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Economic Calendar

•Survey results from Bloomberg, as of 6 Oct 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
09 Oct	**EZ**	**Sentix Investor Confidence**	**Oct**	**-24.0**	**-21.5**
10 Oct	US	Wholesale Inventories MoM	Aug F	-0.1%	-0.1%
	JP	BoP Current Account Balance	Aug	¥2972.0b	¥2771.7b
	JP	Eco Watchers Survey Current / Outlook	Sep	53.2/51.3	53.6/51.4
11 Oct	US	PPI / Ex Food and Energy YoY	Sep	1.6%/2.3%	1.6%/2.2%
	JP	Machine Tool Orders YoY	Sep P	--	-17.6%
	US	FOMC Meeting Minutes			
12 Oct	**US**	**Initial Jobless Claims**		**210k**	**207k**
	US	**CPI / Ex Food and Energy YoY**	**Sep**	**3.6%/4.1%**	**3.7%/4.3%**
	JP	PPI YoY	Sep	2.4%	3.2%
	JP	Core Machine Orders YoY	Aug	-6.7%	-13.0%
13 Oct	**US**	**U. of Mich. Sentiment / Expectations**	**Oct P**	**67.0/ 65.7**	**68.1/66.0**
	US	U. of Mich. 1 / 5-10 Yr Inflation	Oct P	3.3%/2.9%	3.2%/2.8%
	EZ	Industrial Production WDA YoY	Aug	-3.4%	-2.2%

Asia

Date	Country	Event	Period	Survey*	Prior
09-15 Oct	**CH**	**Aggregate Financing CNY**	**Sep**	**3750.0b**	**3123.7b**
	CH	New Yuan Loans CNY	Sep	2500.0b	1358.0b
10 Oct	PH	Trade Balance	Aug	-$4350m	-$4201m
11 Oct	KR	BoP Current Account Balance	Aug	--	$3578.8m
	TW	Trade Balance	Sep	$8.38b	$8.59b
12 Oct	**IN**	**CPI YoY**	**Sep**	**5.4%**	**6.8%**
	IN	**Industrial Production YoY**	**Aug**	**9.4%**	**5.7%**
	MY	**Industrial Production YoY**	**Aug**	**-2.0%**	**0.7%**
13-Oct	KR	Unemployment Rate	Sep	--	2.4%
	CH	**CPI/PPI YoY**	**Sep**	**0.2%/-2.4%**	**0.1%/-3.0%**
	CH	Exports / Imports YoY	Sep	-7.5%/-6.0%	-8.8%/-7.3%
	MY	**Budget 2024**			
	SG	**GDP YoY**	**3Q A**	**0.4%**	**0.5%**
	SG	**MAS Monetary Policy Statement**		--	--

Week-in-brief: Shocks Without Shifts?

- A confluence of economic and geo-political shocks have roiled markets. With **blockbuster US jobs**, arguably a potential *hawkish trigger* now conspiring with the **Israel-Hamas war** , which threatens with *stagflationary repercussions,* **policy calculus is rendered more complex**.
- But **in aggregate**, this may **simply lift the bar for policy action one way or another** (hike or cut).
- In other words, ***increased vulnerabilities to shocks but without consequent policy shifts***.
- Especially **as Oil is simultaneously an inflationary and adverse growth shock**. Complicating policy response further is the *tension between "sticky" core inflation and lagged policy tightening.*
- For now, though, two things are clear. First, even before Israel-Hamas war, the **headline hawkish jolt inferred from US jobs was overdone**. Admittedly, at 336K, at almost twice the expected 170K jobs conveys a red hot market; especially with upward revisions adding another 119K jobs for Q3.
- But **wage-price risks** are **checked by steady, rather than slipping jobless** rate alongside cooling wage pressures (0.2% MoM vs. 0.3% MoM expected) and **lagged policy tightening continues**.
- Second, the **uncertainty is exceptionally elevated**. Apart from **unresolved shutdown risks** (deferred to mid-Nov) and **UAW strikes**, the Fed now must size up an **evolving Israel-Hamas war**.
- And what is really tricky is that not only are the duration and breadth of risks difficult to pin down, but the spill-over risks are also hard to quantify. **Abrupt outbursts of cost shocks to energy, food and wider commodities are par for the course** given wider ramifications for Russia, Saudi and Iran.
- And in underlining the "***shocks without shifts***" state of play, it is notable that prolonged policy hold, be it in the US or in EM Asia, **reflect growing unease rather than comfort with equilibriums**.
- **US CPI may still drive yields regardless**. A *hot print that reveals re-acceleration* towards 4%/4.5% in the headline/core *could set yields up for another leg up (bear steepening fashion)*.
- On the aside **FOMC Minutes** may have little forward-looking impetus, but the *bias is hawkish.*
- Elsewhere, the **MAS** (Fri) will be holding its second bi-annual meet. A **hawkish hold to underscore inflation anchor** appears to be **minimum requirement to backstop SGD**. Especially as exceptional USD strength has temporarily eroded S$NEER inflation buffer. Israel-Hamas add to policy tensions.
- **Malaysia's Budget** will also be **watched** for a **phased approach to subsidy rationalization** in favour of targeted fiscal offset; and will be gauged for *fiscal sustainability* and *political capital.*
- **India's CPI may revert to dis-inflation**, *but* will provide *little room for RBI doves to elbow in*.

