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MIZUHO

WEEK AHEAD

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25-Sep-2023

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Economic Calendar

•Survey results from Bloomberg, as of 22 Sept 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
25 Sep	**US**	**Chicago Fed Nat Activity Index**	**Aug**	**0.05**	**0.12**
	US	**Dallas Fed Manf. Activity**	**Sep**	**-13.0**	**-17.2**
	GE	IFO Business Climate	Sep	85.2	85.7
26 Sep	US	New Home Sales	Aug	699k	714k
	US	**Conf. Board Consumer Confidence**	**Sep**	**105.5**	**106.1**
	US	**Richmond Fed Manufact. Index**	**Sep**	**-7.0**	**-7.0**
27 Sep	**US**	**Durable Goods Orders/Nondef Ex Air**	**Aug P**	**-0.5%/0.1%**	**-5.2%/0.1%**
	JP	Coincident Index/Leading Index CI	Jul F	--	114.5/107.6
28 Sep	US	Initial Jobless Claims		215k	201k
	US	GDP Annualized QoQ	2Q T	**2.2%**	**2.1%**
	US	**Kansas City Fed Manf. Activity**	**Sep**	**-2.0**	**0.0**
	EZ	**Consumer Confidence**	**Sep F**	**--**	**-17.8**
29 Sep	US	U. of Mich. Sentiment	Sep F	67.7	67.7
	US	**MNI Chicago PMI**	**Sep**	**4750.0%**	**48.7**
	US	**PCE Deflator/Core YoY**	**Aug**	**3.5%/3.9%**	**3.3%/4.2%**
	US	U. of Mich. 1 Yr/5-10Yr Inflation	Sep F	--/--	3.1%/2.7%
	EZ	**CPI/Core YoY**	**Sep**	**4.5%/4.8%**	**5.2%/5.3%**
	JP	Job-To-Applicant Ratio/Jobless Rate	Aug	1.3/2.6%	1.3/2.7%
	JP	**Retail Sales YoY**	**Aug**	**6.5%**	**6.8%**
	JP	**Industrial Production YoY**	**Aug P**	**-4.60%**	**-2.3%**

Asia

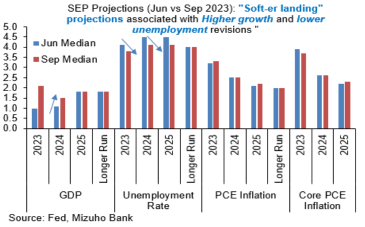
Date	Country	Event	Period	Survey*	Prior
25 Sep	**SG**	**CPI/Core YoY**	**Aug**	**4.0%/3.5%**	**4.1%/3.8%**
	KR	Retail Sales YoY	Aug	--	5.9%
26 Sep	SG	Industrial Production YoY	Aug	-3.3%	-0.9%
27 Sep	CH	Industrial Profits YoY	Aug	--	-6.7%
	AU	**CPI YoY**	**Aug**	**5.2%**	**4.9%**
	TH	**BoT Benchmark Interest Rate**		**2.50%**	**2.25%**
28 Sep	AU	Retail Sales MoM	Aug	0.3%	0.5%
29 Sep	TH	BoP Current Account Balance	Aug	$500m	-$445m
	VN	Trade Balance	Sep	$200m	$3820m
	VN	Retail Sales YoY	Sep	--	7.6%
	VN	**GDP YoY**	**3Q**	**5.1%**	**4.1%**
	VN	**CPI YoY**	**Sep**	**3.2%**	**3.0%**
	VN	Industrial Production YoY	Sep	--	2.6%
30 Sep	CH	Caixin PMI Mfg/Services	Sep	51.2/52.0	51.0/51.8

Week-in-brief: Much Ado about Nothing

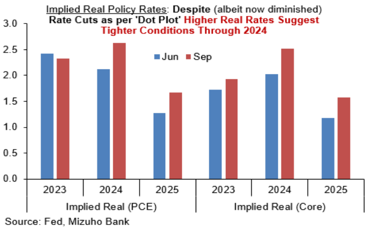
"In a false quarrel there is no true valour." - **Shakespeare, Much Ado About Nothing**

