MIZUHO
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WEEK AHEAD

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11-Dec-2023

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Economic Calendar

•Survey results from Bloomberg, as of 8 Dec 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
11 Dec	JP	BSI Large All Industry QoQ	4Q	4.8	5.8
	JP	Machine Tool Orders YoY	Nov P	--	-20.6%
12 Dec	**US**	**CPI/Ex Food and Energy YoY**	**Nov**	**3.1%/4.0%**	**3.2%/4.0%**
	JP	PPI YoY	Nov	0.1%	0.8%
	GE	**ZEW Survey Expectations/Current**	**Dec**	**8.0/-76.0**	**9.8/-79.8**
13 Dec	US	PPI/Ex Food and Energy YoY	Nov	1.1%/2.2%	1.3%/2.4%
	EZ	Industrial Production SA MoM	Oct	-0.3%	-1.1%
	JP	Tankan Large Mfg Index/Outlook	4Q	10/9	9/10
	US	**FOMC Decision (Lower/Upper Bound)**		**5.25/5.50%**	**5.25/5.50%**
14 Dec	US	Initial Jobless/Continuing Claims		221k/1876k	220k/1861k
	US	**Retail Sales Adv/Ex Auto and Gas**	**Nov**	**-0.1%/0.2%**	**-0.1%/0.1%**
	EZ	**ECB Main Refinancing Rate**		**4.50%**	**4.50%**
	JP	**Industrial Production YoY**	**Oct F**	**--**	**0.9%**
	JP	**Core Machine Orders YoY**	**Oct**	**-5.6%**	**-2.2%**
15 Dec	**US**	**Empire Manufacturing**	**Dec**	**2.0**	**9.1**
	US	Industrial Production MoM	Nov	0.3%	-0.6%
	EZ/JP	PMI Mfg/Services	Dec P	--	--
	JP	**Tertiary Industry Index MoM**	**Oct**	**0.1%**	**-1.0%**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
11-15 Dec	CH	Aggregate Financing/New Yuan Loans CNY	Nov	2595b/1300b	1845.2b/738.4b
11 Dec	**MY**	**Industrial Production YoY**	**Oct**	**2.3%**	**0.2%**
12 Dec	**IN**	**Industrial Production YoY**	**Oct**	**10.2%**	**5.8%**
	IN	**CPI YoY**	**Nov**	**5.8%**	**4.9%**
	PH	Exports/Imports YoY	Oct	-8.2%/-4.9%	-6.3%/-14.7%
13 Dec	KR	Unemployment rate SA	Nov	2.6%	2.5%
14 Dec	**AU**	**Emp. Change/Unemployment Rate**	**Nov**	**11.5k/3.8%**	**55.0k/3.7%**
	IN	Wholesale Prices YoY	Nov	0.0%	-0.5%
	PH	**BSP Overnight Borrowing Rate**		**6.50%**	**6.50%**
	TA	**CBC Benchmark Interest Rate**		**1.875%**	**1.875%**
15 Dec	**CH**	**Retail Sales YoY**	**Nov**	**12.5%**	**7.6%**
	CH	**Industrial Production YoY**	**Nov**	**5.7%**	**4.6%**
	CH	1-Yr Medium-Term Lending Facility Rate		2.50%	2.50%
	CH	**FAI/Property Investment YTD YoY**	**Nov**	**3.0%/-9.5%**	**2.9%/-9.3%**
	AU	PMI Mfg/Services	Dec P	--/--	47.7/46.0
	ID	**Trade Balance**	**Nov**	**$3073m**	**$3480m**
	PH	**Overseas Cash Remittances YoY**	**Oct**	**2.3%**	**2.6%**

