MIZUHO

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WEEK AHEAD

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11-Sep-2023

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Economic Calendar

•Survey results from Bloomberg, as of 8 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
11 Sep	**JP**	**Machine Tool Orders YoY**	**Aug P**	**--**	**-19.7%**
12 Sep	**GE**	**ZEW Survey Expectations/Current**	**Sep**	**-15.0/-76.0**	**-12.3/-71.3**
13 Sep	**US**	**CPI/Core YoY**	**Aug**	**3.6%/4.3%**	**3.2%/4.7%**
	EZ	Industrial Production MoM	Jul	-0.9%	0.5%
	JP	**BSI Large All Industry QoQ**	**3Q**	**--**	**2.7%**
	JP	PPI YoY	Aug	3.3%	3.6%
14 Sep	US	Initial Jobless Claims		227K	216K
	US	PPI/ Ex Food & Energy YoY	Aug	1.3%/2.2%	0.8%/2.4%
	US	**Retail Sales Adv/ Ex Auto and Gas**	**Aug**	**0.2%/--**	**0.7%/1%**
	EZ	**ECB Main Refinancing Rate**		**4.25%**	**4.25%**
	JP	Industrial Production YoY	Jul F	--	-2.5%
	JP	**Core Machine Orders YoY**	**Jul**	**-10.6%**	**-5.8%**
15 Sep	**US**	**U. of Mich. Sentiment/Expectations**	**Sep P**	**69.2/66.0**	**69.5/65.5**
	US	**U. of Mich. 1 Yr/5-10Yr Inflation**	**Sep P**	**3.5%/3.0%**	**3.5%/3.0%**
	US	Industrial Production MoM	Aug	0.1%	1.0%
	US	**Empire Manufacturing**	**Sep**	**-10.0**	**-19.0**
	JP	**Tertiary Industry Index MoM**	**Jul**	**0.3%**	**-0.4%**

Asia

Date	Country	Event	Period	Survey*	Prior
11-15 Sep	CH	Aggregate Financing/New Yuan Loans CNY	Aug	2730b/1275b	528.2b/345.9b
11 Sep	MY	Industrial Production YoY	Jul	0.3%	-2.2%
12 Sep	**IN**	**CPI YoY**	**Aug**	**7.1%**	**7.4%**
	IN	Industrial Production YoY	Jul	5.3%	3.7%
13 Sep	IN	Trade Balance	Aug	-$20.8b	-$20.67b
	KR	Unemployment rate SA	Aug	2.9%	2.8%
14 Sep	**AU**	**Emp. Chg/Jobless Rate**	**Aug**	**25.5K/3.7%**	**-14.6k/3.7%**
	IN	Wholesale Prices YoY	Aug	-0.6%	-1.4%
	TH	Consumer Confidence Economic	Aug	--	50.3
15 Sep	**CH**	**Industrial Production YoY**	**Aug**	**4.1%**	**3.7%**
	CH	**FAI/Property Investments YTD YoY**	**Aug**	**3.3%/-9.0%**	**3.4%/-8.5%**
	CH	1-Yr Medium-Term Lending Facility Rate		2.50%	2.50%
	CH	**Retail Sales YoY**	**Aug**	**3.0%**	**2.5%**
	CH	**New Home Prices MoM**	**Aug**	**--**	**-0.2%**
	ID	**Trade Balance**	**Aug**	**$1449m**	**$1310m**
	PH	**Overseas Cash Remittances YoY**	**Jul**	**1.3%**	**2.1%**

