MIZUHO
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WEEK AHEAD

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30-Oct-2023

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Economic Calendar

•Survey results from Bloomberg, as of 27 Oct 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
30 Oct	**US**	**Dallas Fed Manf. Activity**	**Oct**	**-16.0**	**-18.1**
31 Oct	**US**	**MNI Chicago PMI**	**Oct**	**45.0**	**44.1**
	EZ	**CPI Estimate / Core YoY**	**Oct**	**3.1%/4.2%**	**-/4.5%**
	EZ	**GDP SA YoY**	**3Q A**	**0.2%**	**0.5%**
	JP	Job-To-Applicant Ratio / Jobless Rate	Sep	1.29/2.6%	1.3/2.7%
	JP	Retail Sales YoY	Sep	6.0%	7.1%
	JP	Industrial Production YoY	Sep	-2.3%	-4.4%
	JP	**BOJ Policy Balance Rate**		**-0.10%**	**-0.10%**
01 Nov	US	JOLTS Job Openings	Sep	9265k	9610k
	US	**ISM Manufacturing / Prices Paid**	**Oct**	**49.0-45.0**	**49.0/43.8**
	US	**FOMC Decision (Lower/Upper Bound)**		**5.25%/5.50%**	**5.25%/5.50%**
02 Nov	US	Initial Jobless Claims		210k	210k
	US	Durable Goods Orders / Nondef Ex Air	Sep F	--/--	4.7%/0.6%
	EZ	Mfg PMI	Oct F	43.0	43.0
03 Nov	**US**	**Nonfarm Payrolls / Unemployment Rate**	**Oct**	**190k/3.8%**	**336k/3.8%**
	EZ	**Unemployment Rate**	**Sep**	**6.4%**	**6.4%**
	US	**ISM Services Index**	**Oct**	**53.0**	**53.6**

Asia

Date	Country	Event	Period	Survey*	Prior
30 Oct	AU	Retail Sales MoM	Sep	0.3%	0.2%
31 Oct	CH	Mfg / Non-mfg PMI	Oct	50.2/51.5	50.2/51.7
	KR	Industrial Production YoY	Sep	-1.0%	-0.5%
	TH	BoP Current Account Balance	Sep	$1000m	$401m
	TH	Exports / Imports YoY	Sep	--	-1.8%/-11.9%
	TW	**GDP YoY**	**3Q A**	**2.1%**	**1.4%**
01 Nov	CH	Caixin Mfg PMI	Oct	50.8	50.6
	AU	Mfg PMI	Oct F	--	48.0
	ID	**CPI / Core YoY**	**Oct**	**2.6%/2.0%**	**2.3%/2.0%**
	KR	**Exports / Imports YoY**	**Oct**	**6.1%/-3.9%**	**-4.4%/-16.5%**
		Mfg PMI (ID, IN, KR, MY, TH, TW, VN)	Oct	--	--
02 Nov	SG	Purchasing Managers/Elect. Sector Index	Oct	--	50.1/49.8
	AU	**Trade Balance**	**Sep**	**A$9576m**	**A$10380m**
	KR	**CPI / Ex Food and Energy YoY**	**Oct**	**3.6%/3.1%**	**3.7%/3.3%**
	MY	**BNM Overnight Policy Rate**		**3.00%**	**3.00%**
03 Nov	**CH**	**BoP Current Account Balance**	**3Q P**	**--**	**$64.7b**
	CH	Caixin Services PMI	Oct	--	50.2
	SG	**Retail Sales / Ex Auto YoY**	**Sep**	**--/--**	**4.0%/3.7%**
		Mfg PMI (PH, SG)	Oct	--	--

