MIZUHO
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WEEK AHEAD

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16-Oct-2023

Economic Calendar

•Survey results from Bloomberg, as of 13 Oct 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
16 Oct	**US**	**Empire Manufacturing**	**Oct**	**-6.0**	**1.9**
	JP	Industrial Production YoY	Aug F	--	-3.8%
17 Oct	**US**	**Retail Sale/Ex-Auto & Gas MoM**	**Sep**	**0.3%/0.1%**	**0.6%/0.2%**
	US	Industrial Production MoM	Sep	0.0%	0.4%
	JP	Tertiary Industry Index MoM	Aug	0.30%	0.9%
	GE	ZEW Survey Expectations/Current	Oct	-9.5/-80.0	-11.4/-79.4
18 Oct	**US**	**Building Permits/Housing Starts**	**Sep**	**1458k/1380k**	**1541k/1283k**
	EZ	**CPI/Core YoY**	**Sep F**	**4.3%/4.5%**	**5.2%/4.5%**
	US	Federal Reserve Releases Beige Book			
19 Oct	**US**	**Leading Index**	**Sep**	**-0.4%**	**-0.4%**
	US	**Philadelphia Fed Business Outlook**	**Oct**	**-7.0**	**-13.5**
	EZ	ECB Current Account SA	Aug	--	20.9b
	JP	Trade Balance	Sep	-¥450.0b	-¥937.8b
20 Oct	**JP**	**Natl CPI/ Ex Fresh Food, Energy YoY**	**Sep**	**3.0%/4.1%**	**3.2%/4.3%**

Asia

Date	Country	Event	Period	Survey*	Prior
16 Oct	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.50%**	**2.50%**
	ID	Trade Balance	Sep	$2349m	$3120m
	IN	**Wholesale Prices YoY**	**Sep**	**0.4%**	**-0.5%**
	PH	**Overseas Cash Remittances YoY**	**Aug**	**2.8%**	**2.6%**
17 Oct	**SG**	**NODX/Electronics YoY**	**Sep**	**-13.5%/-**	**-20.1%/-21.1%**
	AU	RBA Minutes of Oct. Policy Meeting			
18 Oct	**CH**	**GDP YoY**	**3Q**	**4.5%**	**6.3%**
	CH	**Retail Sales YoY**	**Sep**	**4.9%**	**4.6%**
	CH	**Industrial Production YoY**	**Sep**	**4.4%**	**4.5%**
	CH	Fixed Assets Ex Rural YTD YoY	Sep	3.2%	3.2%
19 Oct	**AU**	**Emp. Chg/Unemployment Rate**	**Sep**	20.0k/3.7%	**64.9k/3.7%**
	ID	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
	KR	**BOK Base Rate**		**3.50%**	**3.50%**
	MY	Trade Balance MYR	Sep	21.7b	17.3b
	PH	BoP Overall	Sep	--	-$57m
20 Oct	**CH**	**1-Year/5-Year Loan Prime Rate**		**3.45%/4.20%**	**3.45%/4.20%**
	MY	**CPI YoY**	**Sep**	**2.1%**	**2.0%**

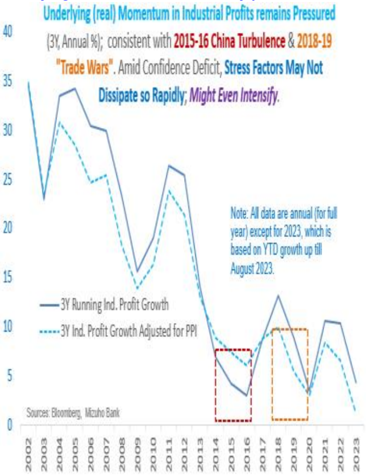
Week-in-brief: Uncertainty Premium?

"... for despair is only for those who see the end beyond all doubt. We do not" - **Gandalf, Lord of the Rings**