Week-in-brief: Curbing Enthusiasm

- **Hotter than expected US jobs data** spoke, it would have said "***curb your enthusiasm***" **to pivot bets** that have been **peddled to the brink or irrational exuberance**. And to be fair, **markets have appeared to heard** the whispers **and partly heeded the call** for restraint.
- Fact is, with *lower unemployment* (down 0.2%-pt to 3.7%) despite *higher participation* (up 0.1%-pt to 62.8%) with a *still brisk wage gains* (at 0.4% MoM pace rise in average hourly earnings), **runaway hopes of unfettered rate cut kick-off sooner rather** than later will probably be **far more challenged**.
- In fact, markets would be **right to be less dismissive about the option to hike being retained**.
- Especially as *U. of Michigan (UoM) sentiments hit outside of the park in terms of optimism.*
- Admittedly, inflation expectations from UoM was distinctly lower. But that may be more a catch down of inflation expectations with cooling price pressures already in the data.
- Whereas, strong consumers and a tight job market provide *reason to maintain policy restraint.*
- In turn, **curbing enthusiasm** *about an unfussed and unfettered reversal of rate hikes in the offing.*
- That leaves markets with the question of **whether** (pre-FOMC) US *inflation data* **will be curbing enthusiasm** or re-fuelling pivot bets. Admittedly, inflation might have sufficient softening bias.
- But as explained below (FOMC preview), the **Fed's pushback on readiness to cut**, ***or*** for that matter, **sufficiency of policy restriction**, is **inversely related to the degree of drop in yields**.
- And so, the key take-away is that **overdone Fed pivot bets**, *with attendant dive in UST yields and USD pullback,* are **likely to self-correct**; given the "negative feedback" to policy calculus.
- In particular, aggressive Fed pivot bets attempting to monetize by means of short USD positions not only run into Fed roadblocks, but are also compromised by ECB pivot bets.
- Necessarily, this **raises the uncertainty quotient around FX heading into FOMC** (Wed) and **ECB** (Thu). **BoE** (Thu) and GBP join the fray too! *Consequently,* **USD bears** that were *happily monopolizing the "pivot bet" play book earlier* are **now forced to curb enthusiasm**.
- **China**'s data remains a mixed bag. Our view though is that **industrial activity pick-up is low hanging fruit** from a low base; so best to curb enthusiasm. Whereas still **soft property/fixed asset investments** and *deepening deflation* instead *reflect* the gravity of *China's confidence deficit.*
- Elsewhere, **BSP and CBC are set to on hold** alongside their G4 counterparts. *But* that *expresses tensions in risks and FX, not an absolute calm.* So **premature enthusiasm needs curbing**.

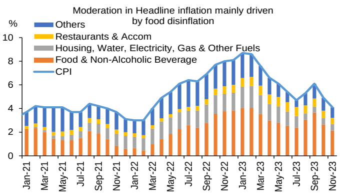
FOMC: Of Calibrations & Correlations

- The December FOMC is poised to be **short on action**, given the consensus for **no rate hike**,but may ***nevertheless*** be **big on drama**.
- In particular, as a **refreshed 'Dot Plot'** accompanied by **revisions to the SEP** (summary of economic projections) that offer ample fodder to interpret; i) the **propensity for Fed pivot**, which will shift the focus to how soon, and by how much, as well as; ii) confidence around "soft landing".
- The upshot is that markets may be inclined to push both propositions to derive an enhanced, "everything rally"-type of "risk on. But the growing **danger is that the Fed's inclination may be to calibrate expectations for a pivot**, *thereby risking some snap-back in UST yields.*
- Instead, it could **entrench commitment to "higher for longer" on account of disproportionately more challenging "last mile" dis-inflation**. This is clearly a risk that Fed Chair Powell has on his mind in his past allusions to lessons from the '70s and "keeping at it".
- However, in the same breath, the **Fed may indirectly allude to greater confidence around a soft-landing** *if it maintains higher growth and lower unemployment in the SEP.*
- Which, to be sure is **consistent with restraint on how quickly and deeply to reduce rates**. In other words, **restraint on pivot**. If so, then oddly, **even as bonds slide** (on overdone rallies consisting of too much, too soon, yield drop) and yields lift back somewhat, equities may rally on soft-landing hopes.
- This may **snap the positive bond-equity correlations** and instead square with a *"Santa rally" in equities* and a *more sober mood in bonds.* At least for now.
- All said, with **Fed calibration on conditionality and thresholds**, that pushback on overly exuberant pivot bets, the *attendant nuance will challenge sweeping correlations;* as seen in the "everything rally" that is lifting bonds (lowering yields) and equities.
- Meanwhile, the **USD may be looking at some** (albeit measured) **renewal of support** on *US exceptionalism* (from soft landing SEP guidance) and tempered pivot (with yield backstop).

