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WEEK AHEAD

02-Oct-2023

Economic Calendar

•Survey results from Bloomberg, as of 29 Sept 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
02 Oct	US	**ISM Manufacturing / Prices Paid**	Sep	47.9 / 49.0	47.6 / 48.4
	EZ	**Manufacturing PMI**	Sep F	43.4	43.4
	EZ	Unemployment Rate	Aug	6.4%	6.4%
	JP	**Jibun Bank Japan PMI Mfg**	Sep F	48.5	48.6
	JP	Tankan Large Mfg Index / Outlook	3Q	9 / 10	5 / 9
03 Oct	US	JOLTS Job Openings	Aug	8830k	8827k
04 Oct	US	**Durable Goods Orders/Non- Def Ex Air**	Aug F	0.2%/--	0.2%/0.9%
	US	**ISM Services Index / Prices Paid**	Sep	53.5 / --	54.5 / 58.9
	EZ	Services PMI	Sep F	48.4	48.4
	EZ	Retail Sales YoY	Aug	-1.0%	-1.0%
	EZ	PPI YoY	Aug	-11.6%	-7.6%
05 Oct	US	Trade Balance	Aug	-$60.4b	-$65.0b
	US	**Initial Jobless Claims**	Sep-30	210k	204k
06 Oct	US	**Change in Nonfarm Payrolls**	Sep	165k	187k
	US	**Unemployment Rate**	Sep	3.7%	3.8%
	JP	**Labor / Real Cash Earnings YoY**	Aug	1.5% / -2.1%	1.1% / -2.7%

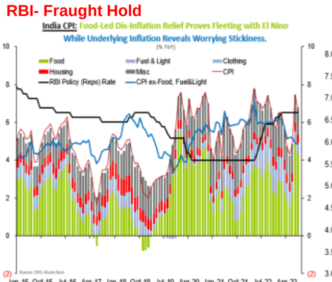
Asia

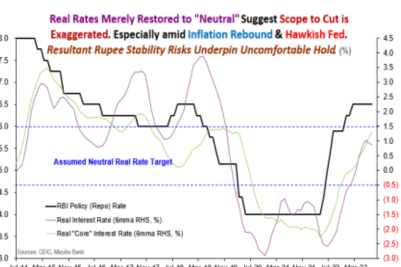
Date	Country	Event	Period	Survey*	Prior
02 Oct	AU	PMI Mfg	Sep F	4837.0	48.2
	ID	**CPI / Core YoY**	Sep	2.2% / 2.1%	3.3% / 2.2%
		PMI Mfg (ID / MY / TH / PH / TA / VN)	Sep	--	--
03 Oct	SG	PMI / Electronics Sector Index	Sep	--	49.9 / 49.5
	AU	**RBA Cash Rate Target**		4.10%	4.10%
	AU	Building Approvals MoM	Aug	2.5%	-8.1%
	IN	PMI Mfg	Sep	--	58.6
04 Oct	AU	Judo Bank Australia PMI Services	Sep F	--	50.5
	KR	Industrial Production YoY	Aug	-5.8%	-8.0%
05 Oct	SG	Retail Sales / Ex Auto YoY	Aug	0.7% / --	1.1% / 0.4%
	AU	Trade Balance	Aug	A$8700m	A$8039m
	IN	PMI Services	Sep	--	60.1
	KR	**CPI / Core YoY**	Sep	3.5% / 3.3%	3.4% / 3.3%
	TH	**CPI / Core YoY**	Sep	0.7% / 0.7%	0.9% / 0.8%
	PH	**CPI YoY**	Sep	5.3%	5.3%
	TW	**CPI / Core YoY**	Sep	2.5% / --	2.5% / 0.0%
06 Oct	IN	**RBI Repurchase Rate**		6.50%	6.50%
	PH	Unemployment Rate	Aug	--	4.8%

