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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 1 Sept 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
04 Sep	**EZ**	**Sentix Investor Confidence**	**Sep**	**-20.0%**	**-18.9**
05 Sep	US	Durable Goods Orders/Nondef Ex Air	Jul F	--/--	-5.2%/0.1%
	EZ	Services PMI	Aug F	48.3	48.3
	EZ	PPI YoY	Jul	-7.6%	-3.4%
	JP	PMI Services	Aug F	--	54.3
06 Sep	US	Trade Balance	Jul	-$67.5b	-$65.5b
	US	**ISM Services Index/Prices Paid**	**Aug**	**52.5/--**	**52.7/56.8**
	EZ	Retail Sales MoM	Jul	-0.1%	-0.3%
07 Sep	US	Initial Jobless Claims		234K	228K%
	US	Unit Labor Costs	2Q F	1.6%	1.6%
	US	Federal Reserve Releases Beige Book			
	EZ	GDP SA QoQ/YoY	2Q F	0.3%/0.6%	0.3%/0.6%
	JP	Leading/Coincident Index CI	Jul P	107.8/114.2	108.9/115.1
08 Sep	JP	BoP Current Account Balance	Jul	¥2262.8b	¥1508.8b
	JP	Eco Watchers Survey Current/Outlook SA	Aug	54.4/53.4	54.4/54.1
	JP	GDP Annualized SA QoQ	2Q F	5.6%	6.0%
	JP	GDP Deflator YoY	2Q F	3.4%	3.4%
	JP	Labor/Real Cash Earnings YoY	Jul	2.4%/-1.4%	2.3%/-1.6%

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
05 Sep	CH	Caixin China PMI Services	Aug	53.5	54.1
	SG	Retail Sales/ Ex Auto YoY	Jul	--	1.2%/2.5%
	AU	BoP Current Account Balance	2Q	A$8.0b	A$12.3b
	AU	**RBA Cash Rate Target**		**4.10%**	**4.10%**
	KR	**CPI/Core YoY**	**Aug**	**2.8%/--**	**2.3%/3.3%**
	KR	GDP YoY	2Q P	0.9%	0.9%
	TH	**CPI /Core YoY**	**Aug**	**0.7%/0.8%**	**0.4%/0.9%**
	PH	**CPI YoY**	**Aug**	**4.7%**	**4.7%**
06 Sep	**AU**	**GDP YoY/SA QoQ**	**2Q**	**1.8%/0.3%**	**2.3%/0.2%**
	TW	**CPI/ Core YoY**	**Aug**	**2.1%/--**	**1.9%/2.7%**
07 Sep	CH	Exports/Imports YoY	Aug	-9.8%/-9.0%	-14.5%/-12.4%
	AU	Trade Balance	Jul	A$10.00b	A$11.32b
	AU	RBA's Lowe-Speech			
	MY	**BNM Overnight Policy Rate**		**3.00%**	**3.00%**
08 Sep	KR	BoP Current Account Balance	Jul	--	$5873.7m
	PH	Trade Balance	Jul	-$4150m	-$3918m
	PH	Unemployment Rate	Jul	--	4.5%
	TW	Trade Balance	Aug	$5.45b	$8.48b
9-Sep	CH	CPI/PPI YoY	Aug	--/--	-0.3%/-4.4%

Week-in-brief: Landing, Not Launching

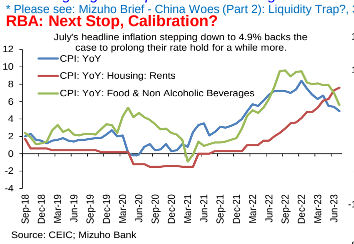
- It appears that **global markets are primed to be smitten** *with* the idea of a **"Nirvana"** Fed tightening outcome, entailing the *"immaculate dis-inflation" that does not cause employment pain.*
- Which is further flattered by **Beijing's measures to boost property demand** possibly enticing bulls.
- The **risk is getting carried away mistaking tragedy averted** (as of now) **for a boom**.
- Whereas the **global economy is still negotiating a soft-enough landing, not quite launching to "escape velocity"**.The **gravity of rates** will probably **hamper unimpeded activity acceleration**.
- Not to mention accentuate balance sheet risks down the road.
- So despite market buoyancy, and perhaps some USD concessions, and China cheer, EM Asia's policy and currency vulnerabilities are not eradicated.
- Against this backdrop, we expect that the **RBA will hold cautiously**, with Q2 GDP likely to show a slowdown in the annual pace of growth (although steady growth QoQ). Likewise, the **BNM is also likely to stay on hold** as it assesses the measured accommodation in policy to be appropriate.
- **China's** trade data and aspects of deflation (although less severe) may reveal **demand is not launching yet**. And that *despite all the stimulus,* **Beijing has a high bar to secure a soft landing**.