Will Oil Prices Spike on Israel-Hamas War?

- The weekend's shocking attack by Hamas that blinsided Israel, **poses significant uncertainty to energy/Oil markets** as well. The upshot being, **Oil may be more prone to upside risks** to prices given potential for supply disruption, but is unlikely to surge past $100-120 (Brent).
- Reason being, heightens geo-political risks turning the situation less conducive for Iran to engage in supply ramp-up, is likely to increase Oil's sensitivity to more upside.
- Especially with Russia now poised to lift prices in the back of more fraught Middle East output ramp-up.
- What's more, with Saudi preferring $100 oil, sensitivity to upside risks to prices will be heightened as Saudi is less likely to tap into excess capacity so quickly. At least not ahead of a strong upswing above $100-120.
- Nonetheless, unless sanctions on Iran on doubled down on allegations of direct Iranian involvement and/or the passage of oil is disrupted (likely via the Straits of Hormuz) a much sharper and sustained up-move is oil is not the base case.

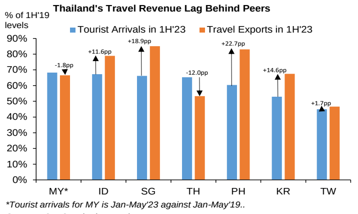
MAS: Hard Hold

- The **MAS is set to hold** steady at bi-annual meeting (13th Oct).
- Specifically, a **hawkish hold** that *errs on the side of inflation anchor.*
- That's to say, a **"hard" hold** that underpins a *hard-line on inflation,* yet also concedes a *"hard" decision; given sharper trade-offs* involving **uneasy downside risks to growth**.
- In fact, *as underwhelming as economic growth may be,* **underlying "tail risks" of a sharper downturn** are ***actually* understated by a highly uneven recovery**.
- Especially as *otherwise worryingly extended manufacturing downturn* being offset by **service sector outrun** tempts **complacency**; inadvertently, **over-estimating resilience**.
- *Whereas, tourism recovery* and *wealth-driven inflows* amplifying asset market buoyancy and alongside onshore consumption (both first and second-round effects) exaggerate durable underlying demand recovery. *Nevertheless,* **mounting "tail risks"** will be a consideration, perhaps a concern, but certainly **not a catalyst for a shift in policy stance**.
- *Instead,* "**sticky" inflation will continue to dominate** the policy thrust, **requiring a hawkish hold**. In particular, to anchor inflation expectations **amid pipeline cost pressures**.
- Crucially, **extreme SGD under-performance vis-à-vis S$NEER** amid exceptional USD, which temporarily diminishes S$NEER inflation buffer capabilities (due to dominance of USD invoicing), **underscore** *the need for a* **hawkish slant to the hold**.

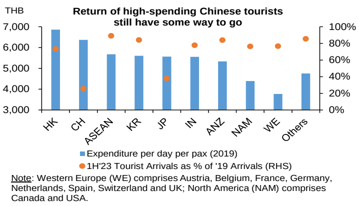
Malaysia Budget 2024: Progressive Targets

