MIZUHO

Vishnu Varathan | Tan Boon Heng

WEEK AHEAD

Subscribe to our YouTube Channel https://www.youtube.com/@MizuhoMacroViews

Mizuho Bank, Ltd. Asia and Oceania Treasury Department

Tel: 65-6805-2000 Fax: 65-6805-2095

23-Oct-2023

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 20 Oct 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
23 Oct	**US**	**Chicago Fed Nat Activity Index**	**Sep**	**-0.1%**	**-0.2**
24 Oct	**US**	**Richmond Fed Mfg Index**	**Oct**	**3.0**	**5.0**
	EZ	PMI Mfg / Services	Oct P	43.6 / 48.6	43.4 / 48.7
	JP	PMI Mfg / Services	Oct P	--	48.5 / 53.8
25 Oct	US	New Home Sales	Sep	682k	675k
	JP	Coincident Index / Leading Index CI	Aug F	--	114.3 / 109.5
	GE	IFO Business Climate / Expectations	Oct	85.9 / 83.5	85.7 / 82.9
26 Oct	US	Initial Jobless Claim	Oct-21	208k	198k
	US	**GDP Annualized QoQ**	**3Q A**	**4.3%**	**2.1%**
	US	**Durable Goods Orders / Nondef Ex Air**	**Sep P**	**1.5% / 0.0%**	**0.1% / 0.9%**
	EZ	**ECB Main Refinancing Rate**	**Oct-26**	**4.50%**	**4.50%**
27 Oct	**US**	**U. of Mich. Sentiment**	**Oct F**	**63.0**	**63.0**
	US	**PCE / Core Deflator YoY**	**Sep**	**3.4% / 3.7%**	**3.5% / 3.9%**
	US	U. of Mich. 1Y / 5-10Y Inflation	Oct F	3.8% / -	3.8% / 3.0%
	US	Personal Income / Spending	Sep	0.4% / 0.5%	0.4% / 0.4%

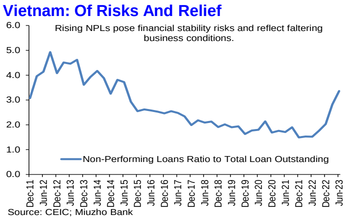
Asia

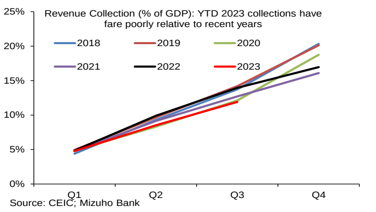
Date	Country	Event	Period	Survey*	Prior
23 Oct	**SG**	**CPI / Core YoY**	**Sep**	**4.0%/ 3.1%**	**4.0% / 3.4%**
	TH	Customs Exports / Imports YoY	Sep	-1.5%/-5.6%	2.6% / -12.8%
	TW	Unemployment Rate	Sep	3.4%	3.4%
	TW	**Industrial Production YoY**	**Sep**	**-8.0%**	**-10.5%**
24 Oct	AU	PMI Mfg / Services	Oct P	--	48.7 / 51.8
	KR	PPI YoY	Sep	--	1.0%
25 Oct	**AU**	**CPI YoY**	**Sep**	**5.3%**	**5.2%**
	KR	**Retail Sales YoY**	**Sep**	**--**	**3.3%**
26 Oct	SG	Unemployment rate SA	Sep	--	1.9%
	SG	**Industrial Production YoY**	**Sep**	**-4.0%**	**-12.1%**
	KR	**GDP YoY**	**3Q A**	**1.1%**	**0.9%**
27 Oct	AU	PPI YoY	3Q	--	3.9%
29 Oct	**VN**	**Retail Sales YoY**	**Oct**	**--**	**7.5%**
	VN	**Industrial Production YoY**	**Oct**	**--**	**5.1%**
	VN	Exports / Imports YoY	Oct	--	4.6% / 2.6%
	VN	**CPI YoY**	**Oct**	**--**	**3.7%**