- **Real and present dangers of** the **Israel-Hamas war widening out as a regional conflict**, with *Hezbollah* and *Iran* as the most conspicuous *potential flash-points*, **suggest elevated uncertainty**.
- And accordingly, **uncertainty premium** may be **increasingly** (albeit not always incrementally) priced in as **a feature** (*not bug*) **of these markets**. *Oil's jump* (Brent up almost 5% from Asia session on Friday to $90-91) is but a subset of wider geo-political uncertainty premium rippling across.
- ***Softer UST yields*** in bull flattener mode (yields down led by the long-end) further underscore the haven demand. And especially **revealing** of the heaven demand play book corresponding to *uncertainty premium* is the incidence of a **stronger USD *in defiance of*** softer UST **yields**.
- At this juncture, the **uncertainty premium** remains *differentiated by* (across assets) and *dependent* on the *specifics of* (proximate, identifiable) *conflict risks* rather than panicked risk retrenchment.
- In terms of *differentiation,* **conflict risks provide greater shine for USD** as a refuge amid geo-political uncertainties compared to the JPY (whose modest gains from last week are partly flattered by intervention risks). Meanwhile, **Gold's allure appears more distinct**, (almost 3% gains from Friday).
- Moreover, while **hawkish Fed calculus** and **concerns about US fiscal** (and corresponding debt issuance bloat) **retain upside risks to long-end yields**, **geo-political cover** is the **overriding** driver at this moment putting **downside pressure on UST yields**. *Necessarily,* this **differentiated pullback in yields** will be **less supportive of risk sentiments**; compared to "pivot bets".
- Yet, markets de-sensitized to war and conflict also suggests that the **degree of uncertainty premium** priced may be **dependent on identifiable and proximate risks** of conflict spill-over; as observed from the Oil markets (where actual supply disruption risks are being gauged).
- In Asia, the impact from *higher Oil prices,* and *strong USD conveying* ***geo-political risks*** may **dampen any relief** otherwise to be derived **from softer UST yields**.
- **China's Q3 GDP** may provide **some scope for relief on activity pick-up**, **but fall short of eradicating** lingering **property sector gloom** and wider **confidence deficit**. In other words, structural headwinds amid geo-political headwinds may **retain uncertainty premium in CNH**; amid capital outflows risks.
- This **uncertainty premium** also **underscores BoK's** and **Bank Indonesia's** inclination to hold cautiously amid policy tensions; with macro- and currency stability risks juxtaposed against risk of fresh cost shocks.
- So, **caution dominates** *albeit unsteadily* as ***opportunistic buying conflicts with uncertainty premium***.

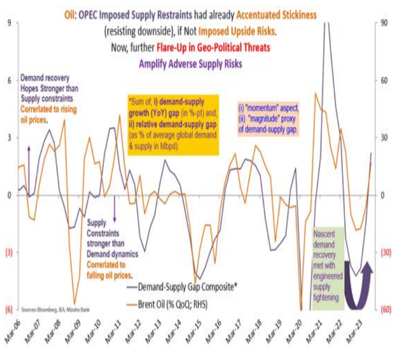
China GDP: Landing, Not Launch

- The consensus is for **China's Q3 growth** to print around 4.5% YoY (Mizuho: -4.4%).
- Although this ostensibly suggests slowing momentum (from 6.3% in Q2), it **is in fact an acceleration of growth** *once base effects* are accounted for; as revealed in QoQ pick-up to ~1.0% QoQ (Q2: 0.8%).
- In fact, given *Beijing's efforts to stimulate consumption* alongside *less severe contraction in manufacturing activity and exports,* actual **Q3 growth may modestly surprise to the upside**.
- ***But*** regardless of an upside surprise it would be **hasty to declare that China is out of the woods**.
- Fact is, the world's second largest economy is still ***attempting to negotiate a soft landing, not revelling in an impending launch***.
- **Apart from** the absence of a convincing plan to offset **persistent property sector drag**, Beijing is beset with daunting challenges from; i) *inherent credit constraints;* ii) *insidious confidence deficit* and; iii) *intensifying capital outflow risks.*
- All of which **threaten to magnify downside risks** from **adverse feedback** that inevitably *raises the bar* for Beijing *to durably boost growth.*
- Tellingly, persistent pressures on **industrial profits**, adjusted for PPI, **suggest chronic drag** crimping underlying **real growth prospects** .
- Upshot being, exuberance about **managing 5% growth** *in 2023* is **misses the issue of** *structural impediments to maintaining* this pace beyond.

