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MIZUHO

WEEK AHEAD

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27-Nov-2023

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Economic Calendar

•Survey results from Bloomberg, as of 24 Nov 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
27 Nov	US	New Home Sales	Oct	723k	759k
	US	**Dallas Fed Manf. Activity**	**Nov**	**-16.0**	**-19.2**
	JP	PPI Services YoY	Oct	2.3%	2.0%
28 Nov	US	Conf. Board Consumer Confidence	Nov	101.0	102.6
	US	**Richmond Fed Manufact. Index**	**Nov**	**1.0**	**3.0**
29 Nov	**US**	**GDP Annualized QoQ**	**3Q S**	**5.0%**	**4.9%**
30 Nov	US	Initial Jobless/Continuing Claims		220k/1870k	209k/1840k
	US	MNI Chicago PMI	Nov	46.0	44.0
	US	**PCE/Core Deflator YoY**	**Oct**	**3.1%/3.5%**	**3.4%/3.7%**
	US	Personal Spending/Income	Oct	0.2%/0.2%	0.7%/0.3%
	US	Federal Reserve Releases Beige Book			
	EZ	Unemployment Rate	Oct	6.5%	6.5%
	EZ	**CPI/Core YoY**	**Nov**	**2.7%/3.9%**	**2.9%/4.2%**
	JP	**Retail Sales YoY**	**Oct**	**6.0%**	**6.3%**
	JP	**Industrial Production YoY**	**Oct P**	**0.5%**	**-4.4%**
01 Dec	**US**	**ISM Manufacturing/Prices Paid**	**Nov**	**47.7/--**	**46.7/45.1**
	JP	Job-To-Applicant Ratio/Jobless Rate	Oct	1.3/2.6%	1.3/2.6%
	JP	Capital Spending YoY	3Q	3.4%	4.5%

Asia

Yellow highlight indicate actual data

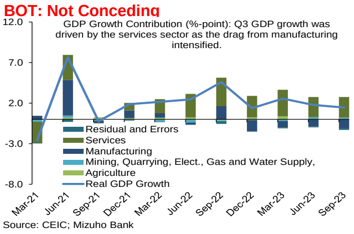
Date	Country	Event	Period	Survey*	Prior
27-Nov	**CH**	**Industrial Profits YTD YoY**	**Oct**	**-7.8%**	**-9.0%**
	TH	Customs Trade Balance	Oct	$530m	$2090m
28 Nov	**AU**	**Retail Sales MoM**	**Oct**	**0.1%**	**0.9%**
	KR	**Retail Sales YoY**	**Oct**	**--**	**9.5%**
	TW	**GDP YoY**	**3Q P**	**2.3%**	**2.3%**
29 Nov	**AU**	**CPI YoY**	**Oct**	**5.2%**	**5.6%**
	TH	**BoT Benchmark Interest Rate**		**2.50%**	**2.50%**
	VN	**Retail Sales YoY**	**Nov**	**--**	**7.0%**
	VN	**Industrial Production YoY**	**Nov**	**6.50%**	**4.1%**
	VN	**CPI YoY**	**Nov**	**3.6%**	**3.6%**
30 Nov	CH	Manufacturing/Non-manufacturing PMI	Nov	49.7/51.1	49.5/50.6
	IN	**GDP YoY**	**3Q**	**6.9%**	**8.0%**
	KR	**BOK Base Rate**		**3.50%**	**3.50%**
	KR	**Industrial Production YoY**	**Oct**	**4.0%**	**3.0%**
	TH	**BoP Current Account Balance**	**Oct**	**--**	**$3406m**
01 Dec	CH	Caixin China PMI Mfg	Nov	49.5	49.5
	ID	**CPI/Core YoY**	**Nov**	**2.7%/1.9%**	**2.6%/1.9%**

Week-in-brief: Precarious

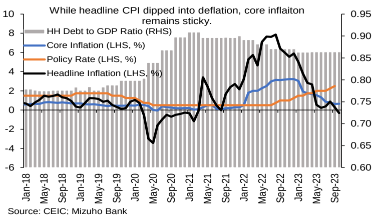
"It was one of those March days when the sun shines hot and the wind blows cold; when it is summer in the light, and winter in the shade" - **Charles Dickens, Great Expectations**