- Following the roll out of targeted electricity subsidies from the start 2023, the **focus** of the **upcoming Malaysia Budget 2024 on 13 October will be on the subsidy rationalization on fuel.**
- With energy subsidies costing upwards of 3% of GDP in periods of high crude oil prices, even a calibrated tweak with the measured deficit reduction (from 5% in 2023) to **4.6% of GDP for 2024 .**
- These petrol subsidy reforms will likely be **implemented nearer to late Q2 2024** to provide ample time for business cost adjustments as well as ironing out implementation kinks.
- There is admittedly a **wide range of variations in possible reforms** which can range from **lifting the ceiling prices for diesel and Ron-95 to narrowing the subsidies to just diesel.**
- Nonetheless, given **the progressive nature of PM Anwar's Madani plan** which has a strong focus on equitable distribution of benefits, a **switch to a market based mechanism is still a distinct possibility despite the poor showing during the state elections**. **Cash transfers to the lower income groups will be the offsetting solution** to the higher cost of living pressures.
- While **re-defining eligibility to subsidized petrol based on car types/income** may look the more sophisticated solution, **implementation and leakage concerns** may **hinder** and obfuscate compared to distinct market based pricing complement by cash/voucher subsidies.
- On the tax front, while substantial collection initiatives are not on the cards given that a GST re-introduction is not expected, details on likely implementation of **capital gains tax and luxury goods tax will be closely watched** by specific segments of the business community.
- All in, **Budget 2024 will be the first step for PM Anwar to stamp his progressive mark.**

THB & Tourism: Show Me the Money



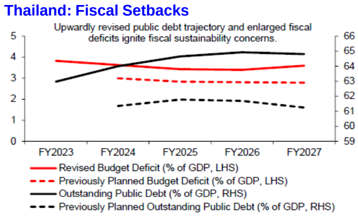
*Tourist arrivals for MY is Jan-May'23 against Jan-May'19..
Source: CEIC; Mizuho Bank



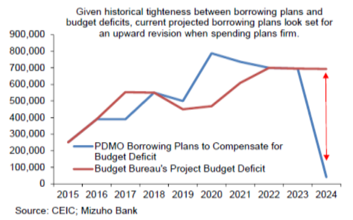
Note: Western Europe (WE) comprises Austria, Belgium, France, Germany, Netherlands, Spain, Switzerland and UK; North America (NAM) comprises Canada and USA.
Source: CEIC; Mizuho Bank

- Apart from political and fiscal woes, **THB underperformance is underscored by receipts lagging arrivals which indicate that the THB catch-up left is understated by the arrival shortfall.**
- **To be sure, this seems peculiar to Thailand which stands in sharp contrast with peers where recovery in receipts have surpassed arrivals (vis-a-vis 2019).**
- The tourism industry holds an outsized impact in Thailand as travel exports constituted 11.0% of GDP in 2019, almost double the ASEAN-5 average of 5.2%. The figure in 1H'23 was only 5.7%.
- **Tourism recovery has been still reasonable** with tourist arrivals at 65.3% relative to 1H'19 levels albeit marginally behind regional peers such as MY (68.3%), ID (66.7%) and SG (66.2%), .
- However, it is the tourism expenditure shortfall that truly matters. Simply put, the implied boost to THB is overstated in arrivals as spending lags; in line with corresponding higher spending tourists.
- Thailand is a clear outlier among peers in that its travel exports (as % of 1H'19 levels) have yet to reach the recovery of tourist arrivals in terms of proportion. Measured against 2019 levels, **travel exports in Thailand is 12%-points below the arrivals recovery** whereas ASEAN-4 peers (SG,ID, PH and MY) enjoy an average receipts recovery at **12.8% points higher than their arrivals**.
- A deeper look at the tourist arrival composition suggests that the recovery of tourists from North America, Oceania and Western Europe are healthy but these tourists spend less on a per day per capita basis. In contrast, **recovery of higher spending Chinese tourists remains tepid**.
- So, while THB may underperform for a while yet, **scope for further "catch-up" THB recovery is under-appreciated** (no pun intended) *if purely extrapolated from degree of recovery in arrivals;*
- Fact is, at 71.2% (of 2019 levels) in Aug, scope for upside is more limited than scope for fuller recovery in receipts. Specifically, given that the further arrivals recovery will likely come from the Chinese (which stood at 34.4% of 2019 levels in August), there remains ***scope for a non-linear THB catchup (and relative outperformance) from the higher per-capita spending***.

Thailand: Fiscal Setbacks



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- The **expected (from 2024) fiscal consolidation alongside tourism recovery, following the pandemic blow-out in fiscal deficits and public debt, has been set back**.
- Notably, the revised Medium Term Fiscal Framework (2024-27) **has lifted the public debt trajectory towards 65% (of GDP) amid larger fiscal deficits projections.**
- What's more, the new debt management plan (FY2024) cited at just 194.4bn THB of new borrowing, while lower than previous years may not fully include higher budget deficit financing (693bn THB).
- As such, **higher borrowing is par for the course in 2024 and worryingly, interest payments are also likely to rise due to both a higher stock of debt and higher yields required to attract Thailand government debt buyers**.
- The setback to fiscal consolidation is an apparent one and in **sharp contrast to regional peers such as Malaysia and Indonesia who have embarked on reform efforts**.
- Looking ahead, the implied demands of fiscal boost to consumption alongside cost of living policies suggest that upward revision in borrowing and even larger planned deficits are not to be ruled out.