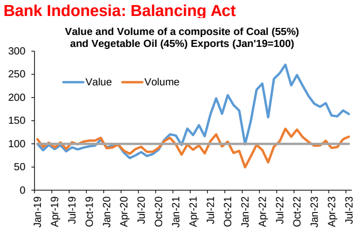


Latent Oil Risks

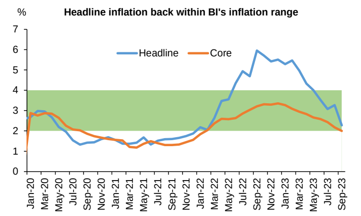
- **Latent risk of Oil's geo-political flare-up** is revealed in Brent's $90 rebound despite record US outout projections (Q4: 13.2MBpD).
- Why? Because complacency is not an option.
- Especially as reassurances of *Israel-Hamas war not impacting oil supply* are *highly conditional on the conflict not spilling over.*
- And there is just simply *no guarantee of this.*
- Attacks witing out to **Hezbollah** in Lebanon is a **case in point that this war remains fluid**.
- What's more, with **Israel increasingly alluding to not just the complicity, but overt culpability, of Iran**, two-fold threats emerge.
- First, *tighter Iranian sanctions* denting supply.
- The other, is *more serious disruptions to crude's passage through the Straits of Hormuz.*
- To be sure, our base case is not for **$100-120 crude**. But there is a **real and present danger** (significant) risk of this **concealed under the illusion of a controlled war**.



Bank Indonesia: Balancing Act



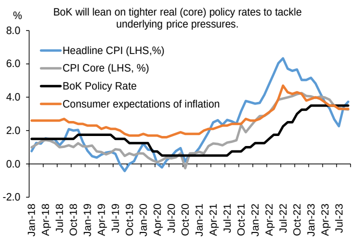
Source: CEIC; Mizuho Bank



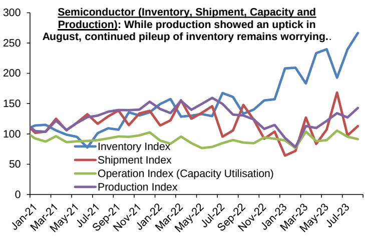
Source: CEIC; Mizuho Bank

- **BI is likely to hold** *rates at 5.75%* as it **attempts a delicate a balancing act**.
- **While a weaker external sector, reduced consumer sentiment and manageable inflation could make a case for a cut, narrowing rate differentials against the USTs risks puts immense pressure on the IDR which has been a key priority of BI.**
- To be sure, external demand remains weak with **downside risks to commodity prices on slowing global demand and a likely protracted Chinese recovery** from the property sector meltdown.
- Notably, given that **the increase in export revenue seen in 2022 can be largely attributed to a spike in prices instead of a sustained increase in volume of exports**.
- Whereas **fading price tailwinds** start to emerge as a **key concern for cashflows** going forward.
- Especially given that some of the price correction, may reveal weakening aggregate demand; and supply-side shocks supporting price turn ultimately negative given a larger adverse demand impact..
- What's more, **weaker consumer sentiments** do not bode well for outperformance in domestic spending, which has been the key driver of growth in the past 7 quarters.
- All of these arguably **create the necessary conditions for BI to cut**. Especially as inflation appears relatively well anchored; and set to remain in BI's target range through 2024.
- But, these **"necessary conditions" are simply not sufficient**. In particular, ***rupiah stability risks*** entailed in a cut (from narrowing rate differential vs. USTs). And this is a **serious threat given IDR is the worst performing currency** in EM-Asia against the greenback (-2.0**%) since the Sep FOMC**.
- As such, **BI may opt for other liquidity tools** (reserve requirements) **to support credit growth for key sectors**; ***complemented by higher onshore USD desposit rates for stability***.

BoK: Of Peaks and Bottoms



Source: CEIC; Mizuho Bank



Source: CEIC, Mizuho Bank

- The **BoK will be expected to stand pat** at their next policy meeting (19th Oct). On one end, a **resurgent headline inflation is insufficient for a further hike** while on the other, **bottoming semiconductor cycle implies that this will not be the right time for a rate cut** which comes with associated lags of growth support. As such, a rate hold remains the optimal decision at this juncture.
- Headline inflation soaring to 3.7% YoY in September was being largely **driven by higher oil prices, utilities charges and food prices** as **core inflation** (Sept) remained at 3.3% YoY **similar** to that in **August**. Announced this morning, **fuel tax cuts** on gasoline and diesel which are due to expire at the end of October will **likely to be extended to the end of the year**.
- As such, while food inflation and escalating cost of eating out is concerning, it is insufficient ground for further tightening **as consumer inflation expectations stayed anchored** at a palatable 3.3%.
- On the other hand, while growth in Q3 is likely to remain weak, the **semiconductor cycle may be attempting to find a bottom as exports have improved in recent months alongside higher industrial production levels.**
- Considering that a rate cut will also act with associated lags, both the depth and timing of growth concerns do not align with monetary easing especially amid unabated concerns on potential second round effects.
- All in, the BoK will be expected to **display more forward looking guidance on growth recovery prospects but yet defer on giving policy direction by retaining optionality on peak rates**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.57	0.250	0.17%	147.80	~	150.50
EUR/USD	1.051	-0.0076	-0.72%	1.042	~	1.069
USD/SGD	1.3694	0.004	0.31%	1.3650	~	1.3800
USD/THB	36.278	-0.744	-2.01%	35.80	~	36.80
USD/MYR	4.7283	0.014	0.30%	4.650	~	4.750
USD/IDR	15683	73	0.47%	15,550	~	15,700
JPY/SGD	0.9154	0.001	0.13%	0.907	~	0.934
AUD/USD	0.6296	-0.009	-1.41%	0.620	~	0.643
USD/INR	83.26	0.017	0.02%	82.8	~	83.6
USD/PHP	56.813	0.188	0.33%	56.3	~	57.2

