MIZUHO

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WEEK AHEAD

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06-Nov-2023

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Economic Calendar

•Survey results from Bloomberg, as of 3 Nov 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
06 Nov	EZ	HCOB Eurozone Services PMI	Oct F	47.8	47.8
	EZ	**Sentix Investor Confidence**	**Nov**	**-22.4**	**-21.9**
	JP	Jibun Bank Japan PMI Services	Oct F	51.6	51.1
07 Nov	US	Trade Balance	Sep	-$60.0b	-$58.3b
	EZ	PPI YoY	Sep	-12.5%	-11.5%
08 Nov	**EZ**	**Retail Sales MoM**	**Sep**	**-0.2%**	**-1.2%**
	JP	**Coincident Index / Leading Index CI**	**Sep P**	**114.7/108.8**	**114.6 / 109.2**
09 Nov	US	Initial Jobless Claims		220k	217k
	JP	**BoP Current Account Balance**	**Sep**	**¥2977.8b**	**¥2279.7b**
	JP	Eco Watchers Survey Current / Outlook SA	Oct	50.0/49.7	49.9/49.5
10 Nov	US	U. of Mich. Sentiment	Nov P	63.5	63.8
	US	**U. of Mich. 1 / 5-10 Yr Inflation**	**Nov P**	**--**	**4.2% / 3.0%**

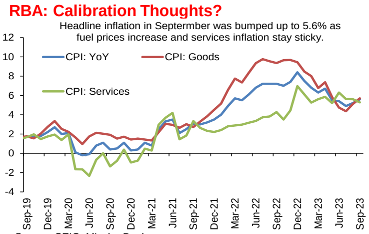
Asia

Date	Country	Event	Period	Survey*	Prior
06 Nov	**ID**	**GDP YoY**	**3Q**	**5.0%**	**5.2%**
	TH	**CPI / Core YoY**	**Oct**	**0.1%/0.6%**	**0.3%/0.6%**
07 Nov	CH	Exports / Imports YoY	Oct	-3.8%/-5.0%	-6.2%/- 6.3%
	AU	**RBA Cash Rate Target**		**4.35%**	**4.10%**
	MY	Industrial Production YoY	Sep	-0.1%	-0.3%
	PH	**CPI YoY**	**Oct**	**5.6%**	**6.1%**
	PH	Exports / Imports YoY	Sep	-4.7%/-9.0%	4.2%/-13.1%
	TW	Exports / Imports YoY	Oct	0.0%/-15.2%	3.4%/-12.2%
	TW	**CPI / Core YoY**	**Oct**	**2.8%/-**	**2.9%/2.5%**
	TW	**PPI YoY**	**Oct**	**--**	**0.0%**
08 Nov	**KR**	**BoP Current Account Balance**	**Sep**	**--**	**$4809.8m**
	PH	**Unemployment Rate**	**Sep**	**--**	**4.4%**
09 Nov	CH	CPI / PPI YoY	Oct	-0.1%/-2.7%	0.0%/-2.5%
	PH	**GDP YoY**	**3Q**	**4.7%**	**4.3%**
10 Nov	**AU**	**RBA Monetary Policy Statement**			
	IN	**Industrial Production YoY**	**Sep**	**6.5%**	**10.3%**
9-15 Nov	CH	Aggregate / New Yuan Loans Financing CNY	Oct	2000b/655b	4123b/2312b

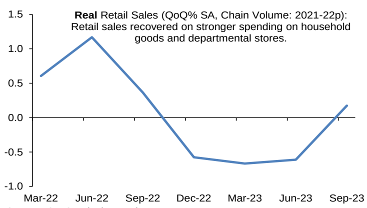
Week-in-brief: Of Dead Cats & Exorcised Bears