China: Help, Not Home-run

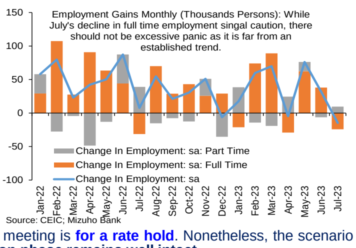
- **Decisive measures to shore up the property market** are admittedly **encouraging**; ***but* could fall short of a policy "home run"** that assures Beijing of lingering financial stability concerns.
- To be sure, **with a three-pronged boost** from; i) *significantly reduced mortgage downpayments* (by 10%-points to 20%/30% for first/second homes); ii) *mortgage rate cuts,* and; iii) *loosened eligibility criteria for first-time buyers;* **demand for property is likely to rebound**.
- And this is **a critical circuit-breaker to snap** out of the **unabating slump in property** sales casting a pall on the wider eco-system around property as well as **accentuated financial contagion risks**.
- **But the bigger picture may one of respite rather than unbridled rejoice**.
- For one, the **boom may be more emphatic for tier-1 cities** and to a lesser extent in tier-2 cities.
- Whereas tier-3 cities may continue to struggle will inventory bloat and confidence deficit.
- What's more, the **fate of beleaguered property developers**, hammered by severe cash-flow stress **may not be decisively turned around**. *Not immediately, evenly, or even adequately.*
- **Cash-flow restoration may be selective**, favouring those with stock/projects in tier-1 cities such as Beijing, Shanghai and Shenzhen. But that still leaves many developers wallowing in distress.
- Finally, while these measures may backstop imminent risks in the property market, they **do not eradicate potential contagion linkages** between *developers, local governments/LGFVs, shadow banking exposures* to property *filtering back to banks and households.*
- Which means our **reservations about China facing risks of a "liquidity trap"*** are **only marginally ameliorated, not decisively absolved**.
- ***Nevertheless,* sentiments may be justifiably upbeat** over *first signs of thaw in the housing winter*.
- Especially taken against decisive measures to shore up the CNY, easing FX reserve requirements, backstopping equityies and and tax incentives to boost disposable household income.
- A **knee-jerk, "feel good" China-induced rally** may boost CNH, commodities, AUD, and wider EM Asia exposures to China demand. ***But*** insofar that this is **not a "home-run"**, the *dangers of cash-flow shocks amid on-going developer/shadow banking defaults coming home to roost cannot be ruled out.*

* Please see: Mizuho Brief - China Woes (Part 2): Liquidity Trap?, 31st Aug 2023

RBA: Next Stop, Calibration?