- **Nothing was what G10 central banks did** in terms of policy rates, with the Fed, BoE, BoJ and SNB **all holding steady** (BI and BSP also following suit). ***But* there was much ado**; as **markets swung about wildly** as **hawkish Fed intent** and **stagflation dilemma for BoE** buffeted sentiments.
- *UST yields and USD pushed higher* through the week **as Fed "pivot" bets were challenged by a hawkish hold** that not only *lifted 'Dot Plot' for 2024 and 2025,* but crucially, *suggested even higher real rates into 2024;* **underscoring "higher for longer" by the Fed**.
- This is in sharp contrast to the docish hike by the ECB the week before and that is the context in which **Sterling and CHF have been hit harder still** (both down >1.1% on the week) as **hike bets for the BoE and SNB banks were dashed** by a **hampered hold**. In particular, the **GBP tumbling 1.8%** from pre-*BoE* bids reflected *rate hike expectations were supplanted by stagflation risks.*
- What's more, the **BoJ's distinct restraint** on exiting NIRP and/or raising yields (via YCC tweaks), citing the lack of confidence about sustained wage gains, have inevitably **compromised JPY traction**, resulting in the **ante being upped for the MoF** (and indirectly the BoJ).
- **Higher (10Y) yields across the board**, despite two-way swings into the week, **underscore the tyranny of stagflation-type forces rather than economic confidence**; just ask global equities that have sunk 2-3% (across Euro Stoxx, S&P500 and Nikkei) with Nasdaq dropping >4%.
- The **dire state of risk appetite** is but revealing there is *"no true valour"* as **unremittingly brutal policy restrictions stress pre-existing demand cracks** in the post-pandemic global economy;
- where not only may the re-opening pent-up demand resurgence be fading, but geo-politics and other externalities continue to inflict greater pain via energy and food price shocks.
- Turns out, there are layers to the *"false quarrel"* here. One, it may be a *"false quarrel"* about *whether the other G10 central banks are more hawkish* than the **Fed** as the latter **retains rate advantage**.
- Second, yet another *"false quarrel"* is *between inflation and downside growth risks;* as costs shocks prove ultimately deflationary whilst record post-Volcker tightening accentuates recession risks.
- *Higher UST yields,* a *stronger USD* colliding with *uncomfortably high oil* and *inconveniently resurgent food* prices mean **macro stability risks loom large**. This **underscores AXJ pressures**, and **undermines EM Asia central banks' confidence about peak rates**. More so amid persistent China uncertainty persists.
- Turns out, **much ado about nothing** (in terms of policy action) is **sometimes justified**.

Why We Agree that Soft Landing is not the Base Case



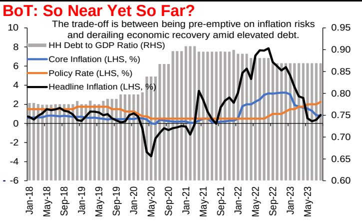
Source: Fed, Mizuho Bank



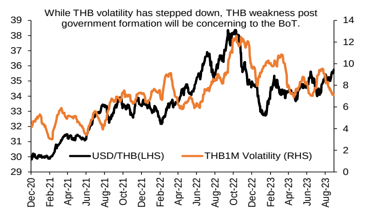
Source: Fed, Mizuho Bank

- To be fair, **Fed Chair Powell's hawkish restraint** is glaringly **in numerous references to being "careful"** about further moves, given uncertainty from policy transmission lags; *especially having moved "very far and very fast" on rate tightening.*
- ***But*** this **acute awareness of more two-sided risks** associated with policy calculus is **not to be mistaken for adequately subdued hawkish bias** *that effectively dampens risks of over-tightening.*
- In other words, **caution alone may not avert a policy calamity**. Which in turn means that any *confidence about soft landing is at the very least premature, if not outright presumptuous.*
- For one, despite all the nuanced allusion to a better balance of risks, the September FOMC may be justifiably characterised as a hawkish skip; whereby the meeting's **rate inaction was subordinated to hawkish 'Dot Plot' shifts** backed by hawkish rhetoric underscoring conviction (albeit qualified) about "higher for longer" rates. And so, the **risk of excessive tightening remains "live"**.
- Second, **upbeat revisions to the SEP** (summary of economic projections) that ostensibly squares with increased appears to **revealing greater confidence about a soft landing** - comprising upward revisions to GDP (2023: +1.1%-pt to 2.1%; 2024: +0.4%-pt to 1.5%) that coincides with lowered unemployment rate (2023: -0.3%-pt to 3.8%; 2024: -0.4%-pt to 4.1%) - may **ironically be its own undoing** insofar that it *fails to deter incremental policy (over-)tightening;* be it active or passive.
- The **silver lining is that Powell is far from complacent; declaring soft landing** as the desired objective, not the guaranteed base case. ***Nonetheless,*** this **"self awareness" about propensity for policy mistakes may merely check, not resolutely circumvent, a policy-induced hard landing**.
- Third, upward revisions to the 2024 'Dot Plot' by 50bp whereas PCE/Core PCE are expected to be 80bp/110bp lower in 2024, suggests **real rate tightening of some 55-85bp tighter in 2024**.
- And so, *optimism about "peak rates" may be misguided* as a **more restrictive iteration of "higher for longer" inflicts more pain on the economy into 2024**.
- Finally, **admission that "neutral" rates may be well higher than the Fed's longer-term projection of 2.5% underscores** not just a possibility, but arguably a **propensity for tighter rate settings into 2024**. With such policy headwinds mounting, a *dynamic assessment of soft landing looks far less favourable than headline SEP revisions might lull markets into being wistful about*.