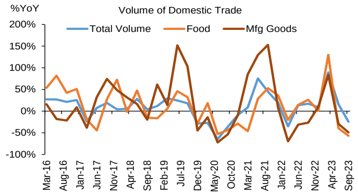
ECB: No Surprises

- We expect **no surprises to our view for ECB to hold policy rates** at their policy meeting next week (14 Dec) after the **continued sharp moderation in consumer price growth** to 2.4% (Oct: 2.9%) **in Nov likely caught the ECB by surprise**.
- Notably, October statement alluded to ECB's expectation for inflation to "stay too high for too long", while **recent dovish ECB comments by the usually hawkish Schnabel** said the region's "remarkable" inflation slowdown has made a further rate rise "rather unlikely".
- The path back to 2% medium-term target may be more forthcoming than originally expected, especially as latent risks of resurgent inflation fade somewhat and growth in EZ is starting to falter.
- Oil prices have fallen by ~15% since ECB's last policy meeting on 26 Oct, and looks to remain lower on weak demand and higher supply from US despite OPEC+'s cuts.
- Meanwhile, **growth continues to cast a shadow on the EZ** amid downward revisions to France's Q3 GDP growth (-0.1% from 0.1%) and overall EZ Q3 GDP growth (0.0% from 0.1%). Germany's growth on a year ago basis also remains in contraction for the third consecutive quarter in Q3. Looking ahead, with both manufacturing and services PMI in contractionary territory, the marginal improvement in retail sales (0.1% MoM growth in Oct) brings little cheer.
- All in, the ECB is widely expected to stand pat as markets shift focus to the timing of rate cuts as well as the **debate on balance sheet reduction**.

BSP: Inflation Woes



Source: CEIC; Mizuho Bank

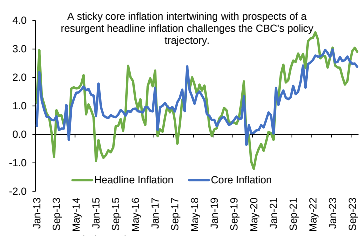


Source: CEIC; Mizuho Bank

- The **BSP may be set to stand pat** at the last meeting for the year, **but policy tensions persist**.
- For a start **BSP's battle against inflation aren't over**. Fact is, even after sharp deceleration, inflation still a touch above the ceiling of the 2-4% target. Crucially, **renewed upside risk to inflation persists** amid report of higher retail prices of eggs and rice.
- In addition, **approved increases of fares for various modes of public transportation** (e.g. jeepneys, buses, taxis), **as well as revisions on minimum wages* risk stickier inflation via second-round effects working its way through the economy**.
- Accordingly, the *pause is likely to be tentative, retaining some degree of tightening bias.*
- Indeed, the BSP recently commented that risks to CPI outlook still leaned significantly to the upside and it was necessary to keep policy settings tight until a sustained CPI drop is evidenced.
- Our base case for a hold at this juncture is guided by our view that BSP has already took into account the above factors in its last decision.
- In November, BSP had revised its headline inflation upwards. Projections now stand at 6.0% (prev: 5.6%) for 2023, 3.7% (prev: 3.3%) with a downward revision to 3.2% (prev: 3.4%) only in 2023.
- Furthermore, the recent moderation in oil prices help further alleviate price pressures, while BSP expects resurgent inflation on El-Nino induced price increases to only come through in Q2 2024.
- Meanwhile, **cumulative rate hikes may be increasingly restrictive on growth**.
- **Domestic consumption,** a key pillar of growth in recent quarters, has been growing at a slower pace since peaking at 10% YoY in Q1'23, and the volume growth in domestic trade dipped into contractionary territory in Q3 2023 for the first time since Q1 2022.
- As such, **despite Q3 GDP upside surprise, 2023 growth will likely fall short of the 6% target**.
- On balance even as headwinds to growth mount latent inflationary risks demand restrictive policy settings. And so, the BSP will have to abide by the current status quo till next year.