Source: CEIC; Mizuho Bank

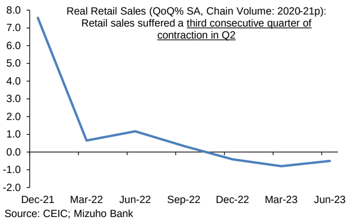


Source: CEIC; Mizuho Bank

- Admittedly, our **base case** for RBA's 5 September meeting is **for a rate hold**. Nonetheless, the scenario painted by **outgoing Governor Lowe** for a **calibration phase remains well intact**.
- Fact is, while softer food inflation and lower cost of recreation and culture, point to continued dis-inflation, exaggerated base effects may overstate it.
- A 7.6% YoY drop in automotive fuel amid uncertain energy outlook and impending filter-through of higher utilities (defrayed by subsidies in July) speak to lingering risks.
- In particular, a **wider pass-through of energy/utilities costs to the economy**; over and above **favourable base effects washing out**. What's more, **rent inflation continued to probe greater heights**; and this entails some aspects of wage-price spiral risks not put to bed.
- Admittedly, **July's full time employment decline is a signal for caution for the RBA to await further data before extrapolating trends amid the tendency for occasional blips.**
- But that is in the context of tensions with **already elevated wage pressures in Q2 that may head even higher amid on-going federal employee pay adjustments;** especially if these benchmarks spillover to private sector negotiations. Finally, even as tensions between inflation and jobs reading confound, **higher debt servicing cost threaten to dent household consumption.**
- The upshot is that balance sheet risks overlaying on mixed, sometimes opposing, inflation-jobs signals raise the prospects of policy mistakes.
- And **amid acute uncertainties flanked by global policy and China risks, careful, considered, calibration appears to be the best course for policy**. Which chimes perfectly with **incoming Governor Michele Bullock** emphasis that decisions are on a **month by month basis**.

Australia Q2 GDP: Chugging Along?

- Down Under, Q2 GDP growth is expected to come in lower than Q1's 2.3% mark. Nonetheless, the **economic engines will still attempt to chug along and post a sequential expansion** amid **growing headwinds**.
- First, with **real retail sales posting another contraction** in Q2, the third since Q4 2022, the picture **of stretched households are increasingly hard to shake off**.
- Even July's nominal retail sales "beating expectations" was really more of an **incomplete rebound of June's plunge in retail sales at department stores.**
- Similarly, while a **recovery in housing loan commitment is welcomed**, the constuction sector is still a ways off being upbeat as work done QoQ expansion in Q2 slowed to 0.4% from a significantly upward revised 3.8%.
- On the external front, trade surplus narrowed in Q2 as export revenue from goods fell 6.1% QoQ SA. While some of these effects are admittedly driven by a **decline in the terms of trade** amid lower commodity prices, softer demand from key trading partners point to **net exports dragging growth.**
- Looking ahead, a pause by the RBA this week will not deter the rising mortgage servicing burdens on fixed rate expiry which will pose further drags on consumer spending and the **economic expansion may come to a halt soon rather than later if external condition to not pick up.**



Source: CEIC; Mizuho Bank

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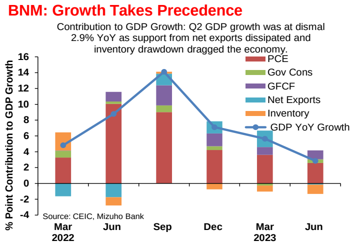
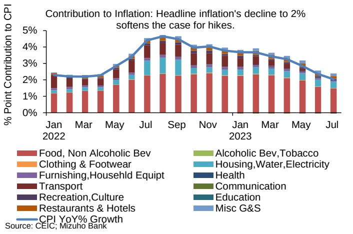
BNM: Growth Takes Precedence





- For the **BNM**'s upcoming meeting on 7 Sept, the **July statement suggests scope to hike**; ***but only if need be***.
- This may be inferred from direct allusion to the **current overnight policy rate (OPR) level being deemed slightly accommodative.**
- That said, at this juncture, we envisaged that this **slight accommodation is a much needed one and as such, the BNM will keep rates on hold.**
- Specifically, **Q2 GDP growth at 2.9%** was dismal and **underscores external headwinds**.
- Admittedly, net exports had a relatively small drag. But a significant 1.2% dent from inventory drawdown speaks to **cautious firms opting to keep less inventory rather than ramp up production.** That said, should demand pick up, a more substantial boost to manufacturing may be installed.
- Nevertheless, the BNM remains wary of prematurely hampering nascent pick-up in domestic demand and infrastructure by raising rates too much; given the interest rate sensitivity of capital spending and high household debt burden rendering consumption vulnerable to rate hikes.
- Furthermore, with headline CPI at a very palatable 2% in July, there is **insufficient grounds to hike rates to tame the still historically elevated core inflation which stands at a rather low 2.8%.**
- More importantly, the **Taylor Rule policy calculus at this juncture looks to have shifted, albeit slightly towards accommodating growth**.
- But low (enough) inflation alone does not absolve the BNM of policy dilemma.
- Crucially, MYR (depreciation) pressures may be accentuated by widening real rate differentials (vis-a-vis the Fed). Yet, this is a trade-off the BNM will bear to keep destabilizing debt dynamics at bay; as it navigates heightened global uncertainties.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	146.22	-0.220	-0.15%	144.00	~	148.00
EUR/USD	1.078	-0.0016	-0.15%	1.070	~	1.100
USD/SGD	1.3527	-0.003	-0.25%	1.3500	~	1.3650
USD/THB	34.998	-0.102	-0.29%	34.80	~	35.40
USD/MYR	4.6462	0.006	0.12%	4.610	~	4.680
USD/IDR	15240	-55	-0.36%	15,200	~	15,350
JPY/SGD	0.9251	-0.001	-0.09%	0.912	~	0.948
AUD/USD	0.6456	0.005	0.81%	0.635	~	0.655
USD/INR	82.72	0.064	0.08%	82.1	~	83.8
USD/PHP	56.598	0.018	0.03%	55.8	~	57.0

