.2/--**	**46.7/49.9**
	US	FOMC Meeting Minutes			
04 Jan	US	ADP Employment Change	Dec	100k	103k
05 Jan	**US**	**Change in Nonfarm Payrolls**	**Dec**	**165k**	**199k**
	US	**ISM Services Index/Prices Paid**	**Dec**	**52.4/--**	**52.7/58.3**
	US	**Unemployment Rate**	**Dec**	**3.8%**	**3.7%**
	EZ	**CPI/Core YoY**	**Dec**	**--/--**	**2.4%/--**

Asia

Date	Country	Event	Period	Survey*	Prior
19 Dec	AU	RBA Minutes of Dec. Policy Meeting			
20 Dec	**CH**	**1Y/5Y Loan Prime Rate**		**3.45%/4.20%**	**3.45%/4.20%**
21 Dec	**ID**	**Bank Indonesia 7D Reverse Repo**		**6.00%**	**6.00%**
22 Dec	**MY**	**CPI YoY**	**Nov**	**1.7%**	**1.8%**
25 Dec	**TW**	**Industrial Production YoY**	**Nov**	**-2.4%**	**-2.3%**
26 Dec	**SG**	**Industrial Production YoY**	**Nov**	**2.9%**	**7.4%**
	SG	**CPI/Core YoY**	**Nov**	**3.9%/3.2%**	**4.7%/3.3%**
28 Dec	**KR**	**Industrial Production YoY**	**Nov**	**3.5%**	**1.1%**
29 Dec	**KR**	**CPI/Ex Food and Energy YoY**	**Nov**	**3.4%/--**	**3.3%/3.0%**
	VN	**GDP YoY**	**4Q**	**5.8%**	**5.3%**
	VN	**CPI YoY**	**Dec**	**--**	**3.5%**
31 Dec	**CH**	**Non-Mfg/Mfg PMI**	**Dec**	**--/--**	**50.2/49.4**
05 Jan	**TH**	**CPI/Core YoY**	**Dec**	**--**	**-0.4%/0.6%**
	TW	**CPI/Core YoY**	**Dec**	**--**	**2.9%/2.4%**

Week-in-brief: Careless Whisper

"I feel so unsure | As I take your hand and lead you to the dance floor | As the music dies, something in your eyes | Calls to mind a silver screen | And all its sad good-byes" - **Careless Whisper, George Michael**

- **A week away from George Michael's** (Christmas) death anniversary, and two weeks to end- 2023, **careless whispers** of **central banks' guidance invoke volatility**; *with real economic consequences.*
- **Fed Chair Powell's** *careless (?) dovish whispers,* had **UST yields slump dramatically** by **30-40bp in the course of the week**. And while subsequent Fed speak has tempered aggressive bets for March cut (partly reversing 2Y yield drop), **upbeat markets continue to keep the "faith" in pivot**.
- So much so that, **markets have disregarded the ECB's insistent hawkish bent** that expressly retains the option to hike further **as mere *careless whisper*,** if not cavalier defiance of persistent downside risks to growth; therefore beating down European yields alongside slumping UST yields.
- Trouble is, even as central banks *"feel so unsure"*, **markets are over-confident of pivot bets**.
- What's more, it is **accompanied by creeping complacency about a "soft landing"**, courtesy of "immaculate dis-inflation". But for those who are more sceptical of economic policy miracles, the risk is that the *"music dies" when lagged and variable policy transmissions (eventually) hit;* resulting in *"sad good-byes"* to an alluring but (unfortunately) not enduring tale of policy-economic exceptionalism.
- On the flip side, **markets that had run with *careless whisper* on the BoJ's policy calibration plans** (further out), *mis-interpreted as imminent tightening,* **appear to have come to terms with the greater likelihood of a status quo** for this week. Fact is, the BoJ will necessarily approach policy tweaks with due care given inherent fragilities amid inflation-demand suppressant conundrum.
- What's more, as the global policy course begins to turn amid growing headwinds, *early pivot gambit* on one-way UST yield and USD decline *may be revealed as* ***careless whisper;*** lacking nuance of evolving "competitive pivot" that sets back EUR and GBP, whilst accentuating JPY snapback.
- Meanwhile, **EM Asia central banks** are **careful not to indulge in *careless* dovish *whispers*** despite the Fed. Last week, the **BSP declared it permanent to turn course**. This week, **Bank Indonesia is set to stay the course on maintaining policy restraint** given how tentative rupiah traction has been.
- Elsewhere, *whispers of China stimulus are not careless per se. But could do with greater care in details.*
- Looking ahead into 2024, the challenge will be to *"Listen Without Prejudice"* to the data and policy speak.