* ~7% increase in minimum wage in the National Capital Region is expected to directly benefit 1.1million workers.

CBC: Of Fruit and Labour



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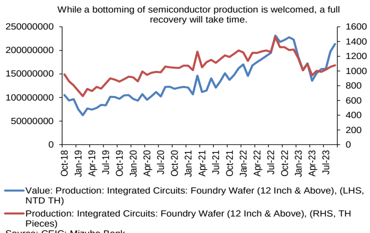


Source: CEIC; Mizuho Bank

- On the same day (14 Dec) in Taiwan, the CBC is also expected **to keep policy rates unchanged**.
- While Governor Yang **may have retain optionality to hike** by stating that the rate hike cycle may not have ended in **early November**, this option is unlikely to be exercised at this juncture given that he had also stated that the **focus is on CPI excluding fruit, vegetables and energy, basically core inflation.**
- As such, while surge in **headline inflation to average close to 3% in the past three months** is uncomfortable, **core inflation has trended downwards and backs the case for another hold.**
- That said, **given how elevated core inflation is relative to their historical average**, it is **much harder for the CBC to join in the dovish shifts** in communications stemming from the likes of the Fed and ECB. As such, CBC's communication will **stay hawkish and focus on the need for more work to be done to achieve inflation** in terms of allowing the tightening so far to passthrough.
- Specifically, they **cannot reap the fruits of their labour just yet** especially amid **record low unemployed rates coupled with signs of recovery on a semiconductor bottoming.**
- Notably, the **faster pace of recovery in terms of value rather than volume** underscores underlying demand worries.
- Furthermore, softer oil prices and **TWD recent gains** will serve to **dampen imported inflation** and **temper the need for another rate hike** and the CBC's willingness to engage in FX intervention also speaks of their preference of using FX reserves rather than policy rate to shore up the TWD.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	144.95	-1.870	-1.27%	143.00	~	148.00
EUR/USD	1.0763	-0.0121	-1.11%	1.065	~	1.085
USD/SGD	1.3421	0.009	0.64%	1.3300	~	1.3550
USD/THB	35.333	0.305	0.87%	34.90	~	35.60
USD/MYR	4.664	-0.009	-0.20%	4.640	~	4.680
USD/IDR	15510	25	0.16%	15,300	~	15,700
JPY/SGD	0.9258	0.017	1.90%	0.899	~	0.948
AUD/USD	0.6579	-0.010	-1.44%	0.645	~	0.670
USD/INR	83.39	0.091	0.11%	83.0	~	83.5
USD/PHP	55.31	-0.102	-0.18%	55.0	~	55.8

^Weekly change.

FX Outlook: Distilling & Discounting Pivot

- Here's the thing. The FX iteration of *pivot trade is like broth - too many cooks spoil it.* Specifically, **too many central banks pivot bets spoil the ability to distill the prefect FX playbook**.

- Admittedly, the **"Fed pivot"-inspired sell-down in the Greenback since mid-Novermber** renders it a tempting reflex to sell the USD on any inkling of the Fed being done with hikes.

- **But** the lesson more recently is that **ECB pivot bets joining the fray hijacks a "clean" USD selling agenda**. In fact, in this case, nuanced differentials will matter more; and EUR losing ground (to the USD) is an equally viable proposition.