Week-in-brief: War Premium & Illusions of Control

- The Israeli military's (IDF) ground invasion into Gaza over the weekend, marked by PM Netanyahu's sobering warning of a "long and difficult" war, sets the stage **for increased war premium**.
- The real danger here is that of **tragic miscalculations** from an illusion control inadvertently resulting an uncontrolled descent into a regional war. A danger that is discomfortingly lurking in **Iran's threat of "new fronts" being triggered by the Gaza invasion**.
- For now, though, markets have taken some degree of comfort in Israel's strategically calibrated ground invasion; thereby resulting in a controlled pick-up in war premium. Oil is buoyed ~3% (Brent above $90) by increased war premium, but not surging uncontrollably as actual disruptions have been avoided.
- And measured boost to CHF and JPY alongside pick-up in commodity currencies such a BRL speak to controlled war premium juxtaposed against calculated commodity hedges rather panicked liquidation.
- The **question of the week though is how the war premium factors into the Fed (FOMC preview details below)**. Specifically, how **much control the Fed cedes to the uncertainties of war**. Especially given the likelihood of harder to control policy transmissions from wilder swings in yields.
- Surging long-end yields have thus far reflected controlled war premium pricing oil's buoyancy (impacting inflation) alongside projections of higher US debt issuances to fund war. But prospects of a sharp swing down in yields (from haven reflex) on uncontrolled geopolitical flare up cannot be written off.
- In any case, the Fed's ability to control policy transmissions to yields is arguably impaired by war premium. What's more, with the **US Treasury releasing borrowing plans on Wed** as well, yields may be driven **by bond supply dynamics rather Fed control of policy guidance**.
- Nevertheless , despite the lack of a Dot Plot or SEP update and the US Treasury bond issuance taking up air, the post-FOMC press conference could still catalyse (even if it can't absolutely control) in bond/asset with nuanced revelations on policy triggers and thresholds.
- The **BoJ's Halloween meet is also rendered even more unpredictable** as volatility from war premium and pressures from higher oil compound the JPY conundrum. But the ability to control both JPY and fiscal-economic risks is illusory. The decision therefore is on the trade-off to take and the tools to manage volatility and pain. Elsewhere, the BoE could also be revealing stress points in the economy, limiting scope for tightening.
- In EM- Asia, with **the MYR at record lows**, the BNM will be under no illusion that their likely rate hold is a difficult one on Thursday which holds on for more time before assessing the impact of the **lifting of some price controls.** Meanwhile in Taiwan, Q3 GDP is likely to be lifted on external demand recovery but implications from geo-political risks are hard to shake off.
- All in, heightened geopolitical risks imposing war premium suggest more headline driven markets and the attendant latent volatility that follows. As such neither generalised "risk on" nor sustained rallies in AXJ look likely. The **illusion of control confronting policy makers and geopolitical actors means that controlled risk appetite is the best case**.

FOMC: November Rain

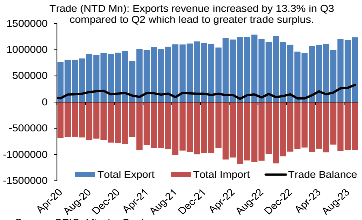
"When I look into your eyes | I can see a love restrained | But darlin' when I hold you | Don't you know I feel the same? | Nothing lasts forever | And we both know hearts can change | And it's hard to hold a candle | In the cold November rain" **– November Rain, Guns N' Roses, 1991**