Week-in-brief: Exceptionalism Misgauged & Exoneration Misplaced

- The week is **frighteningly fertile for policy and geo-political miscalculations**; **one threatening to amplify the other**. Especially as **US exceptionalism**, **misgauged to be more pronounced than it really is, collides with premature hopes of exoneration from the worst of geo-political accidents**.
- With Q3 US GDP (Thu) expected to print an annualized 4.3% QoQ the narrative for US exceptionalism and *attendant hawkish Fed posturing* will be hard to dial back.
- More so, **if PCE and core PCE** prints **suggest** that **inflation has not cooled as quickly** as hoped for.
- But in any case, potential *cost shocks associated with heightened geo-political risks* rippling through energy and perhaps food further **amplify** the **propensity for policy miscalculations**.
- Against this backdrop, **"risk off" sentiments** and increasing pressures on EM Asia assets could prevail.
- Which could spell **even more acute pain if geo-political risks flare** on wider spill-over of the Gaza conflict, as a war involving Lebanon and/or Iran proxies; as global efforts to at least contain, if not defuse, nevertheless **fail to exonerate wider Middle East conflict risks**.
- And even in this scenario, the worst-case play out, In particular, if a geo-political crisis that is short of panic continues to **deny meaningful exoneration of misgivings about US fiscal/debt deterioration**.
- In which case, an **unfamiliar and unnerving mix of elevated long-end UST yields accentuate pain all around** as *capital flight to haven offer little reprieve even for higher quality assets* elsewhere;
- as **elevated UST yields set the base-line risk-free rates** that determine (softer) valuations and **drive up risk premium instead**. Against this backdrop, higher inflation exposures and "twin deficit" risks in EM Asia and elsewhere may inevitably be subject to more jarring shake-down.
- **Bank Indonesia's surprise 25bp hike last week**, *expressly alluding to rupiah stability motivations,* **express a desire to pre-empt such "tail risks"**. And it raises not just ***uncomfortable questions of policy adequacy for many EM Asia central banks***; and ***for some it raises the ante*** as well.
- And if the conspicuous absence of rupiah traction post-hike is anything to go by, the connundrum from **misgauged US exceptionalism and misplaced** (hopes of) **exoneration for EM risks is laid bare**.
- All said, **EM Asia and (perceived) higher-risk FX/assets** may be ***positioned precariously,*** if not outright subject to more pain this week. And the **ECB's abstinence from a rate hike amid uncertainties may not be exoneration of EM Asia central banks** not tightening further. But ***may perversely accentuate FX volatility if a weaker EUR exerts wider drag across global FX*** (against the Greenback).
- Elsewhere, **nascent bottoming in Korea's GDP** and **Vietnam's activity** may **be welcome relief**.
- But this relief is **not to be mistaken for exoneration of lingering downside risks**. *Certainly not* **cause for exuberance about exceptionalism** from impending industrial (and on-going) /tourism turnaround.