^Weekly change.

FX Outlook: The China Effect?

- To be sure, higher UST yields into the end of the week, defying softer jobs data (comprising reduced employment, higher unemployment and tempered wage gains), ought to backstop the USD.
- Especially as jobs data, while being soft enough to hold off a hike for September, may not be sufficiently limp (in below trend territory) to trigger a reversal of the Fed's significant tightening so far.
- That's to say, Fed support for rate levels could at least challenge unchecked declines in the USD.
- But the "China effect", comprising of generalised "risk on" dampening USD and China bulls stoking CNH gain may spill-over more widely to reclaim some ground from post-Jackson Hole USD gains anyway.
- And if markets assess appreciably (pun intended) greater Goldilocks" quotient, higher-beta currencies could enjoy more pronounced buoyancy.
- But in any case, Beijing could already have kickstarted a course of short USD on haven demand whilst manufacturing a boost to CNH, commodities and commodity FX; the AUD included.
- This derives not only from decisive measures to boost property demand with the extrapolated demand for construction and hard commodities, but also inspires hopes of some stirrings of economic pick-up to the benefit of CNY proxy buying.
- The "China effect" apart from commodity derived boost for AUD, NZD and IDR, may also lift the SGD via trade-weighted S$NEER transmission.
- And more generally support EM Asia FX given tried and tested correlations.
- Nonetheless, beware the vagaries of this "China effect" that may prove excitable but not enough to spur a sustained reversal of USD, and corresponding pick up of CNH, demand.
- And so, best to lock in gains in AXJ as doubts and questions persist.

Bond Yield (%)

1-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.879	-19.9	4.179	-5.6	Steepening
GER	2.978	-4.1	2.544	-1.2	Steepening
JPY	0.012	1.5	0.620	-2.7	Flattening
SGD	3.451	-16.1	3.103	-15.9	Steepening
AUD	3.778	-9.6	4.001	0.1	Steepening
GBP	5.145	16.1	4.422	-1.4	Flattening

Stock Market

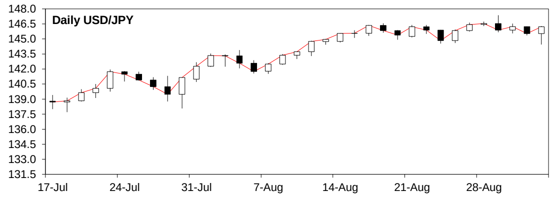
	Close	% Chg
S&P 500 (US)	4,515.77	2.50
Nikkei (JP)	32,710.62	3.44
EuroStoxx (EU)	4,282.64	1.10
FTSE STI (SG)	3,233.30	1.36
JKSE (ID)	6,977.65	1.19
PSEI (PH)	6,181.06	0.33
KLCI (MY)	1,463.43	1.32
SET (TH)	1,561.51	0.08
SENSEX (IN)	65,387.16	0.77
ASX (AU)	7,278.30	2.29

US Treasuries: Opportunistic and Economics

- 2Y UST yields failed to sustain above 5% as yields plunged almost 20bps.
- With 10Y UST yields down a milder 5.6bp, the UST yield curve steepened with commodity prices buoying longer term inflation expectations.
- While the US economy is negotiating a soft landing, it also notable that the sharp yield plunge after the dismal ADP print was not reversed by better than expected non-farm pay rolls.
- Clearly, the higher unemployment figures has buoyed hopes of a cooling labour market as workers rejoin the labour force. That said, at these lofty yields, UST bulls grabbing their opportunities is not far fetched.
- All in, 2Y yields trading in the 4.8%-5.05% range. On the longer end, 10Y yields to retain buoyancy above 4.1%.