BoJ: Assessing, Not Agitating!

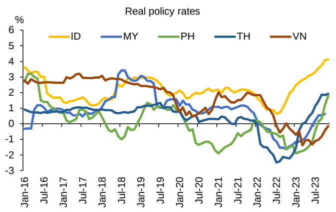
- **Bets on any major overhaul** to the BoJ's accommodative stance are **set up for disappointment**.
- Point being, the **BoJ** is **merely assessing conditions to temper accommodation in future**, *not* **agitating for an imminent dial-back**, which risks being mistaken as a tightening cycle.
- A fundamental point is that the **BoJ** is **avoiding** the **over-confidence trap *on inflation revival***.
- Admittedly, with "super" core (headline) inflation running above 4% (3%), it is tempting to declare runaway inflation is a greater threat than failed inflation resurrection. And as such, the BoJ should move sooner rather than later to at least reverse easin. But that approach lacks perspective.
- First, after decades of dis-inflation, *a year of inflation out-run comes across as an inconvenient blip* (amplified by overdone JPY weakness), and *not an assured break of entrenched deflation psyche.*
- What's more, given downside economic risks, *cost-/currency-shock driven inflation is ultimately a demand suppressant. And so,* hasty policy tightening could exacerbate rather than alleviate pain.
- Finally, evidence of **shifting sands in global monetary policy**, **aligning with** (competitive) **pivot bets**, square with *scope for rapid, dis-inflationary JPY surge.* This *warns of premature over-steer away from easing* that not just quells inflation, but *could impose headwinds via sharp JPY surge.*
- The upshot is that hasty over-steer of policy risks being caught wrong-footed on downturn risks, potentially exacerbated by counter-cyclical JPY rebound. And so, a ***gradual*** **and *considered*** **approach with *calibrated* tweaks** and ***clear communication*** will be the **game-plan for H1 2024**.
- For now, the BoJ will merely assess, not imminently act on, a shift from NIRP to ZIRP in 2024. Even then, it will be telegraphed as a one-off calibration, not a rollover into rising rates. What's more. YCC target will also be on hold at 0% with a 1% flexible ceiling to be reviewed dynamically through 2024.

Why China is Not Out of the Woods

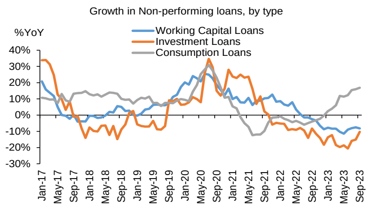
- To be clear, we are **sympathetic** to the **case for *measured* recovery in Chinese equities and bonds *... at some point;*** *as overdone China pessimism relents at rock bottom valuations.*
- Especially with cumulative benefits of a **series of drip-feed of stimulus** that Beijing has extended.
- But it would be **grossly misguided to conflate opportunistic asset market respite** *from spiralling despair about an "uninvestible" China* **for overriding cheer about the underlying economy**.
- The simple and sobering fact that is hard to "unsee" is that the **binding confidence deficit across households and businesses remains unresolved**. This *pervasive, self-reinforcing* private sector constriction stifles growth multipliers; inevitably hobbling efforts to durably lift growth back above 5%.
- Instead, ***growth might struggle to achieve self-sustaining momentum in the 4.0-4.5% vicinity***.
- Optimists will argue that there is **compelling strategic allure to structural economic boost adopted at the CEWC***. Specifically, as policies are **aimed at enhancing resilience to sanctions** and/ pressures **in the context of geopolitical pressures** conspiring with **demographic decline**.
- We concede the wisdom of strategic insulation to insure longer-term viability. But *plans to procure bigger and better fire engines doesn't automatically extinguish the fire at the door.*
- Despite the **CEWC** prioritizing growth, it was yet another policy disappointment, **falling short of urgent** and **holistic efforts to**; *i) snap chronic confidence deficit; ii) alleviate adverse wealth effects from property meltdown,* and; *iii) arrest latent financial risks.* In addition, inextricably linked property-shadow banking-local government financial channels means contagion threats are not banished.
- Above all, **Beijing is confronted with sharp policy trade-offs and precarious dilemmas**.
- In particular, *monetary policy re-calibrated to "prudent" from "forceful" despite deflation reveals conflicting threats* associated with CNY stability and capital outflows *crippling monetary policy.*
- Whereas "appropriately strengthened", "proactive" fiscal stance is welcome but no panacea.
- The *inconvenient fact for bottom-picking China bulls is that the economy is not out of the woods.*