Vietnam: Of Risks And Relief



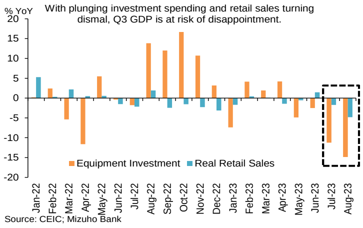


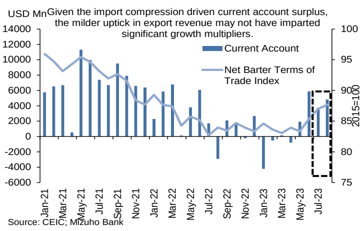
- October economic data release will cast a spotlight on **the shortfall of Q4 activity pick-up**.
- To be sure, the services sector recovery is likely to be boosted by tourim-driven **uptick in retail sales that is set to persist.** Nonetheless, the strength of a real recovery is likely to have been dented by the resurgence in inflation which would have dented household purchasing power.
- Moreover, **poor revenue collection in 2023 thus far**, forcing a consideration of **an extension of the 2%-point VAT** (announced last week) **until June 2024** underscores the **fragility of private consumption**.
- Similarly, while **industrial production is likely to have improved on a monthly basis as the electronic cycle makes a recovery attempt**, underlying sentiments are likely to languish as **escalating non-performing loans underscore the insufficient cashflows hampering business**.
- The **balance sheet effects** of the current real estate doldrums and fraud incident at property developers and financial institutions continue to weigh on economic activity as **restructuring of debt and disposal of assets face significant huddles in a downbeat economic environment.**
- **Financial stability risks continue to be a key risk given the elevated corporate debt levels.**
- On the inflation front, **while headline CPI inflation may see a mild step down from September's 3.7% YoY** on marginal cuts in petrol prices, the **transmission** from **earlier food price shocks** to wider related services industries such as restaurants **remains a key risk**.
- All in, while the slew of economic data may provide a silver of relief, risks remain in abundance.

ECB: A Pause, Not End

- The **overhang of weak growth would likely see ECB pausing** at the next policy meeting (26 Oct).
- Concerns on weak growth appear to have gained traction since the ECB's growth downgrade in September, where ECB observed that the contraction in manufacturing had spilled over to services.
- Recent remarks by Lagarde similarly revealed wariness on the delayed impact of monetary policy on growth, as well as weaker global economy amid heightened geo-political risks.
- **A pause, if it materialises, would not signal the end of tightening** as the ECB remains overtly focussed on inflation. A still-tight labour market and the latent risk of Oil's geo-political flare-up could potentially unmoor inflation expectations given surging gas and oil prices. The fact that the ECB had, in September, assessed inflation expectations to be anchored despite elevated data prints, and viewed it as "a major achievement", displays a keen intent on keeping expectations anchored.
- That said, at this juncture, the **ECB does not have the necessary growth resilience to raise rates to pre-empt a resurgence of inflation**; and will have to rely on **on-going monetary policy transmission of cumulative hikes thus far**. Nonetheless, utilisation of a wider set of policy tools may increasingly be a consideration into year-end.

Korea Q3 GDP: Extended Bottoms?



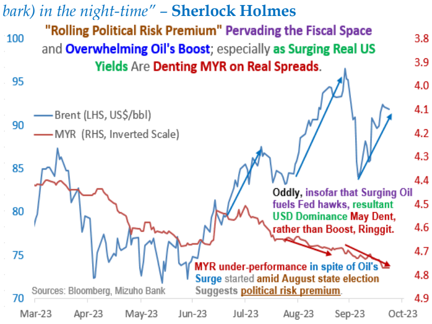


- Our bottomline is **that Korea's Q3 GDP might be up for another disappointment.**
- While our expectations are for Q3 GDP YoY growth **to maintain at 0.9% YoY** which is similar to that in Q2, it still represents a **slowdown in momentum** with QoQ growth slowing to 0.3% QoQ SA in Q3 from the 0.6% posted in Q2.
- Weaker retail sales over July and August point to **eroding support from private consumption.**
- Furthermore, given that their return to a current account surplus was in part driven by **import compression**, the **exports recovery at a modest pace may not impart significant growth multipliers** for the industrial sector. Reflecting so, **industrial production levels remain relatively flat on average** over July and August relative to Q2. At this juncture, **the semiconductor production recovery has yet to broaden into the wider manufacturing sector.**
- The lacklustre external demand recovery also appears to spillover and constrained investment spending as **expenditure on equipment investments contracted.**
- **These doured business sentiments** were also reflected by the Business Survey index which indicated **worsening current business conditions and a poorer outlook.**
- Admittedly, **services is a bright spot given a 17% surge in average monthly arrivals** over Jul-Aug relative to Q2. That said, **tourism revenues falling short of arrivals dampens optimism.**
- On balance, subdued **growth momentum is likely to have extended into Q3.** While an **upside GDP surprise may arise from subdued import demand** (from lower corporate and household demand), it **is a position of weakness and not strength.**