Week-in-brief: Accident Averted, Not Crisis Defused

- The last-minute spending deal cobbled together to side-step government shutdown in the US is merely **fleeting relief** from an **accident averted**, and **not** rejoice of durable resolution of a **crisis defused**.
- Three reasons why. First, the **can has been merely kicked down a very short road**; with *funding approved for just another 45 days* (sans aid for Ukraine).
- Afterwhich **shutdown fears are poised resurface in mid-November** if the differences are not resolved.
- Deep fissures in US politics, threatening to ossify as irreconcilable fractures, darken prospects of lasting resolution. So, **beyond current reflex to reverse** imminent **shutdown bets**, optimism may be scant.
- Second, as *fiscal purse strings tighten* and *US household savings are whittled down* further (below pre-pandemic levels), *fading relief from expiring debt moratoriums/fiscal assistance* suggest **more acute aggravation of economic pain from unintended fiscal accidents/threats**.
- Finally, **intended monetary tightening** (over and above inadvertent fiscal constriction) continues to pose a clear and present danger. *Perversely,* **averting a shutdown may provide the illusion of fiscal cover** for *"higher for longer" Fed hawks to keep at it.* And that, by definition, **is no relief for equities or bonds**.
- Be that as it may, the **initial relief** (or at least unwinding of bearish, worse-case bets **on shutdown averted** (over the weekend) may provide **some fillip for equities**. **Bonds** though may be **a tad mixed**, remaining sensitive to Fed speak and data; while *USD rallies are tempered by diminished haven demand*.
- **US ISM** (***Services*** more so than Manufacturing) **will feature as a guide** to *US resilience and projected policy hawkishness* (to assess how much further the Fed will hike). What's more, ISM (Services) is likely to be deemed a **key barometer of** *US exceptionalism*, in assessing *policy-derived USD out-performance.*
- Late week, *US jobs may elicit increased policy and front-end yield sensitivities;* although it is likely that more subdued jobs gains could **underpin peak (albeit elevated) rates rather than fresh hawkish jolts**.
- Across the Atlantic, EZ data are likely to be burdened by downside risks to growth that hobble any sustained upside attempts by the EUR; which in turn limits scope for aggressive USD sell-off.
- Meanwhile, **USD/JPY dangerously close to 150 keep intervention risks alive**, thereby simultaneously checking unbridled USD ascendancy. But equally also reins in JPY-funded "carry".
- *Uneven economic conditions* revealed in the Tankan survey (more upbeat expected large manufacturers in contrast to still gloomy smaller firms) *validate the BoJ's cautious approach to normalization.*
- Short-lived THB relief despite BoT's hike last week, is a case in point about *how dovish/neutral hikes* (as opposed to a hawkish Fed) *alongside fiscal risks may continue to hobble AXJ;* especially **amid inflation and "twin deficit" risks** that may be prompted by looming *threats of fresh shocks from food and energy.*
- Against this backdrop, the **RBI may have a higher bar to** not just dig its heels in on elevated 6.50% policy rate rate, but perhaps **deliver an unequivocally hawkish hold**. Failing which the rupee may be prone to further soft spots/weakness as widening "twin deficit" risks collide with inflation uplift.
- The **RBA**, with new Governor Michele helming her inaugural meeting, **will also have space to hold** despite sticky services components in the latest inflation print; but with a hawkish tilt, no less. *AUD though will also remain on its back foot* despite Golden Week holidays taking some edge off from China risks.
- All said, tentative, **short-lived buoyancy, not sustained rallies**, looks like the play book. For *while relief from accidents averted is understandable, misplaced cheer about crisis defused is unwise.*