- This **"competitive pivot"** FX dilemma **explains exaggerated JPY surg**e on just hints of tweaks rather than tightening cycle in the offing. Especially as **sharp narrowing in global yields vis-a-vis JGB yields** sets the stage for an exaggerated JPY squeeze across elevated Cross/JPY.

- Whereas, **if either, or both, Fed and ECB pushback against** market pricing for aggressive rate cuts next year premised on premature (over-)confidence inflation anchor, then **JPY bulls may also be reined in**; and that is despite some degree of less dovish policy calibration being priced in.

- And so, this week, it may be apt to discount overdone pivot bets to some degree on three counts.

- First, to defacto loosening from a *sharp drop in yields* means that the *Fed* will now be *assessing if policy is tight enough;* not if it is too tight. So **some Fed pushback to trim extreme pivot bets**.

- Second, to understand that **the neither the Fed nor the ECB may go it alone with a policy inflection**. So relatives rather than cude absolutes on policy shifts will matter more. In turn, resulting in more *two-way volatility around USD and EUR* depending on economic resilience and dis-inflation.

- Finally, that with US exceptionalism likely to persist for a bit more, in sharp contrast to China's confidence deficit, EM Asia FX vulnerabilities remain intact despite USD declines.

- And for this week, **USD backstop may be more emphatic**, *if Fed pushback is followed up by strong retail sales.* In which case, USD could regain more ground. Especially if the ECB sounds less hawkish.

- Admittedly, **JPY bulls could be agitating** on hawkish bets ahead of 18-19 BoJ meet next week.

- But we *suspect this is overdone,* and **will need discounting; not unlike Fed pivot bets** (distilled).

- *Enthusiasm needs curbing, while circumspection needs more polish.*

Bond Yield (%)

8-Dec	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.721	18.3	4.226	3.0	Flattening
GER	2.684	1.5	2.273	-8.5	Flattening
JPY	0.074	3.6	0.753	6.8	Steepening
SGD	3.329	-2.1	2.831	-11.7	Flattening
AUD	3.993	-15.8	4.292	0.1	Steepening
GBP	4.553	6.4	4.035	-9.8	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,604.37	0.21
Nikkei (JP)	32,307.86	-3.36
EuroStoxx (EU)	4,523.31	2.37
FTSE STI (SG)	3,110.73	0.66
JKSE (ID)	7,159.60	1.41
PSEI (PH)	6,234.77	-0.17
KLCI (MY)	1,441.97	-0.99
SET (TH)	1,380.99	0.05
SENSEX (IN)	69,825.60	3.47
ASX (AU)	7,194.92	1.72

US Treasuries: Of Deep Cuts and Ends

- As alluded to last week, it is inevitable that markets ponder if the plunge in UST yields associated with bets for the Fed to embark on deep cuts is overdown.

- 2Y UST yields climbed 18.3bp last week to retake 4.7% as **US non-farm payrolls showing stronger than expected hiring and lower unemployment rate dialed back the stretceted projections of deep rate cuts.** Extending the signalling of possible ends to hikes towards deep rate cuts was really a stretch.

- **This week,** even before FOMC, while UST bears **may pine for stickier than expected inflation prin**t to turn the tide, it may actually be the **low visibility to any end to prolonged geo-political conflicts which requires extended and upsized financing and backstop UST yields.**

- Meanwhile, while the Dot Plot revisions may show more nominal rate cuts relative to September, UST bulls may be tempted to take it further.

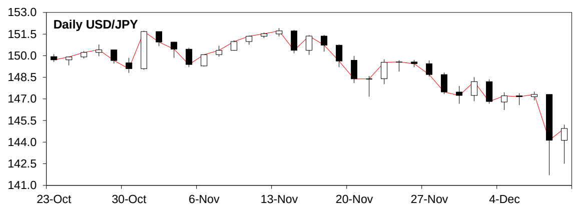
- All in, , 2Y UST **yields is projected to trade in an enlarged range of 4.5%-4.85% while 10Y yields trade in the 4.1-4.35% range.**