* Central Economic Work Conference

BI: Temporality



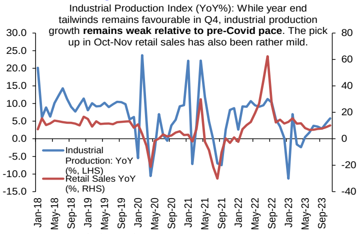
Source: CEIC; Mizuho Bank



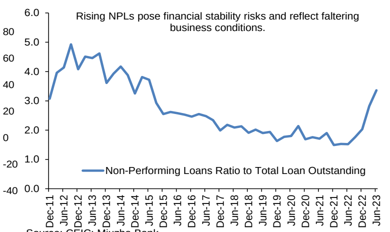
Source: CEIC; Mizuho Bank

- Our **base case is for BI to stand pat** at the last meeting of 2023 as it assesses precarious, albeit supported, growth and benign inflation in the context of tentative reprieve from rupiah pressures.
- The hold though, mask growing policy tensions. On one hand, headwinds to growth have mounted as **Indonesia's real policy rates the most restrictive in ASEAN; as well as by historically**.
- Cumulative rate hikes against a backdrop of continued disinflation (CPI easing back durably within BI's 2-4% target since May '23), arguably suggests sufficient tightening.
- Especially as the **durability of household consumption remains in question**. Fact is, election related spending flatter underlying retail sales strength/durability. And higher interest rates appear to have increasingly stretched consumers; with non-performing loans picking up.
- Moreover, softer external demand impose terms of trade headwinds; as coal/palm oil prices slump.
- On the other hand, the **tentative and nascent recovery of rupiah traction warns against premature easing**. Fact is, IDR has recouped losses only as USD tumbled on pivot bets.
- But this only provides **temporary reprieve for BI's overt concern on currency stability** as upside USD volatility lurks in the background; especially as the weakening of the greenback is likely to take a bumpy path, amid risks of resurgent inflation and resilient growth in the US.
- This suggests **BI must probably hold its horses on any intended policy inflection**.
- The **saving grace** is perhaps that **reasonably resilient investments**, *with declining non-performing loans for investment and working capital,* provide policy policy space for BI to hold and assess.
- At least for now, **healthy private and public investment** spending (whichhave averaged some 1.2%-pts in growth contribution) **lean into resilient consumption to keep growth buoyed**.
- The **luxury of this buffer** means that **BI's policy dilemma has time on its side**.

Vietnam: Drags



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- While Vietnam GDP growth looks to **close in on the 6% mark in Q4**, far more subpar growth in previous quarters means that **annual growth inevitably still falls short of it (Mizuho forecast: 4.8%). In fact, even the 2024 target of 6.0-6.5% remains a stretch goal.**
- For Q4, **stronger year end goods demand coupled with a bottoming of the semiconductor cycle** is likely assisted the industrial production growth over Oct-Nov. Nonetheless, we expect the **pace of manufacturing growth to be weaker compared to previous year.**
- On the household front, the pick up in domestic consumption growth is also likely to have stayed weak given the **subdued retail sales growth** on bruised **household confidence** from lingering property sector woes. However, **given a 6% rise in average monthly tourist arrival** over Oct-Nov relative to Q3, the tourism related services sector is expected to continue its moderate expansion.
- Looking ahead in 2024, emphatically elevated NPLs and subdued credit growth point to **unresolved woes in the property and banking sectors.** While loan rates have seen significant declines, mortgage loan demand has been reported subdued which underscores the confidence issues as well as mismatch of property developments and local demand.
- Crucially, this will **impair near term growth multipliers** in the economy especially as corporate bond repayments continue to get restructured and **flow of capital becomes more constrained.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	142.15	-2.800	-1.93%	140.50	~	145.00
EUR/USD	1.0895	0.0132	1.23%	1.076	~	1.100
USD/SGD	1.3327	-0.009	-0.70%	1.3250	~	1.3480
USD/THB	34.873	-0.460	-1.30%	34.75	~	35.70
USD/MYR	4.6698	0.006	0.12%	4.655	~	4.705
USD/IDR	15493	-17	-0.11%	15,350	~	15,700
JPY/SGD	0.9376	0.012	1.27%	0.914	~	0.959
AUD/USD	0.6699	0.012	1.82%	0.658	~	0.682
USD/INR	83.00	-0.385	-0.46%	82.6	~	83.6
USD/PHP	55.668	0.358	0.65%	55.3	~	55.9

^Weekly change.