BoT: So Near Yet So Far?



Source: CEIC: Mizuho Bank



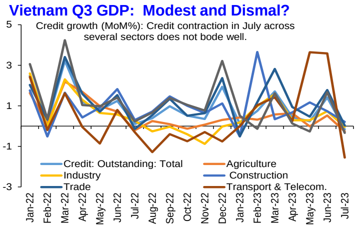
Source: Bloomberg, Mizuho Bank

- It will not be an understatement to say that the BoT's upcoming meeting on 27 Sep is **shrouded in uncertainty**. To state upfront, **our base case is for the BoT to keep policy rates unchanged**.
- With **cuts in diesel prices and electricity tariffs**, this will alleviate the pressures stemming from higher food prices on headline inflation. Furthermore, **pipeline negotiations between the government and manufacturers to lower prices of food** items ranging from eggs to pork may provide inflation relief in Q4. Nonetheless, there should be recognition that these measures **are largely pressure transfers from households budgets to fiscal** (either on the government or SOEs).
- On that note, the most contentious plan continues to be the digital wallet which will lift inflation in 2024. While it may be **tempting to be pre-emptive** on these inflation pressures down the road, BoT Governor Sethaput has signalled the need for futher details before a thorough assessment.
- Nonetheless, markets have already signalled worries around upsized borrowing needs as the **THB underperformed** regional peers. Political worries have now given way to economic policy concerns.
- The **ensuing imported inflationary fears** turning up the fiscal heat on these ceilings trying to tame inflation will remain concerning to the BoT. That said, **tighter policy and higher borrowing cost for the government is far from an easy decision at this juncture without more visibility.**

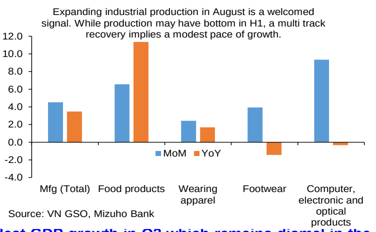
RBA Minutes and Implications on Australia CPI

- The **upcoming August CPI print** this Wednesday will be a **critical input** into the next RBA decision in early Oct. The **RBA's latest minutes** released on 19 Sept for their 5 Sept meeting **provides several guide posts for thinking about the implication of this CPI print**.
- **First**, while energy price shocks have tended to be dismissed as temporary or "non-core", RBA has explicitly alluded to **petrol prices being an important input for household expectations.**
- As such, it may serve us well **not to overly discount upside surprises** on headline inflation.
- **Second**, the RBA minutes reminds that during the September meeting, the **July CPI data point has less information on services inflation.** For example, the likes of restaurant meal, takeaway and fast food costs and hairdressing and grooming were imputed rather than updated. Consequently, there are **stronger policy implications from the underlying services inflation details of this CPI print.**
- **Third**, while not entirely new, is the allusion to **rising fuel prices alone increasing headline inflation in Q3.** While the RBA had expected inflation to continue moderating, it remains to be seen **if inflation printing on the upside would nudge projections off the "reasonable" timeframe.** All said, while the RBA may be on course to hold, this CPI print has potential to nudge them off course.

Vietnam Q3 GDP: Modest and Dismal?