- The **Fed** is **poised to hold steady** at this meeting that kicks off November. **Expectations are almost ubiquitous** with *Fed Fund futures pricing* in a *mere 2% probability of a hike.*
- Apparently, **despite exceptionally strong US economic data** (in sharp contrast to faltering cross-Atlantic activity), from stunning Q4 GDP out-run (4.9% QoQ annualized) to the *inimitably resilient US consumer,* **November FOMC is raining on the hawk parade**.
- Partly, this "*love* (for ensuring sufficiently tight policy) *restrained*" may reflect **caution amid geo-political uncertainty** that has flared; especially **given how "far and fast" rate hikes have come** have **bought the Fed policy space for a "hawkish skip.**
- And so "*when I hold*" Fed will have markets "*know (the Fed) feels the same*" **on remnant hawkish bias**; *with higher odds of, although not base case for Dec or Jan hike.*
- But "*nothing lasts forever ...*". **Not even inflation worries** amid geo-political shocks.
- Notably, Fed Chair Powell expressing **greater confidence about the cooling job markets**; citing comfort about **wage-price spiral risks being dialled-back** as openings-to-seekers re-balance and wage increments on job change begin to cool.
- By extension attendant **need for aggressive tightening will also not last**.
- "*And we both* (Fed and markets) *know hearts can change*". Just look at surging yields doing the effective tightening for the Fed, which has changed a few hawkish hearts about just how much more (if any further) rate hikes might be required; despite interim "US exceptionalism".
- To be sure, geo-political risks flaring along with oil complicate the interactions between cost shocks and subsequent consumption pullback on eroded discretionary income.
- So, **nothing is cast in stone on policy**. But "*it is hard to hold* (an aggressively hawkish) *candle in the cold November rain*". Nonetheless, despite rising odds of Fed hawks being done with hikes, USD and UST yield ascendancy could continue as this Fed's skip in the context of economic out-run out-hawks other G10 central bankers.

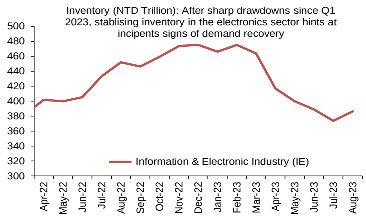
BoJ: Trick or Treat?

- The **BoJ's "Halloween meeting**", *which has a history of having sprung active surprises,* will **inevitably have markets wondering** if this time will be a "**trick or treat**.
- What's sobering though, it will be **a scare one way or another**. The **absence of any calibration to temper** the active **dovish stance**, spear-headed by **YCC** (requiring aggressive JGB purchases to anchor yields), **will frighten JPY exposures**. Specifically, *as mounting defacto JPY debasement pressures* (on price-led balance sheet expansion) are **compounded by** *increasingly corrosive* (for JPY) *UST-JGB yield spreads;* especially as UST yields rally brutally on an odd mix of US exceptionalism and debt woes.
- On the flip side, any **dial back of YCC**, will **catch JPY bears and JGB bulls wrong-footed**. And an even *more extreme,* albeit *highly unlikely,* iteration of a **complete abandonment of YCC will absolutely terrify fiscal authorities**; even if the initial reaction may be one of a more stable JPY (at the expense of some JGB sell-off). Fact is, the **fiscal reckoning could be brutal** if yields are allowed to play catch-up with sovereign bond markets elsewhere in the G4. The *debt servicing could impair, if not cripple, fiscal capabilities;* and jeopardize growth multipliers, with a severe "crowding out".
- Moreover, both the **BoJ and wider financial institutions** will risk **a deleterious hit to their balance sheets** given the ubiquity and depth of JGB holdings.
- So how best to dress up a policy move this Halloween? Well, a **clearly communicated** ***one-off rate adjustment from NIRP* to ZIRP**** alongside a ***highly-controlled (25-50bp) of YCC target upside flex*** range may be just the trick to give all involved a treat.
- And for the purposes of Halloween, ridden with fears of policy mis-steps and geo-political miscalculations, just **some degree of JPY stability**; whilst ensuring that the **fiscal and BoJ/FI balance sheets don't face a meltdown** will have to **qualify as a treat**.