Week-in-brief: Inverted Logic

- **Inverted logic** seems to be **all the rage** these days; where *good is bad and bad is good.*
- Of course one is familiar **with the perversion of bad US data being good news for markets**;
- especially for the camp that fervently awaiting any ***excuse to ignite "pivot brand of risk-on"***.
- Which is why **markets stumbled on out-run in US data last week** (with lower jobless claims and unexpected acceleration in services ISM); in turn *prompting UST curve bear flattening* (2Y: +11bp; 10Y: +8.5bp) and knocked back Wall St (S&P500: -1.0% Nasdaq: -2%).
- Nonetheless, the **overall belief of "immaculate dis-inflation"** (*upbeat iteration of a "soft-landing"*) underpins optimism about **US inflation unravelled, but demand unfazed, by a hawkish Fed**.
- What's more, the principle of "inverted logic" **increasingly appears to apply to China** as well.
- Whereby **dismal economic prints** in the world's second largest economy (and largest factory floor) are **met with anticipatory cheer about Beijing being more likely to scale up stimulus**.
- In fact, the **wider China complex appears to have become more reliant** (and perhaps worryingly so) on **Beijing's ability to pull a growth rabbit out of its hat**.
- This is not only a *tall order,* but also an *unhealthy addiction* that *progressively demands more buck per bang;* at least until a resolutely convincing economic rescue appears. And this is nowhere in sight.
- Even what was deemed to be a fairly aggressive property easing measures fizzled given the limited reach in tier-1 and tier-2 cities that may leave tier-3 cities mostly out in the cold; which by definition leaves a good deal of property sector stress and related flash points for contagion risks intact.
- Over the weekend, a series of **reports that President Xi has been called to task by Party Elders on the dire state of the economy may also be cast in a positive light**; insofar as the **inclination** is **to take "bad news" on** worries about the **economy** as **"good news" on stimulus conviction**.
- That this reveals *potentially greater fracturing within the Chinese Communist Party*, and *attendant intensification of policy uncertainty* as party officials downstream caught between drifting factions inadvertently fumble on policy execution is *lost on the collective, overwhelming desire for a rescue.*
- To be fair, this is not necessarily turning logic on its head. But it subject to a positive bias.
- **Speaking of inverted logic**, **OPEC deserves mention**. *Cutting supply to effectively bump-up prices over $90/bbl* surely *defies the logic of concerns about waning demand.*
- **Especially if the high crude prices** perversely not only crimp demand further, but worse, **accentuate the threat of policy-induced recession** (as higher inflation imposes harsher policy trade-off); which is almost certainly far more disastrous for crude oil demand.
- For now though, the **ECB is likely to hold off on a knee-jerk hike** on account of soaring gas prices as it mulls over a greater degree of two-way uncertainty and exercise "humility" on policy unknowns.
- A slew of China data may show some improvement, but may keep stimulus hopes alive.
- And as the global economy improves, inverted logic may play out again. This time possibly dampening cheer as market may by then deem conditions healthy enough for more cavalier geo-political brinksmanship to be unleashed.

US-China Risks Unearthed & CNY Buried?

- **Fresh setbacks to hopes of US-China tensions being assuaged** are invoked by the mutually damaging focus on iPhone (by Beijing) and Huawei by Washington.
- Inevitably, this **heighten uncertainties**. And **not just for the overall mood of diplomatic US-China relations**, but crucially, for the **wider commercial and security/strategic eco-system**.
- *Beyond tit-for-tat commercial sanctions between US and China set to escalate*, raised tensions between, and scrutiny by, both sides reflect the **depth of geo-economic and geo-political tensions** that is likely to **not only persist; but get more profound**.
- **Beijing cracking down on iPhone usage in government agencies**, *which may potentially widen to state-owned as well as state-backed Chinese entites,* sent Apple shares tumbling (6% last week).
- More worryingly, **beyond evolving company-specific tremors**, the ***real,*** *albeit less easily quantifiable,* **chill arises from mounting geo-political tensions that are unearthed**.
- Meanwhile, **Washington is probing into Huawei's acquisition of 7nm microchips, precisely the advanced chip technology access for Beijing that US sanctions were trying to stymie**.
- Inevitably then, this **casts scrutiny, and in all likelihood trains further sanctions on SMIC** (Semiconductor Manufacturing International Corp.) specifically in the near-term; but beyond which a a wider range of potential suppliers of technology to Beijing are subject to US reach.
- The upshot is that **common ground for conflict resolution** becomes **harder to find** as US-China relations assume a more **antagonistic approach to strategic/tech, leadership and access**.
- Consequently, the potential for **more extreme negative outcomes are increasing**; *for all involved!*
- The **resulting economic dent is not only mutual, but pervasive**; hitting all trade partners.
- But **currency pain may be asymmetric**, and **aimed far more at CNH** than the USD.
- Near 16-year lows and coming within striking distance (~0.5%) of testing 7.40, the **reminbi can neither conceal nor deflect fresh geo-political perils unearthed**; which **threaten to bury CNY bulls-in-waiting** as they cling on to hopes of a stimulus rescue.