Source: CEIC; Mizuho Bank



Source: VN GSO, Mizuho Bank

- Our expectations are for Vietnam to record a **modest GDP growth in Q3 which remains dismal in the eyes of the authorities,** with a below 5% YoY print.
- Notably, the **high base effects** from a year ago already implies a restrained statisical outturn.
- Given the August industrial production saw d**ecent expansion in the food products as well as robust demand for the computer, electronic** and optical products, **manufacturing output is project to post a moderate recovery** in Q3. The inferred **stability** inferred **should be welcomed** given the worries of negative credit impulse in July.
- On the services front, peak tourist season combined with the continued recovery in international tourist arrivals led to a **17.7% surge in average visitor arrivals** over August and July relative to Q2.
- Nonetheless, this is **unlikely to be an outright services outperformance in Q3**.
- While accommodation & food services activities may enjoy these tailwinds, **financial and insurance sector may drag** given the still on-going corporate credit worries and subdued credit expansion.
- On that note, the SBV has narrowed the credit growth targets from 14-15% to 14%. While the impact may not be material given that the target remains out of reach, it is an **important implicit acknowledge of credit quality over quantity and explicit recognition of pipeline inflation risks.**
- Meanwhile, **headline inflation is likely to remain elevated** on higher petrol prices and food inflation. The recent VND weakening may also exert imported inflation pressures.
- Nonetheless, **base effects from higher education fees in September 2022** that have already been adjusted down over the course of 2023 will imply that the **actual print may be mellowed**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	148.37	0.520	0.35%	145.00	~	148.80
EUR/USD	1.0653	-0.0004	-0.04%	1.058	~	1.073
USD/SGD	1.3652	0.002	0.12%	1.3620	~	1.3800
USD/THB	36.010	0.195	0.54%	35.40	~	36.20
USD/MYR	4.6895	0.006	0.13%	4.650	~	4.720
USD/IDR	15375	22	0.14%	15,220	~	15,500
JPY/SGD	0.9199	-0.002	-0.24%	0.915	~	0.952
AUD/USD	0.6441	0.001	0.14%	0.635	~	0.652
USD/INR	82.94	-0.243	-0.29%	82.5	~	83.5
USD/PHP	56.795	-0.017	-0.03%	56.1	~	57.2

^Weekly change.

FX Outlook: Don't Fight the Fed

- Cliché, I admit. But that appears to be the **message distilled from the slew of central bank meetings** over the last two weeks. **Don't fight the Fed!**
- Fact is, **none of the G10 central bankers are going to meaningfully outdo Fed hawks**.
- **Especially not in real terms** given *sustained nominal rate traction* by the Fed against soft-landing projections juxtaposed against more distinct dis-inflation (via-a-vis EZ and UK).
- And so, by extension, there appears to be **no compelling case for EUR, GBP or JPY to strongly rally against the USD**.
- In turn, this also challenges Fed pivot bets that propagate the narrative of broad-based bearish USD trend that will require sustained and significant pressures on the Greenback.
- This is **a message we have conveyed before** (Mizuho Brief – USD: Keeping It Real, 25th July 2023), and is **certainly worth rehashing**.
- The upshot then appears to be that **USD will probably retain traction at loftier levels post-FOMC**, with *buying on dips likely to be the game-plan.* In particular if there are no ECB or surprise EZ data boost that deals a bullish EUR hand that is sustained. The latter is a high bar given the chronic confidence deficit.
- And this **absence of USD challenge is also likely to subdue EM Asia FX**;
- *so long as there is no "shock and awe" type of bazooka attack from the PBoC that gives rise to a strong CNH resurgence* that lifts other AXJ in its wake.
- That said, **not fighting the Fed does not mean that markets ought to disrespect the BoJ**.
- *Fresh attacks on the JPY to try and test above 149 are at high risk of triggering MoF intervention* with an intent to burn speculators.
- So cautious consolidation may be the path of least destruction.

Bond Yield (%)

22-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.110	7.7	4.434	10.2	Steepening
GER	3.237	3.2	2.735	6.4	Steepening
JPY	0.015	-0.2	0.725	2.2	Steepening
SGD	3.587	9.8	3.380	12.9	Steepening
AUD	4.045	19.6	4.336	0.1	Flattening
GBP	4.767	-22.8	4.240	-11.2	Steepening

Stock Market

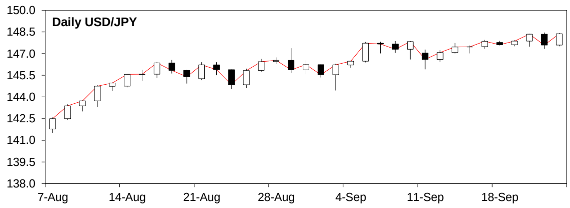
	Close	% Chg
S&P 500 (US)	4,320.06	-2.93
Nikkei (JP)	32,402.41	-3.37
EuroStoxx (EU)	4,207.16	-2.05
FTSE STI (SG)	3,204.82	-2.31
JKSE (ID)	7,016.84	0.49
PSEI (PH)	6,142.79	0.27
KLCI (MY)	1,450.23	-0.60
SET (TH)	1,522.59	-1.26
SENSEX (IN)	66,009.15	-2.70
ASX (AU)	7,068.84	-2.89

US Treasuries: Steepening Risks?