Sep'23 Inflation (YoY)				
	Survey	Actual	Food	Rice
ID	2.2%	2.3%	3.6%	-
KR	3.5%	3.7%	4.9%	14.5%
PH	5.3%	6.1%	10.0%	17.9%
TH	0.6%	0.3%	-1.0%	5.0%
TW	2.5%	2.9%	4.8%	0.5%
VN	3.2%	3.7%	10.5%	-

Source: CEIC; Mizuho Bank

"Rice-ing" Prices

- Recent upside surprises to headline inflation on higher rice prices could have a **more-than-proportionate risk in re-anchoring inflation expectations to higher levels** given the importance and ubiquity of this commodity in Asian culture. In particular, price increases on a good consumed in greater quantity and frequency can make inflation feel more pervasive than it actually is.
- Should rising rice prices spillover to other categories, Asian central banks could be forced to take a more hawkish stance.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.32	-0.050	-0.03%	146.60	~	150.50
EUR/USD	1.0586	0.0013	0.12%	1.048	~	1.073
USD/SGD	1.3651	-0.001	-0.08%	1.3620	~	1.3800
USD/THB	37.022	0.610	1.68%	36.00	~	37.50
USD/MYR	4.7142	0.013	0.27%	4.650	~	4.740
USD/IDR	15610	155	1.00%	15,550	~	15,680
JPY/SGD	0.9142	0.000	-0.04%	0.905	~	0.941
AUD/USD	0.6386	-0.005	-0.76%	0.630	~	0.652
USD/INR	83.25	0.206	0.25%	82.8	~	83.5
USD/PHP	56.625	0.033	0.06%	56.1	~	57.2

^Weekly change.

FX Outlook: Oil, Not Roil

- The **shocking and tragic war between Israel and Hamaz** breaking out over the weekend is asserting itself on markets. *But* **rather than** markets being **roiled by war risks,** the price action suggest**s more measured oil consequences** seeping into the price dynamics.
- To be fair, a **slightly stronger USD open** (after the pullback from digesting softer details on the hot jobs data) concedes underlying precaution with regards to the Israel-Hamas war; but not outright panic.
- Especially against the backdrop of **Gold out-performing** (with a + 0.9% gap-up), with *JPY* (+0.1%) and *CHF* (+0.1%) *in tow; revealing shades of haven demand amid geo-political "risk off".*
- We are not refuting "risk off" instinct. **But size matters**. And a **fairly measured lift in Gold** from $1820-1830 to sub-$1850 is **not quite in the vicinity of severe war fears**.
- More likely, it *reveals hedging at the margin against "tail risks"* of the Israel-Hamaz conflict spiralling out as a wider regional war involving the likes of Iran, and perhaps even Saudi getting into the fray.
- Instead, it appears that the *measured* **FX reaction has been to a large extent through the lens of Oil**.
- Some clue lies in the NOK (+0.2%) and CAD (+0.1%) being the only other gainers against the USD.
- What's more, **Gold's allure may be from bets on falling real yields implied by stagflation risks** due to **oil shocks**, which have *notoriety of simultaneously unleashing inflation and imposing demand destruction.*
- Regardless, **even for** "*Oil, not roil*" triggers, the **Greenback's refuge is preferred**.
- First, because the **headline risks from Israel-Hamas have not died down**; so USD bids remain intact.
- Second, relative US exceptionalism suggest a lesser degree of stagflation risks compared to across the Atlantic. And this should accentuate the relative allure of the USD against EUR and GBP.
- JPY could retain some tone on the conspiracy of intervention risks as well as risk aversion, although higher energy may eat into gains as an after-thought.
- Expect EM Asia FX to revert to cautious trade on the back-foot if China's return from Golden Week does not herald follow-through gains in the CNH.