Taiwan Q3 GDP: External Lift



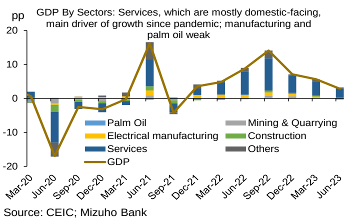
Source: CEIC; Mizuho Bank



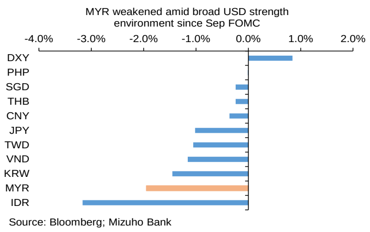
Source: CEIC; Mizuho Bank

- **Taiwan's Q3 GDP print is likely to accelerate from Q2's 1.4% YoY print and backs the CBC's earlier decision to hold rates and accommodate a recovery. Rising trade surplus on the back of higher export revenues point to a stronger support from external demand.**
- **This is likely resulted in the higher industrial production levels which rose 4.1% QoQ SA.**
- Declining inventories in the electronic sector which saw an uptick in August also bodes well as firms may have reached levels which require restocking and may increase production in the months ahead.
- Nonetheless, given that surveyed business sentiments remained weak, private investments is expected to remain subdued.
- Domestically, the labour market remains tight and **retail trade grew a robust** 3.3% YoY in Q3.
- That said, surging headline inflation is likely to have restrained private consumption growth.
- All in, while a cautious lift provides relief, a more discernible recovery may occur in early 2024.

BNM: Holding (Out)



Source: CEIC; Mizuho Bank



Source: Bloomberg; Mizuho Bank

- Our base case is for the **BNM to continue holding (out) and keep the OPR at 3.00%** at the upcoming meeting (2 Nov).
- With the MYR weakening -1.9% against the USD since the September FOMC alongisde wider rate gap with regional peers, **the risks of a hike to support the ringgit has become more material.**
- While advanced estimates of Q3 growth stood at 3.3% YoY, growth engines remain skewed and in need of firmer recovery signs.
- The manufacturing sector is in doldrums while the price/demand upside for palm oil remains limited. Growth continues to be supported mainly by household spending, but moderating retail sales suggest that room for outperformance is limited.
- **Nonetheless,** higher oil and food prices, alongside subsidy rationalisation plans announced in Madani II **risks a resurgence in price pressures**, which has moderated in recent months.
- **Higher inflation would also be unfavourable fo real policy rate differentials** against the US, further pressuring MYR.
- While BNM had earlier alluded to the NEER being a more representative measure of MYR strength vis-a-vis the Greenback, **relatively wider rate gaps with regional peers hiking in recent weeks could pressure the NEER and nudge the BNM to act** rather than just a superficial follow the crowd.
- Notwithstanding this, we think that **BNM remains slightly tilted towards growth as opposed to ringgit-stability.**
- **Concerns over weak growth appear to have dialled up**, as the characterisation of the monetary policy stance as "slightly accommodative" in May and July statements, was conspicuously absent in the latest September monetary policy statement.
- In addition, BNM had previously stated that **growth would provide "more enduring support for the ringgit", as opposed to "short-term measures of monetary policy decisions**" in an implicit allusion to the efficacy of a higher OPR in assisting the ringgit.
- On balance, facing the risk of further tightening reining in the already weak growth momentum, the BNM will lean towards a hold alongside possibility of hawkish signals to arrest inflation pressures.
- Nonetheless, this call is premised on a widely expected Fed pause, failing which the needle will move towards a hike to backstop MYR stability.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.66	-0.200	-0.13%	146.90	~	150.50
EUR/USD	1.0565	-0.0029	-0.27%	1.042	~	1.068
USD/SGD	1.3698	-0.003	-0.20%	1.3650	~	1.3800
USD/THB	36.217	-0.296	-0.81%	35.80	~	36.60
USD/MYR	4.7782	0.011	0.22%	4.740	~	4.800
USD/IDR	15940	65	0.41%	15,750	~	16,050
JPY/SGD	0.9153	0.000	-0.04%	0.907	~	0.939
AUD/USD	0.6335	0.002	0.33%	0.625	~	0.644
USD/INR	83.25	0.125	0.15%	82.8	~	83.6
USD/PHP	56.96	0.115	0.20%	56.5	~	57.4

^Weekly change.