The Ringgit Puzzle-Conundrum

"The curious incident of the dog (that did not bark) in the night-time" – **Sherlock Holmes**

- Sherlock Holmes' "*curious incident of the dog that did not bark*" comes to mind when one tries **to square ringgit under-performance amid surging Oil prices**. Especially given that received wisdom dictates that *as the only net oil exporter in the region*, the *MYR typically gains the upper hand;* further **bolstered by** *obvious and significant fiscal gains* (from both tax and dividend bump-up).
- Even more puzzlingly, **MYR Ringgit not only failed to out-perform regional currencies, *but has decidedly under-performed;*** **defying further implied fiscal boost from major budget overhaul to rein in subsidies**, that have followed Oil's surge.



- That the ringgit defied the boost from Oil and scorned purported fiscal fillip to under-perform, hitting record lows in the course of last week, ostensibly reflects **policy-political worries**.
- For a start, it **real rate spreads** (vs. USD) threaten to **turn a lot more unfavourable**.
- And perversely **more so as the subsidy rollback** hits price pressures, and consequently **higher inflation reveals softer real policy rates**.
- What's more, amid US exceptionalism, surging Oil prices fuel hawkish Fed expectations; and resultant USD dominance overwhelming expected MYR gains (otherwise to be derived from Oil).
- So, **medium-term fiscal benefits come at the cost of near-term monetary policy dilemma not sufficiently offset by rising oil prices**; *manifesting as ringgit headwinds*.
- The "*damned if I do, damned if I don't*" **options of a policy response** ultimately **either; concede economic headwinds** from higher rates, and attendant debt burden on a stretched economy, **or**; **stake macro and ringgit stability**, should monetary response be withheld.
- And to be sure, the fiscal-monetary trade-off is not an entirely myopic zero-sum game. Instead, there is a recognition of embedded political risks; evident heading into August state elections.
- Fact is, **while the fiscal overhaul to revoke blanket subsidies in favour of targeted cost relief is right** way to go, the **concern may be with the execution of such politically-charged fiscal plans in the context of constrained political capital**. So aspects of **political stability risks amid inadvertent fiscal shortfall further complicate near-term real rate headwinds** undermining MYR.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.86	0.290	0.19%	147.80	~	150.50
EUR/USD	1.0594	0.0084	0.80%	1.042	~	1.069
USD/SGD	1.3725	0.003	0.23%	1.3650	~	1.3800
USD/THB	36.513	0.235	0.65%	35.80	~	36.80
USD/MYR	4.7677	0.039	0.83%	4.720	~	4.780
USD/IDR	15875	192	1.22%	15,700	~	16,000
JPY/SGD	0.9157	0.000	0.03%	0.907	~	0.934
AUD/USD	0.6314	0.002	0.29%	0.620	~	0.646
USD/INR	83.12	-0.144	-0.17%	82.8	~	83.6
USD/PHP	56.845	0.032	0.06%	56.3	~	57.2

^Weekly change.

FX Outlook: Look Out!