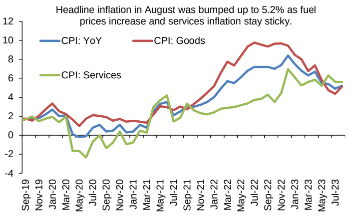
RBI- Fraught Hold



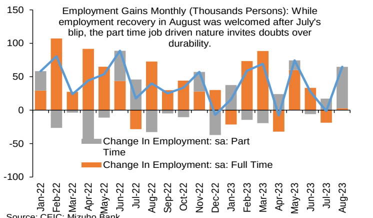


- The **unanimous consensus for the RBI to hold** steady at the upcoming meeting **masks growing a growing policy conundrum**. In other words, this is a **fraught hold with growing tensions between hawkish and dovish undertones**.
- Narrow-window, rear-view inflation-watchers had **earlier** prompted **premature suggestions that the RBI may be primed for easing** sooner rater than later. But this is a **misguided view** on account of *both inflation* and *stability* risks. For one, **resurgent inflation**, *even if* it argued to be *led by transitory food price shocks,* u**nderscores problematic stickiness in price pressure**s.
- Fact is, **inflation moderation is at best nascent, or worse, volatile**.
- Tellingly, **headline inflation has re-accelerated to average above 7%** (Jul-Aug) and **core inflation is stil at the upper half of** the RBI's 4+/-2%-pt inflation target.
- Furthermore, *cautioning against dismissing transitory, "volatile" components of inflation* is;
- the **unknown price pressure transmissions** from the interaction between higher and elevated food prices colliding with renewed surge in global energy prices .
- *More so, with the overshoot in Q2 GDP amid surge in personal credit growth;* both of which suggest policy settings retain rather than prematurely relinquish restrictive settings.
- **Crucially**, the **RBI's relatively restrictive settings may also be overstated** insofar that real rates are still considered to be in the RBI's wider "neutral range" of 0.5-1.5% real rates.
- Finally, and perhaps most significantly, a **hawkish Fed imposing potentially destabilzing rupee depreciation pressures** raises the bar on restraint, **arguably requiring a hawkish hold**.

RBA - Concern, Not Action



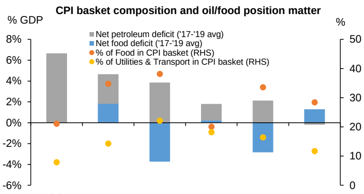
Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

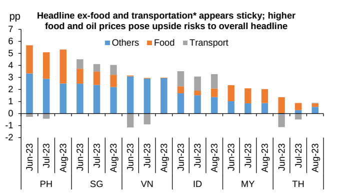
- We had alluded to the **importance of the August CPI print** for the RBA's 3 Oct meeting.
- Our verdict is that **the CPI print is a concern but remains insufficient to trigger the RBA into another 25bp hike.**
- First, the **bump up in headline inflation though higher fuel costs is uncomfortable** in its ability to dislodge inflation expectation. Nonetheless, the magnitude of bump up may be tolerable for the RBA await evidence of second round effect pass through to raise rates.
- Second, **elevated services inflation** sticking to 5.6% for both July and August remains a challenge but a slower sequential momentum in recent months provide restrain.
- Third, **household savings ratio dropping to 15 year lows and a shaky labour market gains in August** driven by part time jobs will also dull tendencies for the RBA to hike further.
- While our base case is for a rate hold, these more 'outdated' data may have to give way to the recent surge in Brent Crude prices and trigger a calibrated 15bp hike in view of the upside risks.
- Should the need for such calibration prevail, it might be challenging for the RBA to communicate hawkish tendencies especially when viewed in the context of ECB's dovish hike in mid September.

ASEAN Food & Oil Inflation: Of Pass-Through & Passing Through



Note: A positive number for the column bars (LHS) indicates a food/petroleum deficit

Source: UN Comtrade; CEIC; Mizuho Bank



*Note: Measure is standardised for ease of comparison and should not be taken as core inflation as countries have different definition of core (e.g. core in SG is headline ex-accomodation and private transport).