FX Outlook: War, Wagers & Wariness

- The Greenback appears to have retained traction as the DXY stayed above 106 levels.
- Despite the volatility in 10Y UST yields and softening UST yields, US exceptionalism and haven allure have proved to be rather durable, even as the strong durable goods print belied underlying weakness after excluding volatile components.
- USD remains supported on the need to retain hawkish rhetoric by Fed at this week's meeting although odds of a Fed hike has diminished.
- Elevated UST yields on increased bond issuances would also cushion the Greenback this week.
- **Wariness on the geopolitical outlook would keep Gold supported**, after it breached $2000 last Friday. Meanwhile, the **movement of Oil could be more subdued**, as higher inventories could serve to provide some buffer time on softer demands. Nonetheless, latent risks inherent to an escalation of geopolitics tensions lurk in the background and increase in two-way volatility is expected.
- Across the Atlantic, bias to a **weaker EUR** after ECB's pause last week as risks are tilted to weaker growth and stickier inflation, basically stagnation.
- **JPY** could likely see some suppot leading into the policy meeting this week, as narrower UST-JGB yield spreads. **Upside surprise on Tokyo CPI** may have **some wagering on BoJ tweaks**.
- An one-off rate adjustment from BOJ with a limited relaxation of YCC could assist JPY bulls. An inaction would subsequently see a JPY sell-off, with USD/JPY breaching 150 highly likely.
- Meanwhile, it appears that it is too early to call the end of rate hiking cycle in EM-Asia following BI's surprise hike and BSP's off-cycle move. Risks to a BNM hike have increased materially, although the slight slant towards growth should keep the BNM on pause. Should BNM proceed with a hike**, any relief on the MYR would likely be fleeting.**
- EM-Asia currencies could be supported alongside the CNH, should the key financial policy gathering (Oct 30-31) leads to announcements of less conservative stimulus and data prints this week point to early signs of recovery. That said, given potential for property worries to rupture on Evergrande's court case, any CNH recovery is likely to be restrained.
- Elsewhere, higher oil prices could pressure the INR and PHP (which has shown surprising resiliency in recent weeks).

Bond Yield (%)

27-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.002	-7.1	4.835	-7.9	Flattening
GER	3.024	-8.8	2.828	-5.9	Steepening
JPY	0.082	1.4	0.869	4.1	Steepening
SGD	3.602	-0.2	3.359	0.1	Steepening
AUD	4.367	9.9	4.811	0.1	Flattening
GBP	4.715	-13.9	4.541	-10.8	Steepening

Stock Market

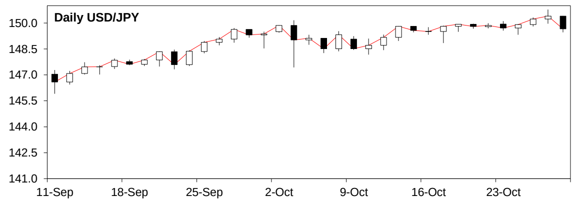
	Close	% Chg
S&P 500 (US)	4,224.16	-2.39
Nikkei (JP)	31,259.36	-3.27
EuroStoxx (EU)	4,024.68	-2.69
FTSE STI (SG)	3,076.69	-3.42
JKSE (ID)	6,849.17	-1.12
PSEI (PH)	6,142.90	-1.97
KLCI (MY)	1,441.04	-0.21
SET (TH)	1,399.35	-3.54
SENSEX (IN)	65,397.62	-1.34
ASX (AU)	6,900.72	-2.13

US Treasuries: Panic Directions?

- Last week, haven demand played out and also underscored our point that a re-steepening to an upward sloping yield curve is not a straight forward affair.
- That said, the overall outcomes of ~7bp decline is far from outright panic of capital flight into haven.
- This week, **two major forces are at risks of colliding**.
- First, should the illusion of a gaza confined conflict begin to fade into a wider Middle East war, another bout of **haven flows are par for the course**. Second, a mid week release of borrowing plans may **rupture fiscal concerns and send UST bears hiding**.
- Not forgetting the FOMC, **yields will likely be underpinned by necessary hawkish tones** as recent yield volatility imply that the **policy arguments on yields being a "tighening" force is far from a straight forward proposition**.
- On the aside, **risks of spillovers from a BoJ surprise or even scare is well worth watching**.
- All in, 2Y yields will trade in the 4.90% to 5.2% range while 10Y yields stay in the 4.75-5.10% range with **fleeting moments of positive yield slopes.**