- The stunning rallies of last week, with **an adequately dovish FOMC interpretation** (being done with hikes) backed by "Goldilocks" softening in US jobs will have optimists claiming that **bears have been exorcised.**
- But that is almost cavalier in **overlooking the undeniable probability of a dead cat (bounce) if lagged tightening effects are only just beginning to come through amid inconveniently sticky (albeit moderated) inflation.**
- Nevertheless, momentum appears to favour long risk and a short USD amid sharp pullback in UST yields; with follow-through momentum from Friday's US jobs data set to flag off bulls in EM Asia.
- And the thing here is **that a conspiracy of (previous short) positioning**, sheer relief and markets' desire for a "Santa rally" could provide **some legs for "risk on" sentiments to revel in.**
- Like Goldilocks though, markets may have just focussed on the "just right" bear rather than being rid of threats.
- And like Schrödinger's infamous cat, well only find out if it has a pulse when that "box" is open.
- Until then, it may be a case of **acknowledging softer yields** (with lower than expected US Treasury issuances leaning into perceived FOMC concessions and US jobs moderation), and taking in respite from USD slippage, but whilst watching for key risks **merely on hold, not resolved**.
- Geopolitics and underlying China gloom are two such kinks to assess.
- Meanwhile, **Saudi and Russia retaining their earlier (respective) 1MBpD and 300KBpd output cuts** through year-end speak to persistent price pressures and policy dilemma.
- In **EM Asia**, this means that **spillover policy pressures amid downside volatility in currencies, the type that prompted a surprise hike by Bank Indonesia, cannot be assumed to be dead and buried.**
- Down Under, the **RBA's meeting this week on Tuesday** is certainly look **alive** as they look set to ponder higher rates to exorcised inflation threats. In our view, a small calibration should certainly be considered amid tugging uncertainties on both end.
- Turning to Indonesia and Philippines Q3 GDP, while the expectations is for growth moderation, one has to wonder if Korea and Taiwan's GDP exceeding estimates may have some positive spillovers.
- All in, **bears may be just taking a cat nap, not dead. Whereas it may be dead cats (bouncing) that bears closer assessment**.

RBA: Calibration Thoughts?



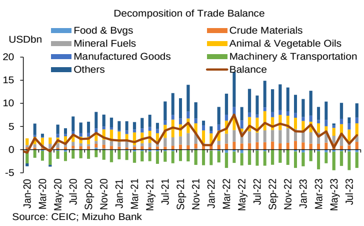
Source: CEIC; Mizuho Bank



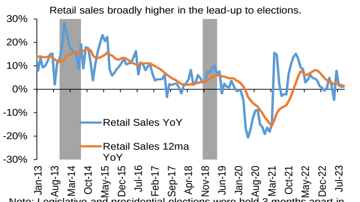
Source: CEIC; Mizuho Bank

- Admittedly, while the **consensus is for a 25bp rate hike**, it is perhaps **time for the RBA to consider a 15bps calibration** which **ought to surface as an option for deliberation at their 7 November meeting.**
- First, it is important to **reconcile the upside print to September (and Q3) inflation (3Q: 1.2%; Expectations: 1.1%)** with various **associated RBA responses**.
- **Prior** to the inflation print, Governor Bullock **espoused a low tolerance to a material change in inflation outlook.**
- **After** the inflation outturn, the Governor **testified at Senate** and generated a lot of buzz as she said that the monthly September print "we **thought it was going to be about where it came out" and "there were no surprises"** with her caveat being that these are **immediate impressions.**
- That said, taking a deeper look at the Senate **transcript**, one main reason for the **lack of surprise was that they already knew the fuel prices were rising** and expected services inflation to be persistence.
- Nonetheless, the **lack of a surprise at the testimony (26 Oct) does not exclude a shift in the inflation forecasts/outlook which was done in August.** Afterall, the Governor did end her response with " for what exactly this means.... **take the information away... think about our own forecasts** for that" and her explicit answer to whether the CPI print was material was "We're still thinking about that".
- In our view, headline inflation edging up is likely to **nudge the trajectory for headline inflation's return to the RBA's target range further out**. On its own, this **may not be enough to nudge the RBA.**
- However, **with real retail sales staging a mild recovery, this may be one of** Governor Bullock's indicators to look at "how is demand going?" as she espoused the importance of looking at how demand is interacting with on-going supply side factors in determining interest rate directions.
- All in, a **15bps hike may be the calibration to look for at this meeting**. **While patience is a virtue, one (small) step at a time may also be thoughtful progress.**