ECB: Flexibility & Humility

- Despite the outburst in energy prices fuelling fears of resurgent inflation, the **ECB is likely to hold rates as the contraction in services activity remains worrying.**
- The post Jackson Hole change in **policy dynamics from earlier steadfast rate increase is clear.**
- Specifically, ECB President Lagarde's Jackson Hole allusions to "*clarity*", "*flexibility*" and "*humility*".
- While clarity was on their inflation objective, her focus on flexibility in **not making policy on simply rules** in an uncertain economy **warns of over extrapolating recent price shocks**.
- As for humility, her concession to the "*limits of what we currently know and what our policy can achieve*" also points **to increasing caution on policy moves**. Furthermore, the **ECB is afforded breathing space** with the Fed likely to hold rates at the September FOMC (next week).
- As such, we expect the **ECB to stick to these three key elements by stating their clear commitment to reduce inflation via hawkish communications**.
- Nonetheless, exercise restrain in the interest of downside risks to growth by **keeping policy on hold** as **uncertainty over global demand prospects** temper **variable persistence of energy oil shocks.**

Thailand's Cost Reduction Motion ...

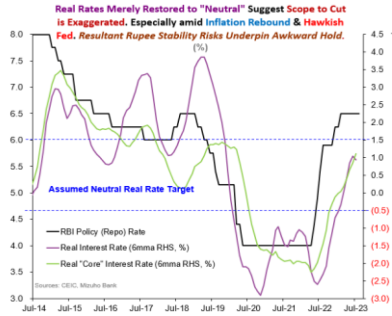
- **On 11 Sep, Thai PM Sretta is primed to *motion* policy priorities in Parliament.** Justifiably, ***cost containment*** will feature. *Trouble is,* **fiscal challenges are as real as the cost of living crisis.**
- In any case, **reduction of transport and energy costs will be in the spotlight.**
- Tobe sure, the proposed *train fare reduction* in Bangkok to 20 baht, at a fiscal cost of 5.4 billion THB (0.03% of GDP) *does not look like it will break the bank.* Especially given cost mitigation from targeted implementation via income differentiation and/or timings/specific train lines.
- The impact (both cost and benefits) will however span over the next few years (2- year timeline).
- But clearly, commitment to **reduce diesel and electricity prices** further **threaten to impose a far greater fiscal toll**; as subsidies absorbed at pain of large losses by the Oil Fuel Fund Office (OFFO) and Electricity Authority of Thailand (Egat) *simply to maintain current price subsidy.*
- *This is a* risk that is **accentuated by surging global energy prices**.
- Ultimately, the success of **"cost" transfer from households to the state depends on** the *ability to optimize*; i) *expenditure; ii) public debt costs* and; iii) *private sector growth multipliers.*