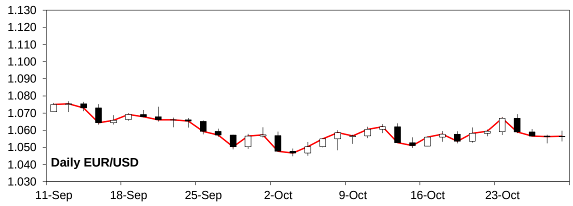
JPY: Fright

- JPY caught some late relief from lower UST yields which allow the USD/JPY to end last week below 150. The week's BoJ's decision may provide some clarity in **direction for the JPY** but will still **have to deferred to the FOMC and the US Treasuries issuance plans.**
- Specifically, anything short of outright frightening YCC abandonment will be unlikely to overwhelm UST pressures.
- Meanwhile, sticking to the current active dovish stance (without YCC tweaks) is likely to **frighten JPY bulls and send USD/JPY higher to test 151.**
- In a risk based consideration, a one-off rate adjustment from negative interest rate to zero interest rate policy will allow the USD/JPY to test below 147 but durability will be suspect.



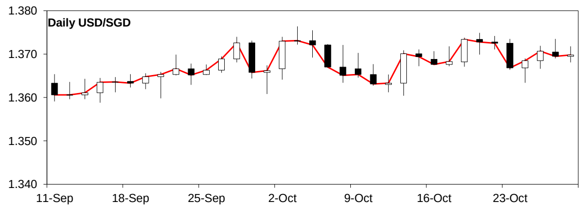
EUR: Finished?

- Unsurprising, the EUR slipped as the ECB's pause was accompanied by substantial allusion to growth worries and confidence on the dis-inflation prcoess last week.
- Early week, **EZ inflation and GDP growth release will test these beliefs and re-ignited bets on whether hikes are truly finished.**
- Nonetheless, barring upside on **both** inflation and GDP, EUR lethargy is unlikely to abate on just inflation alone. Afterall, **stagflation is really no consolation to stagnation**.
- All in, EUR will find it hard to rally above mid-1.06 while growth risks may trigger bets for sub-1.05 as durability of ECB's elevated rates will be debated.



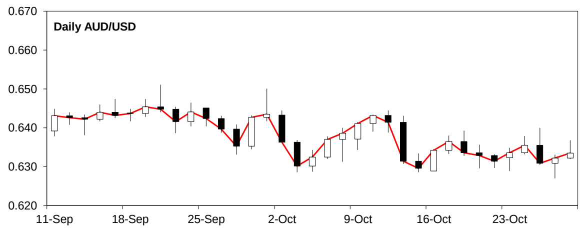
SGD: Within Range

- Encouraging data last week point to preliminary signs of industrial activity pick-up, which would likely be reflected in this week's Purchasing Managers/Electronic Sector Index prints as well. That said, outperformance in the SGD is unlikely without a meaningful upward revision of global growth prospects.
- FOMC likely pause with a continued "patient" rhetoric and announcements of less conservative fiscal measures by the Chinese government should keep the SGD supported, barring any flare-up in geopolitcal events. Meanwhile, continued economic downturn in the EZ in GDP and PMI print would weigh on the SGD. Expect trading to be on both side of 1.37 levels.



AUD: Backstops, Not Front Runs

- Amid an inflation upside surprise, the AUD managed to end the week above 63 cents.
- First, it is prudent for AUD bears to over emphasize on RBA Governor Bullock allusion (at parliament) to the inflation outturn being about where they thought given that she had earlier clear displays on a willingness to take further action.
- The **AUD will be expected to be backstopped** by this non-trival possibility of a further hike.
- In addition, **China's fiscal stimulus will also assist the AUD.**
- **That said,** China woes are far from over given liquidation risks from Evergrande with significant spillovers. Rallies are likely off the mark.
- On balance, deference to UST yields remain the base case for the AUD to trade within mid-62 cent and mid-64 cents.



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