Indonesia Q3 GDP: Domestically Driven



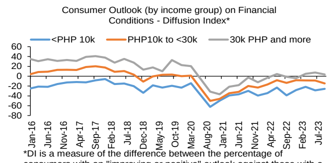
Source: CEIC; Mizuho Bank



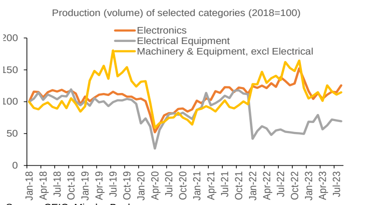
Note: Legislative and presidential elections were held 3 months apart in 2014, but on the same day in 2019.
Source: CEIC; Mizuho Bank

- We expect Indonesia to continue on-trend growth, with **Q3 GDP to coming in slightly weaker at 4.9%**, from 5.2% in Q2'23.
- Private consumption growth is expected **slow** but remain the key driver of growth in view of recent decline in retail sales growth. Looking ahead, household consumption is likely to get a boost in Q4'23 and Q1'24 on election spending.
- Robust investments will also contribute to growth. **Foreign and domestic investments** increased by 12.7% and 25.8% YoY, respectively. The growth was **driven by funds into capital-intensive sectors**, including mining, metals, chemcials & pharma, and transport, storage and communication.
- In addition, the relatively higher (net) imports of machinery and transportation equipment in recent months from monthly trade data, likely reflects an increased in investments against the backdrop of the Indonesians' government commitment towards "downstreaming".
- With the "downstreaming" objective likely to continue under the next President, **investments would continue to support growth in the coming quarters.**
- Government consumption growth is likely to come in lower compared to Q2'23 as fiscal expenditures on employee wages and goods in Jul-Sep trended down compared to Apr-Jun.
- In the lead up the 14 Feb 2024 elections, **fiscal spending is set to head higher**.
- Meanwhile, the external demand is set to remain weak, with **softer palm oil and coal prices being the key driver behind the decline in the export value.**
- Tourism receipts should however, continue to support export flows and the services sector.
- While higher-spending tourists from Australia (which constituted 8.6% of total arrivals in 2019) have recovered to above 2019 levels, there remains scope for further recovery from the arrivals of even higher-spending tourists from Singapore (which constituted 12.0% of total arrivals in 2019). Meanwhile, arrivals from Chinese (average-spending but used to be a major source) have been tepid.

Philippines Q3 GDP: Below Trend



*DI is a measure of the difference between the percentage of consumers with an "improving or positive" outlook against those with a "deteriorating or negative" outlook. A negative number suggests that sentiments are weighed to the downside.
Source: CEIC: Mizuho Bank