- As expected, **UST yields stayed buoyant last week with the Fed "upgrading" their Dot Plot projections for 2024 and 2025 by 50bp.**
- In the near term, **shutdown risks** which we had flagged last week appear to have risen emphatically. This **may push demand into the 2Y horizon** as very near term treasuries take the hit.
- Further out, some may begin to **ponder the extent of UST yield curve steepening and getting out of inversion.**
- At this juncture, continued UST yield inversion remains the base case. Yet, **even a re-steepening may not be the immediate reversion to pre-Covid yield curves.**
- Firstly, **without a sharp pivot from the Fed, front end yields are set to remain elevated.**
- That said, it does not fundamantally stop 10 UST yields from nudging higher.
- With the PCE deflator print this week, we expect 2Y yields to trade in the 5.05%-5.25% range while 10Y yields remain buoyed above 4.35%.

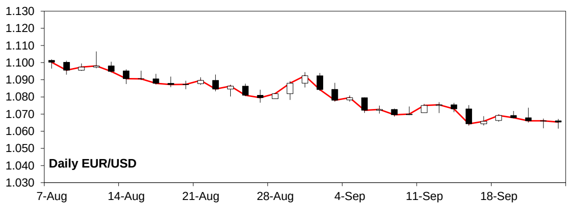
JPY: Bears Beware Intervention Risks

- It would be unwise to project the BoJ's restraint on premature tightening as a green light for aggressively shorting the JPY. Intervention risks are clear and present!
- To be sure, it is not wrong to decipher that BoJ chief Ueda has genuine reservations about prematurely tightening given that confidence about sustained wage gains is at best shaky; especially as real wages continue to erode. And so, any calibrations (exiting NIRP in favour of ZIRP and/or YCC tweaks) are likely to be nuanced and careful not to inflict unnecessary economic pain. But the MoF is intent on keeping speculators at bay. Which means that the temptation to lift USD/JPY above 149 to test 150 will have to answer to the sharp end of the MoF's interventions. And speculators will be well-advised to be wary.
- What's more, despite higher UST yields (that pressures JPY), "risk off" sentiments could squeeze JPY-funded carry and boost JPY from haven demand. And if the MoF leverages on this , short JPY speculators could hurt a lot more. Thus, with intervention risks accentuated, we expect USD/JPY upside to be contained around mid-149; with a wider sub-147 to low-149 rang



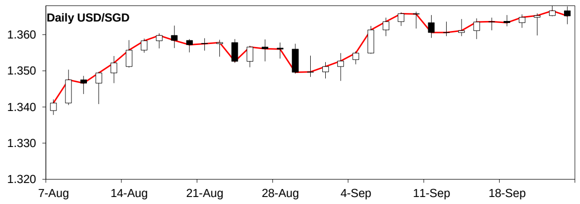
EUR: Tight

- With PMIs remaining weak in the Eurozone, the EUR continues to face a lack of catalyst for rallies.
- While liquidity reduction issues will continue to be the talk of town this week, the inevitability of policy makers alluding to uncertainty also means that EZ yields are likely to remain weak.
- Late week CPI print may allow testing of 1.07 should there be upside surprise but growth issues imply that durable rallies are off the table at this juncture.



SGD: Weakening Bias

- USD/SGD narrowly missed the 1.37 level last week, hitting a high of 1.3699 before NY-open last Thursday after FOMC.
- Expect muted reaction to Singapore's CPI print released on Monday as the data should show continued signs of moderation and woud unlikely prompt any shift to MAS's policy settings in the upcoming meeting in October. Manufacturing to remain a weak spot for the economy and we see Industrial production remaining in contracting territory, following last's week weak NODX numbers.
- While no data surprises to EZ CPI are expected, we see a risk to higher-than-expected US PCE/Core print on elevated oil prices, which would weigh on the SGD. In addition, week/month/quarter-end effects would likely see broad USD strength heading into Friday.
- Weakening bias to USD/SGD. Likely to break 1.37 levels this week but weakness should be capped under 1.38 levels.



AUD: Traction, Not absence of Tensions

- Regaining traction to claw out of the sub-0.64 slip is not to be mistaken for the absence of tensions that will likely subdue upside potential in the AUD.
- Admittedly, Aussie CPI (upside risks), high oil prices and China's implied commodity backstop may provide some support for the AUD, perhaps even provide boost to test 0.65.
- But lingering hawkish Fed allusions and unconvincing China stimulus narratives warn against extending AUD rallies aggressively.
- Wider mid-0.63 to mid-0.65 likely to contain the AUD, with a preference to short on upside pushing above mid-0.65 for the Antipodean.
- Expect AUD to be dealt in the mid-0.63 to low-0.65 with caution limiting upside, but oddly, not so during potential espisodes of volatility around FOMC and China headlines.