Source: CEIC; Mizuho Bank

- Any *nuanced and informed view* must concede risks of **outsized impact from food and oil inflation** in EM Asia (given the high consumption weights) and attendant threats of **unmooring inflation expectations** than "textbook" theory (about "volatile" components) will otherwise suggest.
- Therefore, ***how oil and food inflation transitions to wider price pressures*** may be a ***more useful*** exercise ***than just brushing it off as transitory****.*
- The double whammy of surging food and oil prices raises the threat of **a sticky, if not resurgent, headline** inflation across ASEAN given their material weight.
- **While composition of food exports/imports matter, generally speaking, countries with a net food surplus** (such as Thailand and Vietnam) **ought to be able to hedge away rising food prices.**
- **This hedge is nonetheless less an imperfect one as higher export prices drag up domestic prices.** This has been seen in Vietnam in both August and September which saw food prices rise 3.2% MoM and 3.3% MoM respectively.
- Philippines which is a net importer of cereals (-1.1% GDP in 2022), will continue to be susceptible to increases in rice prices, especially in the wake of a weak peso.
- **The impact of higher oil prices, as a primary input, would be more direct**.
- In particular, upside risks for Singapore's inflation could see some cautious remarks (rather than action) at MAS' meeting in mid-Oct.
- Effects on oil/food increases would also be more subdued in Malaysia (and to a lesser extent Indonesia) on measures (e.g. price caps and price regulation) which limit pace of increases and help anchor inflation expectations.
- But **in** such **instances involving subsidies**, the ***fiscal position bears the brunt of dulling the passthrough*** **of higher food and oil prices to end consumers.**
- Looking ahead, subsidy rationalisation which may feature in Malaysia's Budget 2024 in future will imply a more protracted (and possibly bumpier) disinflation process.
- Of note, Indonesia September inflation print should moderate sharply in view of base effects from a ~30% increase in retail fuel prices in Sep'22.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.37	1.000	0.67%	145.00	~	150.50
EUR/USD	1.0573	-0.0080	-0.75%	1.048	~	1.073
USD/SGD	1.3662	0.001	0.07%	1.3620	~	1.3800
USD/THB	36.412	0.402	1.12%	35.40	~	36.60
USD/MYR	4.7013	0.012	0.25%	4.650	~	4.730
USD/IDR	15455	80	0.52%	15,350	~	15,550
JPY/SGD	0.9146	-0.005	-0.58%	0.905	~	0.952
AUD/USD	0.6435	-0.001	-0.09%	0.635	~	0.652
USD/INR	83.04	0.103	0.12%	82.5	~	83.5
USD/PHP	56.592	-0.203	-0.36%	56.1	~	57.2

^Weekly change.

FX Outlook: Can Kick, Not Catharsis

- Here's the deal (no pun intended). The **US Congress narrowly averting a shutdown** is a case of merely *kicking the can down the a rather short* (45day of funding lifeline) *road.*
- And so, it is **not in any shape or form set to be a source of catharsis** that unleashes sustained *"risk on" that drives enthused short USD bets.*
- In fact, as we highlighted above, **insofar that deflecting imminent adverse economic shocks from a shutdown provides greater confidence for a "higher for longer" Fed**, the policy (real rate) differentials built on a narrative of US exceptionalism **underpins, rather than undermines, the Greenback**.
- Whereas, **in sharp contrast**, any relief from softer than feared inflation in Europe underscores economic downturn fears and accompanying prospects of a **dovish ECB** turn that **dampens EUR**.
- Admittedly, *BoJ/MoF intervention risks could limit, if not partially reverse JPY losses;* especially as USD/JPY dangerously flirting with 150 prompts push-back from Tokyo.
- But the intent of the **MoF is not a clear line in the sand**. **Nor is the BoJ likely to buckle under JPY pressures to concede a hawkish overhaul** at pain of far more lasting economic damage.
- And so, the *JPY intervention effect may be better expressed via short Cross/JPY positions* rather than a misguided bearish USD wager.
- Down Under, the **RBA has scope to hold and assess** despite sticky services components amid nascent dis-inflation. Especially given how far it has come with rates now at 4.10%. To be sure, a *hawkish hold will not brutally knock the AUD* insofar that it is expected.
- Nonetheless, Golden Week holidays with Beijing away provide only modest relief from lingering China risks while a hawkish Fed maintains pressures; so the AUD may also remain ... Down Under.
- *Can kicks are a long way off catharsis.* Accordingly, USD bears ought to be deferential to Fed hawks and underlying haven demand that is not quite done.

Bond Yield (%)

29-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.044	-6.6	4.571	13.7	Steepening
GER	3.193	-4.4	2.837	10.2	Steepening
JPY	0.038	2.3	0.753	2.8	Steepening
SGD	3.633	4.6	3.362	-1.8	Flattening
AUD	4.075	3.0	4.483	0.1	Flattening
GBP	4.869	10.2	4.435	19.5	Steepening

Stock Market

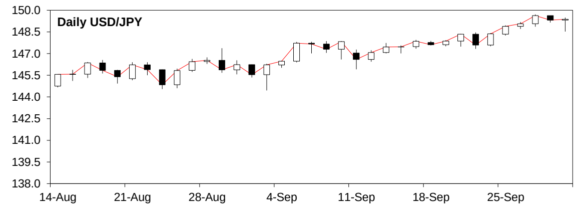
	Close	% Chg
S&P 500 (US)	4,288.05	-0.74
Nikkei (JP)	31,857.62	-1.68
EuroStoxx (EU)	4,174.66	-0.77
FTSE STI (SG)	3,217.41	0.39
JKSE (ID)	6,939.89	-1.10
PSEI (PH)	6,321.24	2.91
KLCI (MY)	1,424.17	-1.80
SET (TH)	1,471.43	-3.36
SENSEX (IN)	65,828.41	-0.27
ASX (AU)	7,048.64	-0.29

US Treasuries: Recession Risks?