^Weekly change.

FX Outlook: Not all that Glitters

- As risks of the **Israel-Hamas war spilling over more widely intensify**, the **associated uncertainty premium** and haven demand swaying currency markets becomes obvious.
- Already, **Gold's near-3% rally since Friday** - by which time strikes between Israel and Hezbollah as well as Israel's overt implication of Iran in the attacks emerged - **suggests the glare** (not just glitter) of **geo-political risks** at the fore of FX market positioning.
- By comparison, NOK gains (from Oil price upside) and moves in other "traditional" safe haven such as CHF (+0.7%) and JPY (+0.2%) have paled; suggesting **some degree of quality differentiation even within the so-called "haven" blanket**.
- Especially when considering pre-existing CHF boost from bets on EUR-CHF tear and buy-back in JPY to hedge against intervention risks; suggesting even smaller "haven" edge (if any) against USD.
- In fact, despite falling UST yields, under conditions of military conflict, **USD may be the preferred refuge for markets**; as "carry unwind" (boosting JPY) and CHF allure are drowned out by the *sheer liquidity premium (highly desirable amid conflict) that the USD dominates as the reserve currency.*
- Moreover, **even gold's demand is arguably contingent on sufficiently lower real US rates**.
- In the absence of which, scope for *Gold's continued surge may be compromised* by USD.
- Afterall, **not all that glitters** ....
- And for the EUR's case, nothing glitters; as **EUR is at the receiving end of energy shocks and spill-over war risks**, also remains under pressure, and is in no condition to challenge the Greenback.
- Similarly, **AUD gains may also be limited, and transactional, on commodity ToT effects**; whereas underlying risk sentiments continually erode gains in the absence of fresh commodity boost.
- In EM Asia, despite Beijing's stimulus efforts looking for validation in Q3 (sequential) growth pick-up, that contrived glitter will not cut it. **CNH downside risks remain intact amid uncertainty premium** on both ends (USD boosted by geo-politics) and CNH dimmed by prospects of durable growth boost.
- **EM Asia FX will inevitably be on the back foot** under these conditions, especially if the double whammy of higher oil prices and stronger USD take any shine out of softer yields .. and more!
- Best to keep any USD selling opportunistic and on a short leash as **darkening geo-political uncertainty takes the glitter out** of eager bets *on bottoming growth* and or *peaking Fed hikes.*

Bond Yield (%)

13-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.054	-2.7	4.612	-18.9	Flattening
GER	3.130	0.7	2.733	-14.8	Flattening
JPY	0.036	-1.8	0.749	-4.4	Flattening
SGD	3.596	-6.8	3.280	-14.8	Flattening
AUD	4.021	0.9	4.461	0.1	Flattening
GBP	4.810	-4.6	4.383	-18.8	Flattening

Stock Market

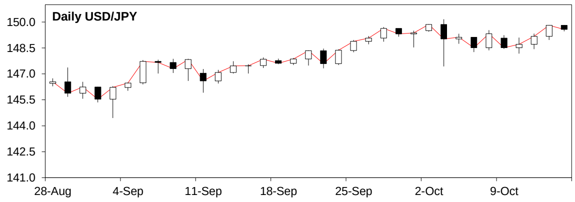
	Close	% Chg
S&P 500 (US)	4,327.78	0.45
Nikkei (JP)	32,315.99	4.26
EuroStoxx (EU)	4,136.12	-0.20
FTSE STI (SG)	3,185.79	0.36
JKSE (ID)	6,926.78	0.56
PSEI (PH)	6,266.34	0.10
KLCI (MY)	1,444.14	1.92
SET (TH)	1,450.75	0.86
SENSEX (IN)	66,282.74	0.44
ASX (AU)	7,051.03	1.39