- It appears that Greenback has settled into side-ways motion; specifically, appearing to have become more restrained last week, as it slipped of the highs hit after Israel-Hamas trigger. But this would be a **misguided interpretation of calm**, when it is in fact an **uneasy and precarious pause**. So **look out**!
- EUR recovering back to levels before the Israel-Hamas conflict may also be misconstrued to suggest some degree of "normalization"; but this possibly positioning ahead of ECB.
- Speaking of which, the **ECB** is widely expected to hold. But that will still constitute **pivot risks to look out for**; as **less hawkish interpretations of caution may lead to EUR sell-off**.
- And this **late-week volatility has the potential to catch markets wrong-footed**.
- What's more, **Gold**, which was up some 3% last week (despite a mild slip in USD that appears not to have piggy-backed to the same extent on haven demand for the corresponding period), **warns that markets still need to look out for geo-political tail risks** from Gaza and wider geo-politics.
- And so, this sets the stage **for Gold, USD, JPY And CHF to squeeze out EM and higher beta currencies**. Moreover, the rise in **oil prices could also hurt** the likes of **PHP, INR, THB and KRW**.
- Which means **both direct geo-politics and its consequent risks via energy loom**.
- In EM Asia, **pressures on IDR despite BI hike** and **sustained MYR slippage risks defying higher Oil** speak to a *conspiracy of risk aversion, higher long-end UST yields and US exceptionalism* **raising the bar for EM Asia FX to be able to exploit any signs of USD relenting**.
- Especially as **a soft CNH falls short of the necessary underwriting for EM Asia FX buoyancy**.
- In addition, **JPY also poses a duality of downside risks** to EM Asia FX. On one hand, via **sympathetic deference to USD and high UST yields**, which is supportive of USD.
- But on the other, **elevated intervention risks near 150** may **squeeze out** JPY shorts, and consequently **carry trades, with little warning**. This in turn could come **at the cost of high-beta currencies, putting AUD, INR and IDR** at risk.

Bond Yield (%)

20-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.073	1.9	4.914	30.2	Steepening
GER	3.112	-1.8	2.887	15.4	Steepening
JPY	0.068	3.2	0.828	7.9	Steepening
SGD	3.604	0.8	3.358	7.8	Steepening
AUD	4.268	24.7	4.744	0.1	Flattening
GBP	4.854	4.4	4.649	26.6	Steepening

Stock Market

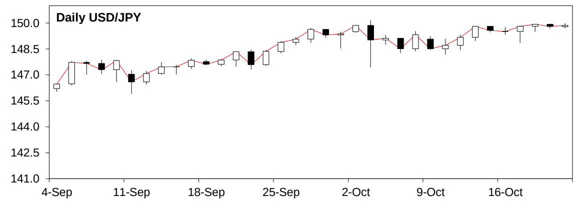
	Close	% Chg
S&P 500 (US)	4,224.16	-2.39
Nikkei (JP)	31,259.36	-3.27
EuroStoxx (EU)	4,024.68	-2.69
FTSE STI (SG)	3,076.69	-3.42
JKSE (ID)	6,849.17	-1.12
PSEI (PH)	6,142.90	-1.97
KLCI (MY)	1,441.04	-0.21
SET (TH)	1,399.35	-3.54
SENSEX (IN)	65,397.62	-1.34
ASX (AU)	6,900.72	-2.13

US Treasuries: Of Reversions and Inversions

- After a **staggering 30bp increase in 10Y UST yields** last week, the focus has is inevitable now a reversion back to a normal upward sloping yield curve given that the 10Y-2Y spread is now just less than 20bps.
- The possibility of a reversion in the next two weeks is certainly non-trivial.
- On the front end, with Fed Chair Powell is likely to continue to transmit his patient messaging, upside in 2Y yields will remain limited. Meanwhile, further climb in 10Y UST yields may not be straightforward and will be highly volatile.
- While UST 10Y yields will attempt to test 5%, the **growth implication of higher long term borrowing cost on risks assets will continue to play out and re-affirm haven needs**. On balance, **2Y yields will buoyed above 5% while 10Y yields trade in the 4.85%-5.05% range.**
- Inversion will likely be retained for now barring a sharp upside surprise in US GDP which may allow fleeting reversions.

