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MIZUHO

WEEK AHEAD

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20-Sep-2023

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Economic Calendar

•Survey results from Bloomberg, as of 15 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
19 Sep	US	Building Permits/Housing Starts	Aug	1440k/1437k	1443k/1452k
	EZ	**CPI/Core YoY**	**Aug F**	**5.3%/5.3%**	**5.3%/5.3%**
20 Sep	JP	Trade Balance	Aug	-¥678.5b	-¥66.3b
	US	**FOMC Decision (Lower/Upper Bound)**		**5.25%/5.50%**	**5.25%/5.50%**
21 Sep	US	Current Account Balance	2Q	-$221.3b	-$219.3b
	US	Initial Jobless Claims		225k	220k
	US	**Philadelphia Fed Business Outlook**	**Sep**	**-1.0**	**12.0**
	US	**Leading Index**	**Aug**	**-0.5%**	**-0.4%**
22 Sep	**EZ**	**Mfg/Services PMI**	**Sep P**	**44.0/47.7**	**43.5/47.9**
	JP	Mfg/Services PMI	Sep P	--	49.6/54.3
	JP	**CPI/Core YoY**	**Aug**	**3.0%/4.3%**	**3.3%/4.3%**
	JP	**BOJ Policy Balance Rate**		**-0.10%**	**-0.10%**

Asia

Date	Country	Event	Period	Survey*	Prior
18 Sep	SG	Non-oil Domestic/Elect. Exports YoY	Aug	-17.1%/--	-20.1%/-21.1%
19 Sep	AU	RBA Minutes of Sept. Policy Meeting			
	MY	**Trade Balance MYR**	**Aug**	**16.99b**	**17.09b**
	PH	BoP Overall	Aug	--	-$53m
20 Sep	**CH**	**1Yr-/5-Year Loan Prime Rate**		**3.45%/4.20%**	**3.45%/4.20%**
	KR	PPI YoY	Aug	--	-0.2%
21 Sep	**ID**	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
	PH	**BSP Overnight Borrowing Rate**		**6.25%**	**6.25%**
	TW	**CBC Benchmark Interest Rate**		**1.875%**	**1.875%**
22 Sep	AU	Mfg/Services PMI	Sep P	--	49.6/47.8
	MY	**CPI YoY**	**Aug**	**2.0%**	**2.0%**
	TW	**Unemployment Rate**	**Aug**	**3.4%**	**3.4%**

Week-in-brief: Peak, Proclivity & Persistence

- "What you do in this world is a matter of no consequence. The question is what can you make people believe you have done." - Sherlock Holmes, A Study in Scarlett
- Sir Arthur Conan Doyle's distilled wisdom conveyed by Sherlock Holmes will resonate at the September FOMC. Specifically, it is not so much what the Fed does (hike or skip) that will matter as much as **it's ability to convince markets what it has done … and could continue to do**.
- Simply put, **perceptions could, and perhaps will, matter more than just pulling the trigger on one more 25bp hike at this juncture**.
- And these perceptions may be unpacked into policy guidance on;
 i) potential peak rate;
 ii) sustained proclivity to tighten (subject to data-dependence of course) beyond the peak, and;
 iii) persistence of elevated rates.
- With some flair and luck, the optimal combination of policy decision, statement, rhetoric and the quarterly 'Dot Plot' update will go a long way to shape perceptions of a Fed that is neither recklessly hawkish nor prematurely dovish; instead positioning itself as a reliable steward of price stability.
- If the Fed achieves this, then the bet on peak USD will remain **respectful of upside proclivity given a compromised EUR that is deferential on stagflation-type European under-performance.**
- Some persistence of USD tone, especially against EM Asia FX as well as commodity units may also have to be acknowledged; even if the precise durability of this cannot be ascertained.
- More so, as the persistence of Beijing's property boosting measures are already strained amid waning sales boost. The proclivity for doubt and potentially more downside in the Chinese property sector doesn't appear to be dispelled convincingly.
- **Nor may optimists declare that generalised confidence deficit in China has peaked.**
- Given the underlying persistence of uncertainty and proclivity for USD/UST yield upside to exert pressures on AXJ, **EM Asia central banks might have to recant earlier declarations of peak rates** To be sure, we **expect BSP, Bank Indonesia and BNM will all stand pat**. But they are a long way off signalling proclivity for cuts; and arguably premature in decisively calling for peak (rates).
- In particular given the persistence of inflationary pressures amid fresh upswing in global energy prices conspiring with food-inflation inflicted by El Niño.
- In fact, the BoJ might have to pull a nuanced hawkish calibration out of its hat if persistence of JPY pressures threaten to push peak USD/JPY rates much higher.
- All said, best to buckle up for the Sep FOMC week with activist PBoC and an "activated" BoJ all working through peaks, proclivity and persistence. The game is afoot!