Bond Yield (%)

#REF!	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.443	-27.8	3.911	-31.5	Flattening
GER	2.488	-19.6	2.012	-26.1	Flattening
JPY	0.066	-0.8	0.686	-6.7	Flattening
SGD	3.237	-9.2	2.716	-11.5	Flattening
AUD	3.873	-12.0	4.136	0.1	Steepening
GBP	4.244	-30.9	3.678	-35.7	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,719.19	2.49
Nikkei (JP)	32,970.55	2.05
EuroStoxx (EU)	4,549.44	0.58
FTSE STI (SG)	3,116.51	0.19
JKSE (ID)	7,190.99	0.44
PSEI (PH)	6,478.44	3.91
KLCI (MY)	1,462.45	1.42
SET (TH)	1,391.03	0.73
SENSEX (IN)	71,483.75	2.37
ASX (AU)	7,442.69	3.44

FX Outlook: The 'Competitive Pivot' Proposition

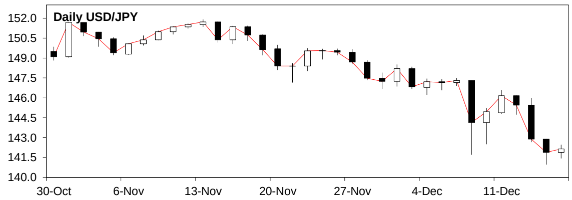
- At first glance, the **partial rebound in, with measured recovery of traction for, the USD squares with the** headlines of **Fed**'s William and Bostic both **pushing back on unrestrained pivot bets**.
- Especially those running with a "done deal" March cut, wand doubling down with some 150bp of rate cuts 2024 (compared to the 75bp indicated in the 'Dot Plot'.
- The corresponding slip in EUR to 1.09-ish levels (from post-Fed/ECB highs of 1.10) and Sterling to mid-/high-1.26 (from near-1.28 tests) fit the bill too.
- What's more, ahead of the BoJ decision tomorrow, USD/JPY consolidation above 142 makes sense.
- But in our minds, there is *more to FX moves than mere headline reaction or pre-policy positioning.*
- Specifically, the **looming prospects for "competitive pivot"** in the *context of highly variable real rate spreads* will be a more durable driver for FX markets.
- And the most important element in this "competitive" pivot proposition is that **one-way, aggressive bearish USD bets risk being caught off-guard by sudden bouts of sharp USD squeeze**.
- Especially as both the EZ and UK at at risk of "heads you win, tails I lose" scenarios, where the more hawkish stance perversely accentuates hard-landing risks. Coupled with relative out-performance, this sets the course for competing (albeit forced) cuts that catch-down with Fed pivot bets.
- This may result in **phases of untenable short USD bets**; especially insofar that it is to be counter-balanced with long EUR and GBP (which would be less than compelling to say the least).
- Whereas the **longer game of converging FEd-ECB-BoE pivot also** means that **JPY squeeze higher may be compounded**; as Major central banks all catch down with the BoJ, squeezing out carry-driven JPY shorts (with Cross/JPY all sliding lower).
- In Asia, the **"pivot USD" bets being interrupted by two-way volatility from "competitive pivot"** may **dampen unchecked long AXJ narrative**. What's more, AXJ could also be more susceptible to CNH slippage if China stimulus plans continue to disappoint.
- All in, the **"competitive pivot"** scenario coming into focus i**n H1 2024 could make for a more undulating FX path** rather than a bearish USD bandwagon.

US Treasuries: Of Pivot & Pre-Loading

- It is remarkable that **UST yields have fallen some 70-100bp** *in the course of just two months;* as a "higher for longer" **Fed is deemed to be now priming for pivot.**
- From testing 5% in 10Y yields in Oct, 10Y yields have slumped below 4%; and the more policy-sensitive 2Y yields have come off 5.2+% to below 4.5%.
- Your scribe has **no arguments with the the direction of travel**, given our assumptions that the Fed cut more abruptly and aggressively than the 'Dot Plot's" 75bp of cut suggest.
- **But** the **timing**, of such an aggressive comes across **a tad premature**; even if markets' tendency to front-run is considered. We think **too much has been pre-loaded**, *limiting scope for this linear path of yield declines to continue unfettered in coming weeks.*
- Especially as further Fed push-back on premature rate cut bets are par for the course.
- For us, dis-inflation may open the path to rate cuts in 2024.
- But perhaps not too much more than what hass been indicated in the 'Dot Plot'.
- Instead, **our view of far more aggressive rate cuts are premised on a not-so-soft landing** *as lagged and variable tightening catches up* with real economic consequences.
- And so, we expect accentuated and sharper yield declines to come through as the data turns into late-Q1/early-Q2. By which time, we expect that *a more aggressive iteration of bull steepening will take over; evenually un-inverting the yield curve into Q2-2024.*
- **For now** though, we pay attention to **pre-loaded pivot bets at risk of being checked**;