- **Market buoyancy**, ***if not exuberance,*** appears to be **premised on "Great Expectations"** of a *soft landing, engineered by a Fed pivot amid US exceptionalism.* But the **underlying realities are more precarious** than the facade of a solid turnaround that is looking to build into a "Santa rally". And this precarity resonates with Dickensian wisdom on "*summer in the light, and winter in the shade*".
- **Precarious is the market optimism** making for **sustained buoyancy in risky assets** led by equities and accompanied by a suppression of the Greenback.
- For **precarious is the assumption of a "Goldilocks" soft *landing*** *intertwined with bets on a Fed pivot;* which allows for markets to surmount, if not challenge, higher yields and a strong USD.
- Ultimately, both **market (over-)confidence** and **Fed calculus may prove precarious**.
- As **markets overestimate the Fed's sensitivity to low-hanging dis-inflation** while the **Fed overestimates consumer resilience** from which much of US exceptionalism is derived from.
- Fact is, **record $9.8b online sales for Black Friday do not distract from** a higher bar for discounts needed to lure shoppers or deferred payment inducements that front-loaded sales; both of which reveal **precarious discretionary spending capacity** than consumption itself reveals.
- And on the other hand, ***despite encouraging decline in inflation,*** which will likely show **up in the Fed's preferred PCE benchmark**, the **precarity of sustaining "last mile" disinflation** may mean that *Fed hawks may be more restrained about backing down.*
- **Precarious too is the truce between Israel and Hamas**; and by extension, a wider pullback in the perceptions of geo-political threats, which in fact continue to pose "fat tail risks"
- The **welcome relief is the freeing of hostages** in exchange for prisoners amid ceasefire.
- The **more sobering reality though is the deep mistrust** that **keeps the ceasefire fragile**.
- What's more, *Israel's overt aim of annihilating Hamas means the truce may be precarious;* which inevitably turns out to be a **brief punctuation before an existential conflict resumes**.
- **Softer Oil** (although Gold is buoyed) partly reflecting the facade of positivity, and **downplaying the precarity of geo-politics**, **must** however **brace for a precarious state of OPEC+ dynamics**.
- The deferred OPEC+ meeting, moved online (from in-person), reflects growing tensions amid unhappiness about curbs/market share loss within the cartel. But this cannot be taken a convergence that lowers oil price. Instead, it entails near-term tightening of supply cut compliance.
- **Precarious too may be optimism from Beijing's concerted measures** to backstop the property sector; as *Beijing's probe on shadow banking giant Zhongzhi warns of ongoing woe.*
- And **given the inextricable linkages between shadow banking, property, banks and household investments,** with the attendant contagion risks that is embedded, this means that **economic and financial confidence** are not just **precarious** but could *arguably in real peril.* Especially **as policy inclination for "discipline" and demand stimulus co-exist in a precarious balance**.
- Meanwhile, China's industrial profits may well indicate an improvement. But this ray of light is from a soft base. Whereas industrial sentiments may remain precarious.
- Elsewhere in EM Asia, **BoT and BoK will be on ostensibly comfortable hold**. But it is *Fed pivot bets that mask the underlying precarity of real rate spreads moving in favour of the US.*
- Likewise, **solid Q3 GDP print from India** could overstate the durability of consumer leverage as well as insulation should the global economy wobble.
- All said, *hankering for "Santa rallies" is poor excuse to disregard the precarity of "March days".*

BOT: Not Conceding



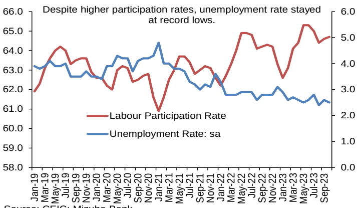
Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- **For now**, we expect **the BoT to hold firm at their upcoming meeting and not concede to the dismal Q3 growth outturn and subdued headline inflation pressures**.
- On the surface, **headline inflation at -0.3% YoY** which puts it in deflationary territory and Q3 GDP growth at 1.5% admittedly **warrants contemplating monetary accommodation**.
- Nonetheless, the **main driver behind this deflation is the lower cost of fuel** in turn is a result of government's subsidies. Aside from the fiscal burden woes, the near **singular source of price decline does not resemble the broad based easing which the BoT had set out to achieve.**
- While Q3 GDP growth was indeed woeful **as manufacturing output posted a 1.1% point drag**, a still recovering **services** sector providing a **2.5% point growth support alongside private consumption's 8.1% YoY increase** depicts **grossly skewed growth**.
- As such, the **BoT will be wary of providing broad based support via rate cuts** especially amid elevated household debt levels.
- Furthermore, uncertainty over **fiscal stimulus plans** in which saw BoT Governor Sethaput abstain from the decision making in the Digital Wallet Committee poses **further pipeline inflation threats**.
- All in, further visibility on broad based price stability is needed to shift stance with confidence.