Bond Yield (%)

6-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.081	3.7	4.801	23.0	Steepening
GER	3.123	-7.0	2.881	4.4	Steepening
JPY	0.054	1.6	0.793	4.0	Steepening
SGD	3.664	3.1	3.428	6.6	Steepening
AUD	4.012	-6.3	4.538	0.1	Steepening
GBP	4.856	-1.3	4.571	13.6	Steepening

Stock Market

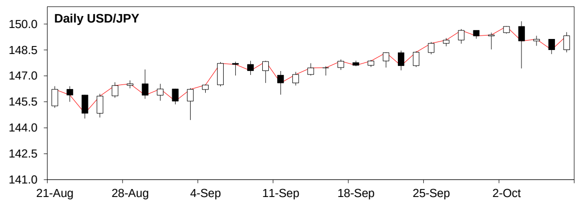
	Close	% Chg
S&P 500 (US)	4,308.50	0.48
Nikkei (JP)	30,994.67	-2.71
EuroStoxx (EU)	4,144.43	-0.72
FTSE STI (SG)	3,174.39	-1.34
JKSE (ID)	6,888.52	-0.74
PSEI (PH)	6,259.95	-0.97
KLCI (MY)	1,416.88	-0.51
SET (TH)	1,438.45	-2.24
SENSEX (IN)	65,995.63	0.25
ASX (AU)	6,954.17	-1.34

US Treasuries: Fiscal-Inflation-Credit Spiral

- Long end UST yields continued to surge as the UST bear steepener last week with 10Y yields soaring 23bps while 2Y yields edged up 3.7bp.
- **Surging oil prices along US political issues transmitting fiscal and credit rating concerns continue to buoy longer end yields**.
- Front end yields inevitably has less upside given that policy makers are probing peak rates at this juncture. Thus far, **surges in front end yields have been met with enthusiastic opportunistic bids.**
- Despite the upside surprise in US non-farm payrolls, front end 2Y yields will turn their focus to this week's inflation print and also keep a keen eye on the ensuing impact on oil prices from the Israel-Hamas conflict.
- The result is likely to re-affirm the buoyancy for 2Y yields to trade above 5% but may struggle to surpass 5.2%.
- The re-steepening trade has some legs but may begining to tire and as such 10Y yields may struggle to take 5% especially amid haven demand this week.

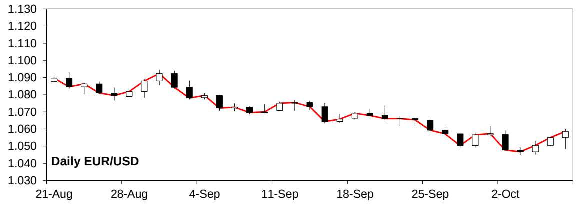
JPY: Memories

- While higher UST yields continue to backstop the USD/JPY, the unconfirmed plunge last week would have been etched in memories of JPY bears.
- **Memories take time to fade. For now, testing of 150 will be really cautious.**
- That said, it is not without reason for 150 to relent should oil prices and UST yields surge higher.
- Afterall, volaility measurements remains the key unanswered questions posted to the BoJ.
- All in, USD/JPY buoyancy ought to be retained above 147.



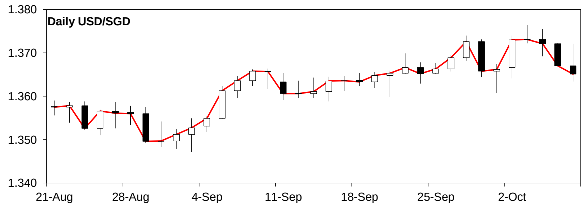
EUR: Downgrades

- Given ECB President Lagarde's allusion to **IMF's downgrade of growth forecast globally except for the US,** her take on not being pessmistic on short term economic outlook is dampened by the **longer term structural growth issues**.
- This is especially as fiscal-monetary policy divergence continue to be a key bugbear in the EZ.
- As such, EUR recovery remains laboured and in fact **risks are skewed towards the downside as UST yields surge while EZ policy rate upside is restrained.**



SGD: Hawkish Hold

- Resurgent inflation risks and expectations of a warily hawkish statement by MAS this Friday could see appreciation bias to the SGD as markets "buy the rumour and sell the fact".
- Positive dataprints in China could give the SGD an additional boost, while upside volatility to USD/SGD expected on US CPI print.
- Expect trading to be within 1.36 to mid-1.37 range.



AUD: Caution, Not CNH Boost

- **Despite higher oil prices**, risks associated with geo-politics and the attendant policy dilemma for the Fed, suggest that **AUD bulls will struggle for traction** even with initial boost from oil prices.
- The **wider story of lower real rates and outsized downside demand risks weigh**.
- **PBoC setting a firm tone for the CNY** as it returns from the Golden Week holiday is also **at best a backstop, not a sustained boost** for the AUD.
- Fact is, there **remains more questions than answers** around the **adequacy of China stimulus** and the **RBA also appears unlikely to challenge Fed hawks**.
- Against this backdrop, caution, rather than CNH exuberance, may be the mantra for AUD markets. With the AUD likely to consolidate in the sub-0.63 to (just above) mid-0.64 range for now.