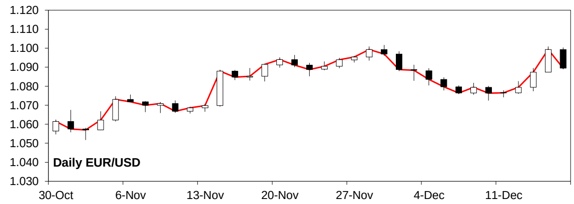
JPY: BoJ to Underpins, Not Unleash Bulls

- The wider point about the BoJ is that while the guidance on policy (with plans for tempering the accommodation) will underpin JPY, it will not unleash unbridled JPY bulls either.
- This is premised on the asssumption that the BoJ will not resort to any hawkish tweaks.
- Our base cvase is for no change to rates or YCC (0% taregt with a 1% "flexible" ceiling).
- Whereas guidance on calibrating out of NIRP (but stalling at ZIRP) means that there will be no rate hiking cycle to fuel bullish JPY out-pperformance just yet.
- Also market will get used to a distaste for excessive volatility in either direction.
- with Fed pivot bets in view. wider sub-140 to mid-/high-144 range could play out in coming weeks.



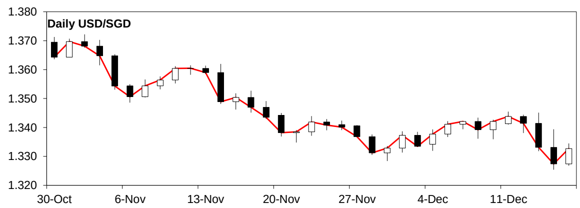
EUR: Fade the Hawkish Talk

- As we pointed out in the FX Outlook above, the case to extend EUR gains on hawkish ECB talk is hijacked by an unconvincing proposition of Fed-ECB divergence.
- For one, the US economy is in far better shape than the EZ.
- And so, the case to extend EUR rallies regardless appears to be stretched to begini with.
- Especially as the case for catch down ECB cuts materialise if EZ dis-inflation overtakes that of the Fed. In turn this will moderate the real rate spread supportive of EUR boost.
- On the other hand, if the ECB sticks with "higher for longer", then increased risks of a hard-landinig also diminish the allure of EUR. So for now, tempered upside with a wider mid-1.07 to 1.10+ range looks likely; consistent with consolidation



SGD: Cross Currents

- USD/SGD tested the 1.33 handle briefly as the greenback lost ground on Fed pivot bets after a more dovish-than-expected FOMC. Attention in the next three weeks will turn to FedSpeak on whether such dovishness is reinforced or pushed back.
- Meanwhile, SGD could underperform regional currencies on downward pressures to the EUR and CNH. Continued weak EZ economic data expected to continue reinforcing ECB's pivot bets and the absence of more aggressive stimulus at China's CEWC would continue to put an overhang of China's growth and pressure the CNH.
- Israel-Hamas escalating to disrupt Crude's passage through the Red Sea on a larger scale and longer duration could see some cautious strengthening of the SGD ahead of MAS' January policy meeting. Expect trading to be within 1.3250 to 1.3550 levels.



AUD: Cautious Consolidation

- With China uncertainty and Fed pushback on pivot bets hovering, AUD is likely to be in a state of cautious consolidation as it feels its way in terms of attaining more traction.
- For now though, follow-through upside to 0.68 may be a step too far in the absence iof fresh USD selling and/or China upside surprise; especially as Australia's data calendar looks fairly sparse.
- Save for RBA Minutes that is. But on the account, it is likely that the recent tempering of hawkish options with allusion of data depdence could restrain more emphatic AUD bulls for now.
- Into the year-end it looks like the AUD could retain 0.66-0.68 range with some give either way; although the risks may start to tilt to the downside if a "Santa rally" does not sustain.