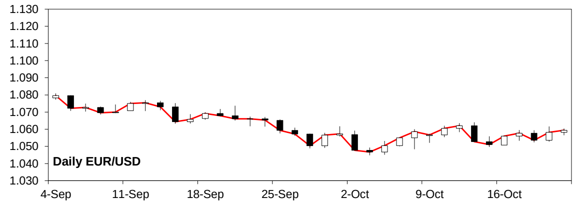
JPY: 'Extremely High' Caution and Threats

- Last week, despite higher UST yields, the **threat of BoJ intervention** kept yen bears in check. JPY stayed rather flat with the USD/JPY having a fleeting test of 150 towards the end of the week.
- This week, unverified reports of **discussion of YCC tweaks** add further restrains to JPY bears.
- With recent **wage negotiation reports seemingly backing the case for policy tweaks**, **JPY bears faces a wall of caution.**
- Furthermore, last Friday, BoJ Governor Ueda's caution of the need for **interest rate risks management** given **extremely high uncertainties over the economy** and inflation imparts further warning for JPY bears as well.
- All in, the USD/JPY is likely to trade in the 148 to mid-150 range.



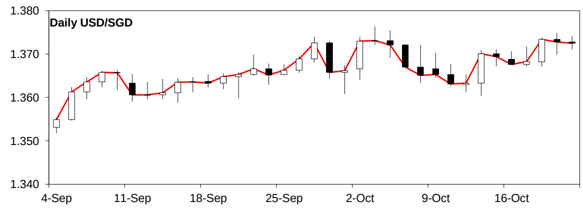
EUR: Of Peaks and Plateau

- As expected, the EUR was unable to muster much of a climb as it stayed below 1.06 last week.
- The ECB is widely expected to keep policy rates unchanged this week.
- Absent of any dovish tendencies, the EUR will remain buoyed above 1.05 given that much weakness has been factored in. Even if the ECB decides to push their peak rates higher, the sharp EUR impulse is likely to fade and fail 1.07 tests.
- **Early relief on hostage which delays ground conflict but does not defuse tensions** imply that slippage below mid-1.05 is par for the course.



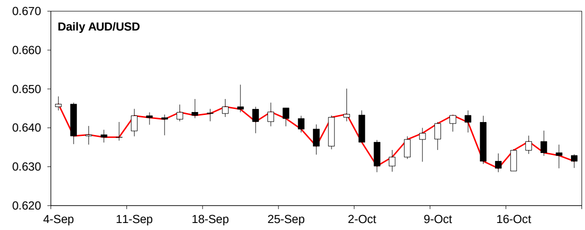
SGD: Externally driven

- No surprises likely to Singapore's data this week, as the numbers should corroborate MAS' October monetary policy, which alluded to a broad disinflationary trend, still-firm labour market and signs of industrial activity pick-up as the electronic cycle turns up modestly.
- Key data events to watch for the SGD would be US Q3 GDP and inflation data, and ECB policy decision, with the former two being the stronger driver.
- Continued strength in the US economy accompanied by benign inflation would provide support to the SGD as bets on the next Fed hike moves further out the time horizon.
- Strength would be contained within mid-1.36 as the Israel-Hamas war continues in the background. Any flare-up in oil could see the USD/SGD rally, with testing of 1.38 plausible.



AUD: Under-performance, Not Under-dog

- It is tempting to suggest that the RBA's "hawkish" surprise in alluding to less patience for elevated inflation to subside should power AUD up.
- Especially as the backdrop of elevated energy prices means that AUD ought to be relatively better-placed.
- And the rose tinted view may be one of the Under-dog waiting to make the move.
- But soft details of China's headline GDP out-run dampen AUD from the outset.
- Add to that the US exceptionalism narrative, likely to be underscored by US Q3 GDP buoyancy, and AUD cannot deny pressures from UST yields and the Greenback.
- With IDR struggling despite Bank Indonesia's surprise hike, which that walked back earlier assertions of being done with tightening, the message may be that the bar is higher to challenge the Greenback.
- And so AUD is perhaps set to disappoint with mid-0.62 to sub-0.64 under-performance rather than thrill as the Under-dog that rallies past 0.64 to 0.65.



Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice.

This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete**.** This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.