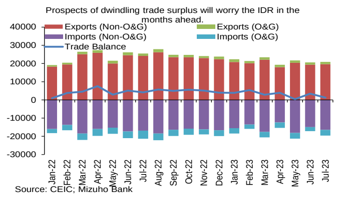
FOMC: How Hawkish a Hold

- That's the question we are confronted with when the Fed convenes for the Sep FOMC (20th Sep).
- Specifically, **how it posiotion a "skip" in its on-going tightening cycle** that expressly; i) *leaves keep hawkish options on the table,* and crucially; ii) *conveys the propensity to prolong a state of elevated rates* instead of promptly tipping into cuts from the "peak".
- The **ECB's recent Sep meeting**, where markets aggressively **traded the "dovish" aspect of a hike** is a **case in point for proactively leaning against pent-up pivot trades** in the wings.
- Although a **partial consolation is that warm-to-hot US data prints** across inflation, ISM services and retail sales may **still underpin the USD** (perhaps even **UST yields**) given the narrative of US exceptionalism; whereby dire European activity accentuate relative US resilience.
- In any case, there are three aspects of the FOMC actions and posturing that matter.
- First, is the **actual rate decision on whether or not to hike**. Here, a "skip" is our base case.
- Apart from the breathing space the Fed has after 525bp of hikes, our suspicion is that the actual **hawkish signals** from rate hikes (on their own) are **blunted** (the ECB being a case on point).
- Second, is the **rhetoric** - both published (in the statement) and delivered at the press conference.
- Having already struck the **balance between two-way risks**, the **bar is higher to unequivocally impress** upon markets a **strong hawkish bias**.
- Finally, and possibly holding the greatest potential for impact, is the **"Dot Plot"**. In particular, an **upward revision to 2023 and/or 2024 terminal rates** will deliver an **unchallenged hawkish jolt**.
- The question is, **whether this will be an overkill even for the more strident hawks**.
- Our sense is that a *rate hold,* combined with *allusions of "more (hawkish) work to be done"* and a *"Dot Plot" retaining the option for one more hike in 2023,* but with *fewer cuts in 2024* (than the 100bp reduction in the June iteration) may **deliver the nuanced retention of a hawkish bias**.
- And that might be **sufficient to keep UST yields underpinned and USD backstopped** (if not buoyed) in the context of ***US exceptionalism*** (by contrast with Europe).

BoJ: Of Mountains & Molehills

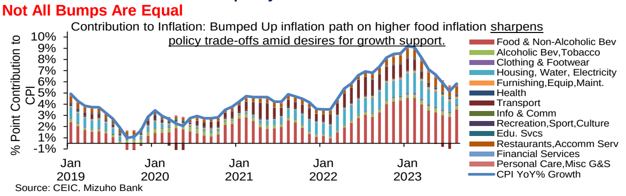
- We have **asserted** that the (weak/pressured) **JPY is** "*a BoJ problem with a Fed solution*".
- Our position on that remains unchanged. But for clarity, this is **not a reference of ability** (or lackthereof) of the **BoJ to impose hawkish shifts that lift the JPY**. To be BoJ has options.
- Rather, it is a **sobering cost-benefit deduction**, that it would be *fiscally ruinous* and *entail too much economic pain* for the benefit of **lifting the JPY against an exceptionally hawkish Fed**.
- What's more, it also **exposes JPY to acute upside volatility on a Fed pivot**, *which can be just as deleterious* for an economy only just emerging tentatively from deflation.
- Nevertheless, a **hawkish Fed** resulting in **upside risks to UST yields** inflicting unrelenting **pressures on the JPY** admittedly makes a more compelling *case for the BoJ to indulge in further policy calibrations* to tighten at the margin. This appears to be supported by Governor Ueda's reference to shedding NIRP (negative interest rate policy) settings.
- But the critical distinction that needs making is that a **likely one-off (10bp) shift to ZIRP from NIRP is not by a long shot an enduring tightening cycle**.
- Simply put, it is *a molehill to limit excessive JPY pressures, not a mountain on which BoJ policy plants a hawkish flag.* The policy risk balance simply cannot endure such a jarring shift.
So **best not to make a mountain (hawkish inflection) out of a molehill (of NIRP exit to ZIRP)**.
- Consequently, **instinctive JPY rebound could also be on a short leash**, *non sustained bull run.*
- Afterall, **calibration out of NIRP**, which is *a mere 10bp worth of tightening* in quantum, **ought to be less impactful than;** i) previous YCC band widening (which was effectively 25bp lift) as well as; ii) **recent "non-rigid" YCC rendition** that dynamically endows 10-50bp of upside to yields.
- Upshot is, *overly-enthused JPY bulls chasing (BoJ) mountain may end up tripping on molehills.*