... & Consumption Moonshot

- But the **potentially most profound fiscal thrust** for the new government is aimed at firing up the top-line! Specifically, a **consumption moonshot** delivered via government's push for a **digital wallet**.
- What would otherwise come across as a fintech innovation is **transformed into a staggering consumption boost** by means of a jaw-droppingly **large cash transfer** at a cost of **560billion baht (3.5% of GDP)**; slated for implementation in Q1 2024.
- The **sheer quantum of direct transfers** it involves and a **rather narrow window** (within 6-months) **for spending** this cash credited government suggest **potential for a large consumption boost**.
- Using **fiscal multiplier estimates of ~1.4X**, suggested by a range of studies, **adjusted for more accentuated conservation of/propensity to increase personal savings**, in exceptionally higher interest rate/cost-of-living context, we expect *nominal consumption boost of 4.0-4.5%-pts of GDP.*
- Depending on inflation outcomes, this translates into **real GDP lift of 1.7-2.4%-pt** (in 2024).
- That said **unprecedented scale of direct fiscal transfers** can have unintended **adverse impact** on; i) *fiscal re-allocation*; ii) *cost from additional financing* and; iii) *potential "crowding out".*
- Upshot being, **net real growth impact is likely to be milder**. On the bright side, the ***BoT may then have a more "Goldilocks"-type of policy outcomes*** that helps with household debt management.

India: Inflating Risks

- The **sharp surge** in **India's inflation** from ~4% **to above the 6% policy ceiling** is **more than just an inconvenience**.
- Taken **alongside red hot 7.8% Q2 GDP growth**, **it poses a policy conundrum**.
- *Not only are hopes of RBI priming for easing blown out of the water;* but perhaps **whispers of more rate hikes grow**.
- Especially if a stubbornly hawkish Fed "keeps at it" in the midst of upwardly inclined global crude prices.
- Admittedly, *insofar that inflation outburst is mostly driven by food,* the **RBI is not compelled to urgently tighten** further.
- But with **wider macro risks** invariably **inflated**, led by downside rupee volatility, the **RBI's policy calculus turns more complicated**. Dismissing food inflation to sit on its hands becomes a costly option.



EM-Asia Inflation Wrap: Surprise?

- Thus far, **August headline inflation print across EM-Asia has surprised on the upside.**
- As we had allued to before (*see Mizuho Chart Speak: EM-Asia: The Price of Rice*), the Philippines will inevitably suffer the hardest hit given the 8.9% weight of rice in the CPI basket.
- Headline inflation's resurgence to 5.3% is uncomfortable sight for the BSP and fellow authorities. Despite persistent assurance of adequate stockpiles, **rice prices continued surging and necessitated price ceilings which was effective last Tuesday.**

	Headline Inflation, YoY% (Actual)	Headline Inflation, YoY% (Expectations)	Food Inflation, YoY%	Rice Inflation, YoY %/MoM%
Korea	2.9%	3.4%	4.6%	7.8%/4.7%
Indonesia	3.3%	3.3%	2.6%	N.A.
Philippines	5.3%	4.7%	8.2%	8.7%/4.9%
Thailand	0.9%	0.6%	0.7%	2.1%/1.0%
Vietnam	3.0%	2.5%	7.0%	--/4.4%

Source: CEIC, Bloomberg, National Authotiries, Mizuho Bank

Note:

1. Korea Rice Inflation measured using white rice
2. Thailand's Food inflation included Non-alcoholic beverage

- In general, **adequate stockpiles across EM-Asia are necessary but not a sufficient condition to restrain price surges.** For one, India's embargo has removed a source of imports and in fact consolidated **pricing power**. Households have less alternatives as **demand** for other types/sources of rice turns **more inelastic which ought to be distinguish from absolute supply levels**. Even for supply levels, it would be contentious to suggest that stockpiles were ramped to replace this gap.
- Admittedly, government actions have been rather swift with Indonesia increasing rice imports from Cambodia and Singapore seeking exemptions from India's curbs.
- While the **technical arithmetic impact on other regional peers is assessed to be relatively smaller**, it is **the impact above and beyond the initial increase in rice prices that should worry** as **substitution** towards alternatives such as the likes of noodles and bread takes hold.
- Unfortunately, these **wheat based substitutes** are also subject to the **complications of Russia-Ukraine Black Sea grain deal and also weather's tyranny in the likes of Australia.**
- **All in, the worry remains that food inflation stays higher for longer.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	147.83	1.610	1.10%	144.00	~	148.00
EUR/USD	1.07	-0.0080	-0.74%	1.060	~	1.090
USD/SGD	1.3657	0.013	0.96%	1.3550	~	1.3750
USD/THB	35.520	0.522	1.49%	35.20	~	36.00
USD/MYR	4.6772	0.031	0.67%	4.600	~	4.720
USD/IDR	15325	85	0.56%	15,220	~	15,500
JPY/SGD	0.9238	-0.001	-0.14%	0.916	~	0.955
AUD/USD	0.6376	-0.008	-1.24%	0.625	~	0.650
USD/INR	82.95	0.226	0.27%	82.5	~	83.8
USD/PHP	56.641	0.043	0.08%	56.1	~	57.2