Source: CEIC; Mizuho Bank

- While we expect Philippines **Q3 GDP to improve to 4.8% from 4.3% in Q2**, there isn't much to be cheerful about as this is much lower than the pre-pandemic (2015-2019) average quarterly growth of 6.6% YoY.
- While private consumption will continue to support growth, outperformance is unlikely. Domestic consumption has been growing at a slower pace since peaking at 10.0% YoY in Q1 2022 amid intense cost pressures and a high interest rate environment, in addition to still weak consumer sentiments.
- **Government consumption is expected to accelerate** in Q3 2023 from a 7.1% YoY contraction in Q2 2023 as the government accelerates the execution of government programs and projects. This is likely to drive a modest improvement to gross fixed capital formation.
- In addition, **a narrower trade deficit implies a smaller drag on growth**. Encouragingly, the **export picture is showing some signs of recovery**. Exports are likely to contract at a slower pace even as base effects are high, but a fuller recovery would take time. Regional electronics production has seen some nascent signs of recovery and similarly, **electronics production has picked up in Philippines in recent months**. Electrical and electronic equipment (which typically lags electronics) accounts for ~55% of Philippines exports (in 2022) and may also recovery in the quarters ahead.
- As for services exports, continued tourism recovery is supportive. Arrivals of tourists for Q3'23 stood at 60.9% of Q3'19 levels, which is marginally higher than the 1H'23 tourists arrivals recovery of 60.3%. Nonetheless, given the relatively modest contribution (tourism receipts only accounted for 2.6% of GDP in 2019, against the ASEAN-5 average of 5.2%), the contribution to growth is not expected to be outsized.
- Finally, monthly trade data suggests that import compression persisted in July and August and **goods imports would likely have contracted and flatter headline GDP growth.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.39	-0.270	-0.18%	146.90	~	150.50
EUR/USD	1.0731	0.0166	1.57%	1.060	~	1.079
USD/SGD	1.3543	-0.015	-1.13%	1.3500	~	1.3700
USD/THB	35.710	-0.507	-1.40%	35.60	~	36.00
USD/MYR	4.727	-0.051	-1.07%	4.715	~	4.800
USD/IDR	15728	-212	-1.33%	15,650	~	15,900
JPY/SGD	0.9068	-0.008	-0.93%	0.897	~	0.933
AUD/USD	0.6513	0.018	2.81%	0.625	~	0.655
USD/INR	83.29	0.040	0.05%	82.8	~	83.6
USD/PHP	56.11	-0.850	-1.49%	55.8	~	56.8

^Weekly change.

FX Outlook: Tides and Currents

- A relatively quiet data calendar would likely mean that the developments in the past few weeks roll over.
- In nascent signs of tides turnings, **Greenback's strength has subsided over the past two weeks and should continue** as the Fed appears to have reached its terminal rate and rationale for additional hikes diminish on preliminary indications of a weaker labour market. DXY went below 106 - a level which it crossed post-Sep FOMC when the Fed published the revised economic projections.
- Across the Atlantic, **EUR** should go with the flow and gain ground against the USD. Outperformance unlikely as weak growth and moderating CPI validates ECB's pause.
- Alas, BoJ's decision last week could actually tide the **JPY** over recent weeks of weakness, **especially if long-end UST yields continue to follow short-end yields downwards**.
- The JPY looks to have been caught in an eddy of low rate differentials and heightened intervention risks which saw the JPY trading in a narrow range. Since Sep FOMC, 2Y yields have come down (<5bps vs 5.2%) while 10Y UST yields are still higher (4.7% vs 4.4%).
- A rising tide lifts (most) boats, **EM-Asia currencies should continue their rally.**
- Notably, **MYR** held onto gains even as BNM left rates unchanged.
- **Diverging rates outlook** could impart more support for **AUD**, **PHP** and **IDR**. Look to RBA (7 Nov) a, BSP (16 Nov) and BI (22 Nov) in the coming weeks.
- However, downside risks to China trade data could lend some weakness to **AUD** and **SGD.**
- All said, **caution should be duly heeded**, as **this could turn out to be more of a surge rather than a swell**.
- The **undercurrents of the Israel-Hamas conflict cannot be underestimated** amid allusions of a contained whirlpool. The risk of a geopolitics spilling over to oil risks tides turning yet again, swiftly and abruptly. Afterall, gold remains above $1900 and softer oil prices can in part be attributed to weaker demand and higher inventories.

Bond Yield (%)

3-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.839	-16.3	4.572	-26.3	Flattening
GER	2.949	-7.5	2.642	-18.6	Flattening
JPY	0.137	5.5	0.913	4.4	Flattening
SGD	3.488	-11.4	3.179	-18.0	Flattening
AUD	4.336	-3.1	4.720	0.1	Steepening
GBP	4.637	-7.8	4.282	-25.9	Flattening