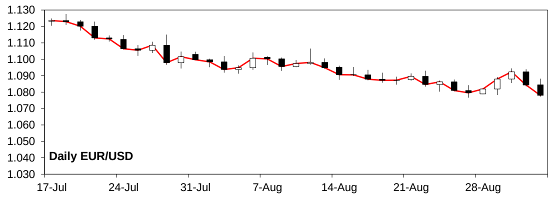
JPY: Gaps and Chances

- At the margin, the base case is for buoyancy to be retained above mid-144 as markedly lower UST yields did little last week for JPY bulls as the USD/JPY closed above 146.
- That said, a mild catch-up JPY appreciation may be on the cards.
- Nonetheless, Brent Crude prices testing US$89/barrel is an unpleasant sight for the BoJ.
- While a **positive output gap** by the Cabinet office alongside a mention of "**a chance to end deflation"** has marginally triggered potential for policy pivots, **timelines may be much further out** given that BoJ will inevitably produce their own estimates and also their own projections of output gaps ahead alongside possible policy ramifications.
- All in, the USD/JPY may be tempted to slip once again towards 145, with further declines reqiring another buot of falling UST yields as chances are afterall costly at these UST-JGB differentials.



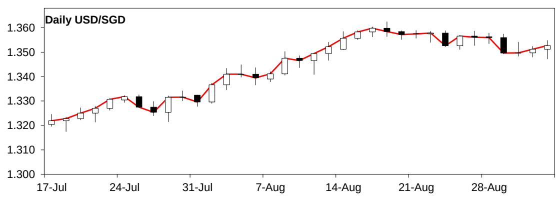
EUR: CPI Trouble, Not Relief

- At this juncture, inflation poving to be stickier than expected is proving troubling for the ECB and also EUR bulls.
- Specifically, given dismal manufacturing PMIs highlight growth concerns, there may not be much room for further hikes as most officials espoused holding or "a little bit" more/ "close to peak"
- As such, **real** returns for EUR bulls are facing a decline.
- Admittedly,while we may see hopes for around China's economic measures spillover to the EU this week, they remain backstops for 1.07 rather than rallies towards 1.10.



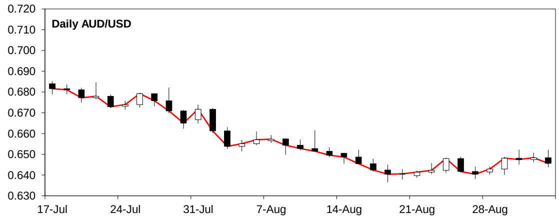
SGD: CNH Boost?

- With the CNH primed for a fillip from China property stimulus accentuated by the foreign currency reserve requirement cut and emphatic CNY backstop by the PBoC, the SGD could also enjoy a lift.
- Sub-1.35 looks like a given with momentum to go below mid-1.34 not being ruled out; especially if FX markets trim USD positions after soft spots in US jobs data.
- But we think that tests on 1.34 will be tougher and prone to reversals on lack of China stimulus follow-through as some may doubt the adequacy to get Beijing out of the quagmire.
- And so, it appears like SGD may start the week on a strong note, but bulls are likely to be more restrained heading into the week as Fed is awaited.
- Near-term range of sub-1.34 to low-1.35 likely to remain intact.



AUD - Stimulated?

- Despite higher UST yields, the case for AUD bulls to be ever so slightly stimulated to at least re-test 0.65 looks compelling.
- China stimulus, most emphatically aimed at reviving property demand could go someway to lift the AUD via commodity channels.
- Admittedly, the stimulant for hard commodities, led by iron ore, is unlikely to be instantaneous. Afterall, follow-through demand for construction of new housing is yet to be established.
- But with housing accounting for some one third of China's steel demand, just the idea of housing demand revival could whet the appetite of steel bulls and lift AUD.
- RBA hold during the week though may be cause for restating. In particular if the hawkish pause has sufficient dovish caveats.
- So a wider range of mid-0.64 to low-0.66 with potential for two-way outbursts cannot be ruled out.



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