BOK: No Room



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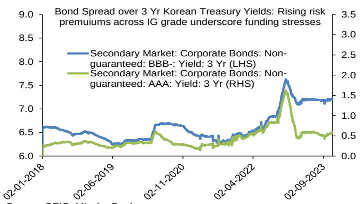
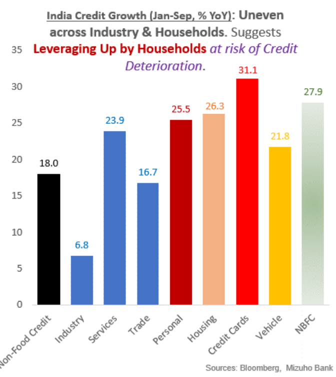


Source: CEIC; Mizuho Bank

- The bottomline for the upcoming BoK meeting is that there is really limited policy room on both ends. Specifically, a **tightening labour market accompanied by resurgent inflation implies no room for contemplating easing** while **financial stability concerns amid corporate funding stress caution against further hikes.**
- First, aside from **higher food and fuel prices driving a resurgence of headline inflation** back to 3.8% in October which is significantly higher than the 2023 lows of 2.3% recorded in July, core inflation's very mild moderation to 3.2% is also a troubling sight for the BoK.
- Furthermore, these prices pressures are underpinned by an **utterly tight labour market which hit record low unemployment rates despite significantly higher participation rates.**
- These gains have come alongside **Q3 GDP growth which rose to 1.4% YoY** on the back of a recovery in export revenues as semiconductor equipment demand rose. That said, the **external demand fragilities are still evident** given that employment gains have come from the services related sector as **manufacturing employment in October is lower compared to a year ago.**
- On the other end, while rate hikes may look like an appropriate pre-emptive option especially in the face of a **creep up in housing prices** since August 2023, **prevailing financial stability concerns are a key constraint.** Notably, **the significant increase in risk premiums which is even evident within IG grades** has persisted since early this year point to funding stresses.
- All in, the BoK will stand pat to allow further time for assessing the balance of risks going forward.

India GDP: Buoyant, Not Bullet-Proof

- **India's solid economic performance** remains **a bright spot** compared to elsewhere in *Asia,* where manufacturing slump restrains economic rebound.
- *In contrast,* **India's industrial output** has not only **grown at a solid 5.4%** in the first three quarters of 2023, but has **accelerated to 6.4% YoY for Q3**.
- What's more, **robust consumer demand** also **promises to keep activity relatively buoyant**.
- **But by no stretch is India bullet-proof**; be it to *external headwinds,* or *domestic stress points.*
- First, the **recovery**, while robust, **suffers the "K" tyranny**; as demand recovery remains highly uneven across income profiles given the disproportionate pain of food-led inflation on lower income households.
- What's more, the *surge in personal borrowings* that has accompanied/supported strong consumption is a **worrying sign of (over-)extended households.**
- And this is e**ven more worrying amids signs of stronger consumer non-durables** than durables in IP details suggesting *debt-driven consumption.*
- In which case, **post-pandemic demand revival may be more exaggerated, than it may be durable**. So, **optimism ought to be tempered not extrapolated.**



Sources: Bloomberg, Mizuho Bank

Vietnam: Targets

- Into the end of the year **seasonal demand tailwinds**, Vietnam's **industrial production in November is likely to continue steady expansion** from October's 4.1% YoY growth, albeit likely at a slower MoM pace than the 5.5% recorded in October.
- As for **retail sales**, it will be underpinned by robust tourism activity as well as **fiscal support from lower VAT rates**. The latter's impact has been particularly evident from the fiscal perspective.
- **VAT collection for the first 3 quarters of 2023 is 11.4% lower despite nominal retail sales being 9.7% higher.** As such, budget collections may also fall shy of the government's target.
- On balance, it remains that case that **2023 growth will fall short of the official target of 6.5%.**
- **Looking ahead, the National Assembly set the Growth target for 2024 at 6.0%-6.5%.**
- Aside from fiscal and monetary policy, growth prospects hinge on the ability to resolve property sector issues amid the persistent revelation of fraud issues which in turn dent broader sentiments around corporate bond issuances and consequent investment spending.
- Turning to **headline inflation, it is expected to stay elevated** around 3.6% (seen iin Oct) amid **two way adjustments of fuel prices** and projected raises in education fee in the new school year. That said, inflation remains comfortably below the SBV's current 4.5% target (2024 target: 4-4.5%).