^Weekly change.

FX Outlook: Converted USD Bulls?

- The *inverted logic* that we alluded to, may for now be **supportive of "coverted USD bulls"**.
- To be specific, **"peak Fed" USD bears now converted to USD bulls** as *"good news" likely to persist for the US economy is likely to support UST yields and USD.*
- *More so with US CPI likely to show a re-acceleration;* which will give pause to notions of the Fed being done, and instead lend far more credence to "ground to cover" type of views.
- **Especially as Euro-zone inflation woes** (on surging gas prices) are now **converted as economic drag and cause for the ECB to exercise humility rather than execute hawkish responses**.
- Which in turn means that **real rate spreads turn more supportive of USD**, whereas **EUR allure is further diminished** amid a wide range of uncertainty; from upside in inflation to (relative) downside in the economy conspiring to undermine confidence and possibly up "fragmentation" risks.
- What's more, **coverted USD bulls are also likely to have an edge over CNH given the sharp inflation-policy contrast** with *China, which has only just managed to dis-entangle itself from deflation.*
- And even then not convincingly so. The wider point being, with **entrenched signs of demand weakness dragged by confidence deficit weighing on China**, a weak CNH appears to be par for the course.
- And *PBoC intervention remain a calculus about optimal downside volatility dampeners that do not entail excessive "cash burn";* given the harrowing experience of losing $1trln in FX reserves in 2015-16 China sell-off. So a **judicious and measured backstop for CNH** is likely to keep any scope AXJ and AUD rebound in check.- And more likely than not opportunistic with a high propensity to lock profits.
- For now, it appears that **converted USD bulls**, *while not in full charge mode, may retain enough conviction to stall extended pullback in the Greenback;* especially in what continues to be **a climate of US exceptionalism amid risks of resurgent energy inflation colliding with adversarial geo-politics**.

Bond Yield (%)

8-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.991	11.2	4.264	8.5	Flattening
GER	3.064	8.6	2.606	6.2	Flattening
JPY	-0.001	-1.3	0.644	2.4	Steepening
SGD	3.413	-3.8	3.180	7.7	Steepening
AUD	3.811	3.3	4.080	0.1	Flattening
GBP	5.039	-10.6	4.417	-0.5	Steepening

Stock Market

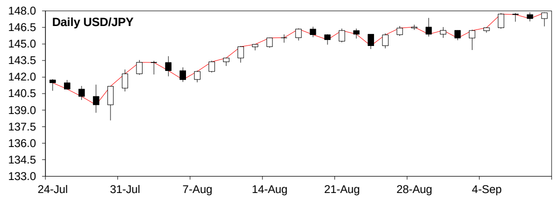
	Close	% Chg
S&P 500 (US)	4,457.49	-1.29
Nikkei (JP)	32,606.84	-0.32
EuroStoxx (EU)	4,237.19	-1.06
FTSE STI (SG)	3,207.75	-0.79
JKSE (ID)	6,924.78	-0.76
PSEI (PH)	6,222.94	0.68
KLCI (MY)	1,454.95	-0.58
SET (TH)	1,547.17	-0.92
SENSEX (IN)	66,598.91	1.85
ASX (AU)	7,156.69	-1.67