- UST yield curve continued steepening as oil prices soared above US$95/barrel to trigger worries of longer term inflation expectations.
- While last week we pondered about steepening risks, this week looks to be assessing recession risks amid the slew of ISM manfuacturing and services which ends with the non-farm payrolls report.
- That said, **steepening of the UST yield curve and US recession risks are not mutually exclusive.**
- **Front end UST yields are likely to see knee jerk buckling on activity weakness.**
- That said, we expect 2Y yields to stay buoyant above 4.9% as **an outright activity collpase may not reveal itself at this juncture yet.**
- Given that budget worries are far from over despite the shutdown aversion, longer end yields may continue to edge higher.

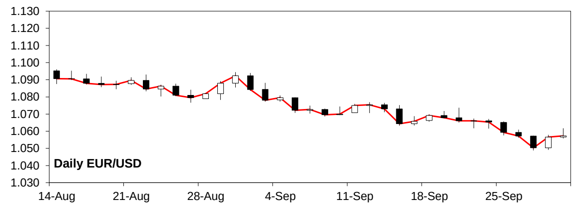
JPY: Red Lines

- Admittedly, the continued JPY weakness is a concern. While 150 remains a closely watched figure, it is not a clear line in the sand.
- JPY weakness will be restrained as JPY bears will be wary of intervention risks.
- Simply put, should the US economic data outperform, the BoJ will likely check pace of JPY depreciation rather than maintain a wall at 150 especially amid rising energy prices.
- All in, the USD/JPY to remain buoyed above 148



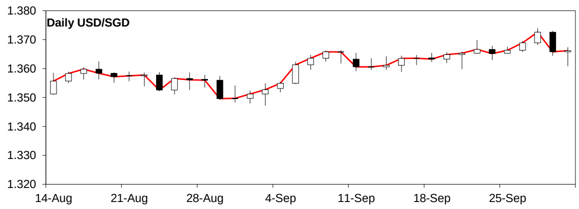
EUR: Growth Focus

- With EZ CPI heading down favourably, the focus will inevitably turn to growth this week.
- Growth indicators such as PMIs and Retail sales will need to hold up this week to be prevent sub-1.05 slippage.
- In an assymetric fashion, upside surprises looks unlilkely to trigger rallies above1.07.
- What's more, the USD deference may continue especially if cross atlantic economic data divergence.



SGD: Consolidation

- USD/SGD pared most of its losses at the latter half of last week to end the week almost unchanged against the greenback.
- PMI and retail sales this week are likely to support the narrative of still-weak growth, but should not change MAS' decision to stand pat next Friday.
- The central bank is already ahead of the curve and recent support measures allude to the preference for the use of more targeted measures such as vouchers and cash handouts to address inflationary concerns.
- Expect limited spillovers this week from data releases in US, EZ and CH.
- Consolidation expected around mid-1.36 levels.



AUD: Down Under

- RBA meeting this week is a big watch with new Governor Michele Bullock taking the Chair.
- But it is unlikely to be a hawkish game-changer. If anything, Governor Bowman is likely to push thgrough a hawkish hold, citing vigilance on sticky services inflation components.
- But that will be a far cry from hawkish activism that is set to aggressively front-run.
- Which ough to underpin AUD in the 0.64 to mid-0.65 range rather than fire up a lift towards 0.66. Fact is, unless the hawkish guidance ups the ante on another rate hike being left on the table, policy upside for AUD is mostly priced in.
- Whereas, China risks are not as yet put to bed. And the Golden Week holidays in China may be reason for caution that positions AUD 'Down Under' 0.66 rather than a unbridled (arguably unfounded) optimism that fires up more aggressive upside.