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.44	-0.190	-0.13%	148.00	~	151.00
EUR/USD	1.0939	0.0024	0.22%	1.080	~	1.010
USD/SGD	1.3401	-0.003	-0.25%	1.3350	~	1.3700
USD/THB	35.485	0.390	1.11%	35.10	~	35.80
USD/MYR	4.6877	0.007	0.14%	4.670	~	4.710
USD/IDR	15565	72	0.46%	15,400	~	15,800
JPY/SGD	0.8966	-0.001	-0.14%	0.884	~	0.926
AUD/USD	0.6585	0.007	1.07%	0.640	~	0.662
USD/INR	83.38	0.108	0.13%	82.9	~	83.6
USD/PHP	55.395	-0.275	-0.49%	55.2	~	56.0

^Weekly change.

FX Outlook: Saturation?

- The question for markets, after and **extended slump in the Greenback** (of 2.0-2.5%) over the last two weeks or so, is **whether the trajectory has steam left in it**.
- Especially given that it has **corresponded to >2% surge in the CNH** with *AUD and NZD gains of 3.3-3.6% leading the way* over the last two weeks, followed by coincident 1-2% gains in THB, SGD, KRW and PHP.
- Admittedly, some other commodity currencies such as IDR and MYR have lagged with 0.5-1.0% gains while rupee is largely unchanged.
- But that does not negate the fact that the edge coming off the USD alongside a lift in CNH appears to be giving way to long AXJ momentum.
- The risk though is that this **may be somewhat stretched** on the back of several factors.
- For one, the CNH-led boost from property markets stimulus measures, including plans for unsecured lending to developers, may be overshadowed by renewed shadow banking woes.
- So any spill-over dampening, if not drag, on the CNH could very well stall upside in other EM Asia FX; with AUD and NZD likely to moderate gains.
- **Especially if China's industrial profits are lackluster, feeding into worries of sluggish demand remaining a bugbear**.
- What's more, the delayed **OPEC+ meeting this week could impose supply-side burden of higher oil prices** if Saudi gets its way to prop up prices.
- Finally, l**ess dovish-than-hoped-for Fed speak** may be a party-pooper for those looking to extend short USD-long EM Asia FX bets.
- In short, the **fortuitous mix of Fed pivot and China boost may be saturated**. And *even if AXJ rallies are not fully exhausted, they may at least be re-assessed with more caution.*

Bond Yield (%)

24-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.948	6.2	4.466	3.1	Flattening
GER	3.065	11.3	2.640	5.5	Flattening
JPY	0.052	1.8	0.764	1.7	Flattening
SGD	3.359	7.5	2.955	2.8	Flattening
AUD	4.243	9.7	4.543	0.1	Flattening
GBP	4.670	15.6	4.276	17.8	Steepening

Stock Market

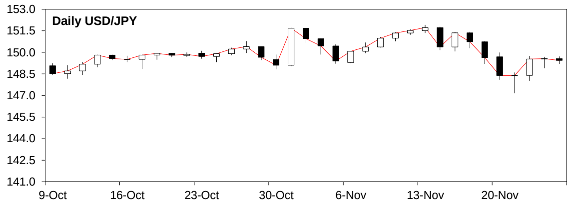
	Close	% Chg
S&P 500 (US)	4,559.34	1.00
Nikkei (JP)	33,625.53	0.12
EuroStoxx (EU)	4,372.10	0.72
FTSE STI (SG)	3,094.81	-0.96
JKSE (ID)	7,009.63	0.46
PSEI (PH)	6,269.50	0.93
KLCI (MY)	1,453.92	-0.46
SET (TH)	1,397.43	-1.30
SENSEX (IN)	65,970.04	0.27
ASX (AU)	7,040.76	-0.12