US Treasuries: Waging Claims

- While initial **jobless claims might have edged lower**, it is the **ISM services which should rightfully be seen as a key driver of the surge in UST yields**.
- Specifically, the **greater number of respondents signalling higher prices paid would have triggered worries of this week's inflation print.**
- **Afterall, non-wage components of cost in the services sector should also stake a claim in driving inflation.**
- Aside from services inflation, **headline inflation simply confirming a higher print will also invite UST bears to roar louder. Given the Fed silience during blackout period, data prints will invite enlarged volatility.**
- All in, we retain a **hawkish bias for this week with propsects for further yield curve inversion**. 2Y yields trading in the 4.9%-5.15% range and 10Y yields to retain buoyancy above 4.15%.

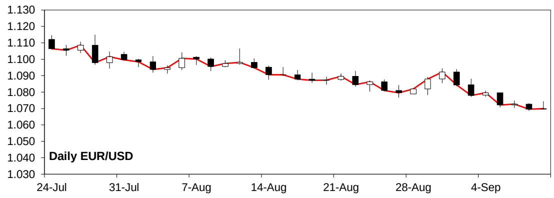
JPY: Judgements

- Admittedly, last week's USD/JPY rise to above mid-147 has now given way to BoJ'Governor Ueda's comments on being able to **judge if wages will continue to rise by year end.**
- As such, markets have passed **an initial hawkish judgement with JPY bulls emboldened.**
- **Nonetheless, a careful examination of his comments would reveal several caveats such as a stronger than expected economy and the condition that a rate lift would not prevent their ability to achieve their inflation target.**
- **While having a rather near term timeline (for judgement) have rightfully backstop JPY bulls and fade rallies, outright JPY slippages below 144 might be tough given the US CPI print this week.**



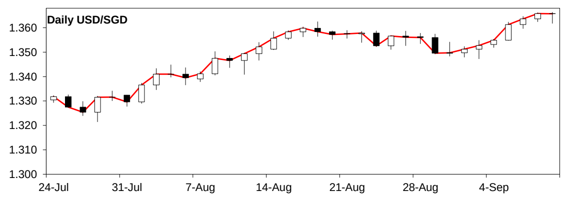
EUR: Humbled

- Given the ECB decision this week, EUR bulls ought to follow Lagarde's advice of being "flexible" and "humble".
- While the base case is for the ECB to stand pat. even **a rate hike will come with an abundance of caution esposuing the need to look at things meeting by meeting**.
- Given the growth headwinds**, a surprise hike will also imply that the policy room gets even tighter ahead which is no win for EUR bulls.**
- **Furthermore, the US CPI print may humble EUR bulls further. As such, cautious testing of 1.06 may not be off the cards.**



SGD: Relief, not Rebound

- Admittedly, USD/SGD upside apprears to have been capped ahead of 1.37, and the Greenback coming off last week's peaks provides some relief for SGD bears.
- But this is limited relief at best. and cvertainly nothing close to a sustained rebound.
- In a data light week for Singapore, US CPI (upside) risks alongside US-China geo-political headlines that are far from pretty suggest a scope for SGD slippage remains intact.
- What's more, a softer EUR from ECB is also a significant risk (and an attendant SGD dampener) if the European central bank tempers commentary on energy inflation risks with views of heightened economic uncertainty.
- And so, it appears that with elevated SUT yields, USD/SGD could remain in the sub-1.36 to 1.37 ranmge for now;



AUD: China Risks

- AUD could go either way; and mostly on China risks. Two way risks to be sure.
- On one hand, the on-going uncertainties around geo-political risks and lingering demand deficit will likely forestall any emophatic and large gains in the AUD.
- Which is to say, an uninterrupted surge to 0.65 and beyond to 0.66 look like a long shot.
- But equally, if optimism about property relaxation measuers ripple via the commodity complex (for which the AUD sits in a sweet spot) then sustaining traction to mid- or even high-0.64 is not outlandish.
- On balance though, elevated yields and firm USD may render sub-0.64 to mid-0.64 consolidation as the more likely outcome.