Stock Market

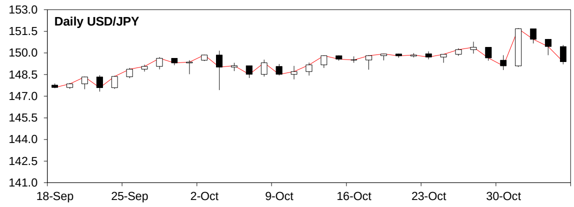
	Close	% Chg
S&P 500 (US)	4,224.16	-2.39
Nikkei (JP)	31,259.36	-3.27
EuroStoxx (EU)	4,024.68	-2.69
FTSE STI (SG)	3,076.69	-3.42
JKSE (ID)	6,849.17	-1.12
PSEI (PH)	6,142.90	-1.97
KLCI (MY)	1,441.04	-0.21
SET (TH)	1,399.35	-3.54
SENSEX (IN)	65,397.62	-1.34
ASX (AU)	6,900.72	-2.13

US Treasuries: Inflection?

- Last week, UST yields plunged as end of the week weaker than expected non-farm payrolls and unemployment triggered Fed pivot bets.
- We have been alluding to the threat of **an inflection for UST yields on sight of softer US economic data.** Yet at the same time, we are **cognisant of that the path down will be invariably sharp and bumpy.**
- **For now, the downside bias may still remain strong given that haven needs remain plentiful on both recession and geo-politics.**
- All in, 2Y yields will trade in the 4.7% to 5.0% range while 10Y yields stay in the 4.5-4.7% range with **fleeting moments of positive yield slopes.**

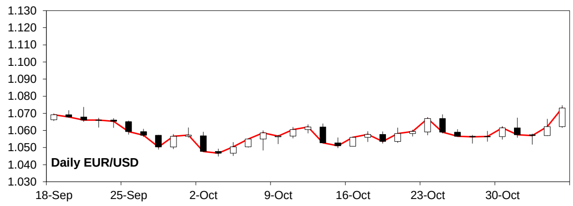
JPY: Gradualism

- The BoJ's slightly tweak to the YCC such that 1% has become a reference mark to allow for flexible bond buying speaks to their gradual approach to assess the associated cost of an exit on both fiscal and financial stability.
- As for the JPY, the bout of lower UST yields is welcomed relief and assist to backstop the JPY.
- On the whole, while further JPY gains may be likely, they may end up outsize on a fleeting basis as volatility remains accentuated. Gradual remains the hall mark.
- On balance the USD/JPY remains buoyed above 148.



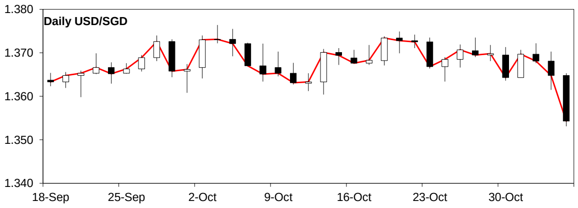
EUR: Stagnating Rallies

- The late week USD weakness saw EUR surge above 1.07. Its durability will be tested this week.
- The risks this week is that fading US exceptionalism is no panacea for EZ growth issues.
- As such, we refrain from ascribing challenges above 1.08. EZ retail sales may just show that EZ housholds may not be in much better shape either and sent it back below 1.07.



SGD: Cautious strengthening

- SGD gained ground alongisde EM currencies, with USD/SGD moving below the 1.36 - a level last seen in early September. This week, SGD to likely to continue rallying cautiously as risk aversion takes a backseat.
- Upside surprise to China's trade data could lend SGD further support with tests of mid.1.34 possible while a likely weak EZ retail sales data and consumer confidence should temper SGD strength a little.
- Risks heightened on two-way volatility as renewed risk-off sentiments on geopolitical flare-ups could send the USD/SGD back into 1.37 levels.



AUD: Of Anticipation and Validation

- The AUD's outperformance to close above 65 cents is commendable and **speaks to rising bets for the RBA to hike in constrast to the pausing ECB and Fed** which in turns allow for some AUD catch-up.
- That said, preceisly because of a build-up in anticipation, should the RBA fail to live up to expectation a fall back towards 64 cents is par for the course.
- Nonetheless, we remain of the view that the RBA ought to signal sufficient hawkish tendencies and backstop the AUD above mid-64 cents especially if China data signals possible bottominig.