US Treasuries: Spending Challenges

- Despite the geo-polticial relief, it appears the UST yields are remaining buoyant on both tight monetary policy stance and fiscal policy room.
- **Fiscal troubles in the UK and in Germany appear to remind cross atlantic USTs that spending/debt woes are far from resolved.**
- As such, **2Y UST yields will challenge the 5% mark this week** and look likely to consolidate in the vincinity especially if the ISM manufacturing do not assert recession fears. In addition, the likelihood of a sticky PCE deflator will provide backstop for UST yields but fall short of rallies.
- Yet, the surprise may come in the form of less tracked **household income and spending as any consumer weakening reaffirming subdued Black Friday momentum may trigger haven demand.**
- Meanwhile, **geo-political relief which will further upside to UST yields early in the week amid welcomed freeing of hostages may face late week flight to safety on end to the truce**. All in, 2Y UST to stay buoyed betwen 4.85%-5.10% while 10Y yields trade in the 4.4%-4.65% range.

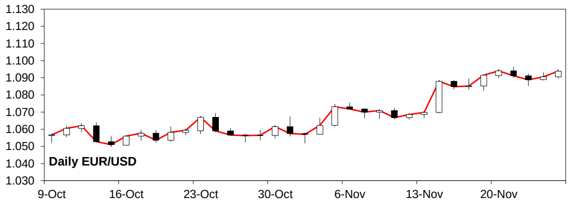
JPY: Dis-inflating Bulls

- Amid elevated UST yields, **the larger than expected CPI dis-inflation in Japan from both angles of headline and core has dented JPY bulls** as the **USD/JPY rose back above 149 after the mid-week plunge to test below mid-147.**
- That said the early week, PPI services continue to display signs of underlying costs pressures.
- As such, the importance of retail sales may have been nudged higher to assess the state of households and their consequent ability to underpin inflation.
- **On balance, the USD/JPY remains in an elevated state being buoyed above mid-148 as JPY bulls tire while bears remains wary of BoJ actions.**



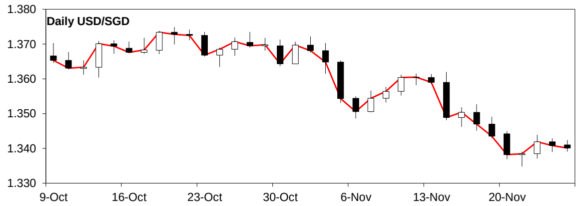
EUR: Spent

-As expected, EUR rally fizzled last week **as EUR bulls look spent**.
- **Fiscal worries** in Germany and the UK which has buoyed **EZ yields has barely assisted the EUR** which is understandable given the fundamental **reflection of a shaky growth colliding with upsized spending needs.**
- **With ECB's Lagarde touting the ability to stay patient and assess the impact of monetary tightening**, **EUR bulls have little backing to head higher.**
- For now, we expect EUR to continue in the range of 1.08 to 1.10.



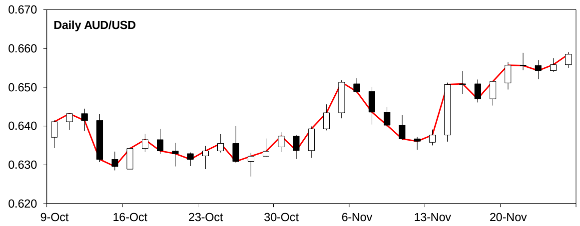
SGD: CNH Spillovers

- Resiliency of SGD around 1.34 levels last week would likely be tested this week, as weakness in the CNH spillover
- In particular, China's probe into Zhongzhi (one of the biggest players in the shadow financing market), could intensify concerns on the extent of China's economic problems.
- Weak PMI prints risk fuelling growth worries.
- Excessive weakness should be restrained as US second-tier data presents some upside volatility (stronger SGD) as markets continue to seek affirmation for a slowing economy and increased rate cut bets.
- All in, SGD expected to be trading around 1.33 to mid-1.36 range



AUD: Wary of China Bears or boosted by RBA Hawks?

- The question of whether the RBA not relenting on hawkish tendencies just yet will be sufficient to buoy the Antipodean further.
- And the short answer to that is that this cannot be answered in a vacuum.
- Not just without a sense of the USD's inclination to make back ground after extended declines over the last two weeks.
- But also due to China's shadow banking risks casting a (wait for it) shadow on recent optimism around Beijing's property-boosting measures.
- Fact is, insofar that it appears that China optimism and CNH rallies flattered AUD gain, and;
- Fed pivot bets appears close to being exhausted on the current run of data, AUD rallies could also starts to stutter, if not falter.
- Near-term range of 0.6560 to 0.666 looks likely for now.



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