JPY: Cautious Turns

- Despite higher UST yields last week, **JPY has continued to gain as the USD/JPY closed below 145. Admittedly, softer oil prices also aided JPY bulls.**

- Nonetheless, while the main chatter has been about BoJ pivots, **one should remain cautious about over-extending possible calibration from NIRP to ZIRP to an outright tightening cycle especially amid last week's downward revision of Q3 GDP growth.**

- All in, while **JPY bulls enjoy tailwinds from "pivot" bets** on both Fed and BoJ, the **speed of gains approaching turns may slow more often than not. USD/JPY projected to trade in the enlarge 143-148 range in view of the slew of central bank decisions.**

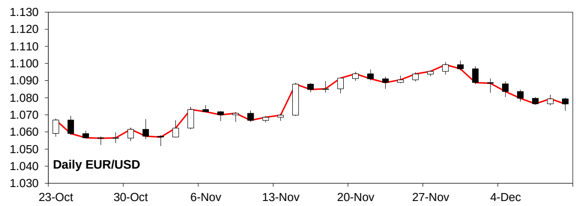


EUR: Calibrating Stretched Bets

- EUR strength appears to have peaked as it slipped below 1.08 last week. That said, it is only prudent to **consider whether market bets for nearly 125bp of ECB cuts is taking it too far.**

- This is especially so in **the context that the Fed has hiked rates more than the ECB.**

- As such, while **EZ growth weakness rightfully point to stronger likelihood of ECB cuts and EUR weakness**, it may be a **calibrated downshift in EUR trading range this week rather than outright EUR plunge.** Expect to trade in the range of 1.065-1.085.



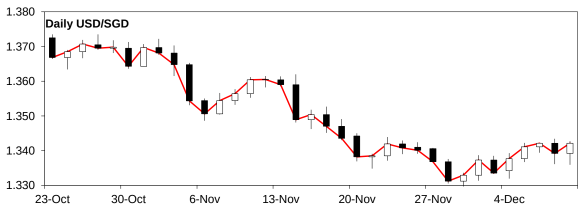
SGD: Volatility Caution

- USD/SGD headed higher above 1.34-handle last week after markets dialled back on their Fed pivot bets.

- Central bank decisions will drive volatility this week, with heightened two-way volatility expected heading to and post-Fed's and ECB's decision on dovish/hawkish tilts (relative to markets' current expectations) in the central bankers' forward guidance.

- Wider trading range around 1.3250 to 1.3550 with China deflation and associated CNH imparting some buoyancy.

- Late week, SGD risk are skewed on the downside given markets' expectations on financing and investments are presently neutral to modestly optimistic.



AUD: Slippery?

- With *Fed pivot bets* first *upstaged* by ECB pivot bets, and now properly *challeneged by hotter than expected US jobs*, it **looks like AUD will not denied unrestrained traction**.

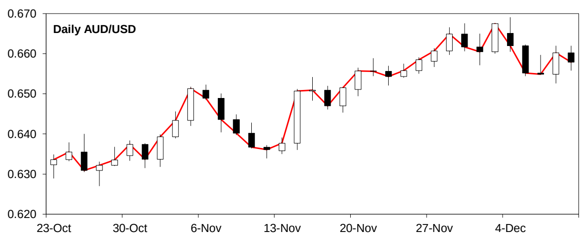
- But it is not just the **broad USD push-back, potentially bolstered by further strength if FOMC rhetoric indeed dampens the pivot** narrative that is softening the AUD.

- Instead, *China uncertainties* could also *cast a shadow* after a less hawkish interpretation of the RBA last week. In particular, if the proprty and investment indicators show unreleting pressures.

- This could more than offset the pick-up in activity that is flattered by a low base.

- Moreover, bouts of JPY strength ahead of BoJ could also unravel AUD/JPY crosses, limiting AUD ascendancy priospects for now.

- Expect the Antipodean to trade in the sub-0.65 to mid-/high 0.66 range as it navigates G4 central banks and China uncertainties.



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