US Treasuries: Havens

- Last week, front end yields remain buoyed on hotter than expected PPI and CPI prints. Longer end 10Y UST yields plunge on **soaring haven demand** towards the end of the week as **fears of a widening of the Israel-Hamas conflict notched up**.
- Admittedly, given the rather light data release this week, geo-political fears will dictate directions.
- Nonetheless, with the **Fed increasingly cautious, shorter end yield could be face accentuated sensitivies to a poor US retail sales print**.
- Slippages for UST 2 year yields below 5% ought to be watched especially as conflict fears may be hard to subside.
- On the longer end, even as two way volatility rises, **resurgence in oil prices impart worries over unmoored inflation expectations may backstop yields above 4.5%** amid the multitude of structural issues.

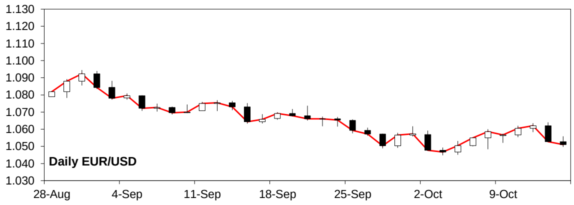
JPY: Caution, Not Safety

- While **JPY bears retain caution upon nearing 150**, **last week's lack of significant JPY gains amid softer UST yields** signal the **relative attraction of haven cover in perference for the Greenback.**
- These signs continue to put to a buoyant USD/JPY above 147 especially as Brent Crude prices push back up above US$90/barrel.
- **While intervention by the BoJ/MoF may not turn structural tides, the ensuing volatility may hurt JPY bears**.
- Late week, while **upside surprises on Japan's CPI** may not invite near term policy triggers, JPY bears may feel emboldend at the margin to test 148.



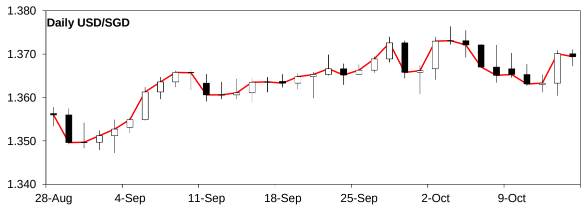
EUR: Languishing

- While **ECB President Lagarde may attempt to talk up their willingness to do more or not declaring victory** over inflation, the **EUR remained languishing near 1.05.**
- Notably, the EUR weakness is apparent in the risk off environment as US-German Bund yields were in fact narrower which ought to have bolster the EUR.
- Given the on-going oil and spillover war shocks, the EUR will continue to be pressured below 1.07.



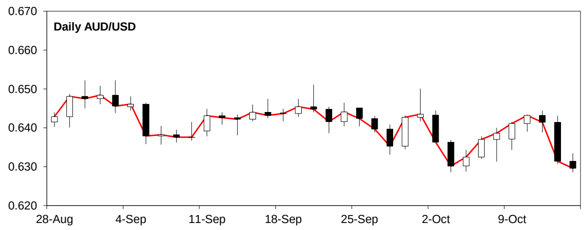
SGD: Restrained weakness

- Following less abysmal manufacturing activity in last Friday's GDP flash, SG NODX could also see a softer pace of contraction. However, a meaningful SGD appreciation would require further evidence of a pick-up in economic activity.
- Signs of stickier-than-expected inflation in the EZ CPI could lead to expectations of more hawkish central banks in the AEs, which would weigh on the SGD. Whether CNH could provide support would be largely dependent on Wednesday's economic activity data. Meanwhile, MLF and LPR rates would likely be non-events but cautious trading likely leading up to the releases.
- Risks are further tilted to a weaker SGD on haven allure as the Israel-Hamas war continues, but a rally in USD/SGD should be contained in the absence of any spillovers to oil. Expect trading to be within mid-1.36 to 1.38 range.



AUD: Precarious Traction

- On the surface, in an absence of context, the case for a stronger AUD appears open and shut.
- Higher oil prices andn softer UST yields. Enough said (?), it would appear.
- But a measured retracement from sub-0.63 tests to low-0.63 reveals unspoken restraint, if not overt caution. And justifiably so, given pronounced geo-political risks and associated unucertainty premium. Which, all selse equal, favours the USD at the expense of higher-beta currencies.
- Simply put, any traction in the AUD is at best tentative, but more likely, precarious.
- We expect the Antipodean to consolidate mid-0.62 to 0.64 mostly; although China GDP out-run might be an excuse to attempt higher (around mid-0.64).
- But gravity is likely to impose as Israel-Hamas geo-politics hover menacingly.



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