Bank Indonesia: Mitigating Risks



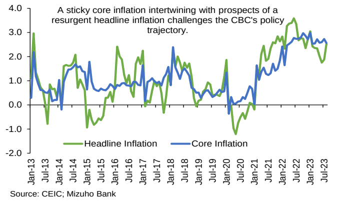
- Bank Indonesia's meeting will be expected to be **about mitigating risks as they stand pat on policy rates.** While Indonesia's **headline inflation** also header higher in August similar to the regional trend, the **surge has been smaller in magnitude and below expectations**.
- What's more, **core CPI dis-inflation** provides relief for BI.
- **To yet again emphasize, IDR pressures have not abated with the IDR declining 0.8% (as of 13 Sept) since BI's previous meeting.** To be clear, BI's measures are meant to **mitigate excessive IDR depreciation and financial instability rather than trigger IDR rallies.**
- Admittedly, BI's FX **Exports Proceeds Term deposit facility has seen stronger inflows after their mandatory exports repatriation ruling. (See LHS Chart above)**
- Nonetheless, fading commodity prices imply **lower export revenues available for repatriation. Consequently, dwindling trade surplus from fading commodity tailwinds imply that mitigation of IDR risks remain at the forefront of BI's policy calculus.**

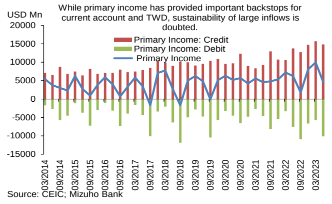
BSP: Not All Bumps Are Equal



- Despite the **bump up in headline inflation** in August to 5.3% from July's 4.7%, we **retain our base case for the BSP to stand pat** and keep the overnight borrowing rate unchanged.
- However, this is **not ignoring** the **worrying food inflation** which **required the implementation of rice price ceilings.** Nonetheless, the authorities remain hopeful that on-going **import negotiations** and **local harvest coming on-stream in the month ahead will dampen inflation acceleration.**
- Aside from food, rising oil prices are additional woes which imply a dissipation of **oil's deflation and also worsens their already dire current account deficits.**
- Growth worries continue to be the bugbear with medium term communications by the BSP surrounding the conditions allowing rate cuts in 2024**. Ine near term, the bumpy headline inflation path not durably settling in the BSP's range backs the case to hold rates.**
- That said, **not all bumps are equal**, given the timing of the BSP meeting right after the Fed, **one has to acknowledge that a surprise bump up of 25bp by the Fed will likely trigger the BSP to take rates higher. The concern being that PHP depreciation pressures has immediate feedback into imported inflation.** After all, USD/PHP which has been testing 57 and a further wave of Greenback resurgence leading to 59 (levels last seen in late 2022) is not off the table.

CBC: Rising Complications





- Since the CBC's previous decision to hold rates in June, the **policy calculus has gotten more complicated.** While headline CPI enjoyed a generous bout of dis-inflation from Jan-Jun, its resurgence to 2.5% in August heightens the threat of unanchored inflation expectations with **core inflation remaining sticky** at 2.6%. Nonetheless, given that Q2 GDP growth (1.4% YoY) staging an incomplete recovery from Q1 (-3.3% YoY), a **negative output gap pares back the odds of a further hike**.
- In addition, the **CBC will also be watching for financial stability risks** in the insurance industry which faces deteriorating balance sheet plagued with significant unrealised losses and FX risks.
- We **retain our base case for a prolong hold at their meeting on 21 September** given that a further 3 month window for monetary policy transmission is within reasonable bounds.
- That said, we assign a 10% probability of another 12.5bps to take the policy rate to 2.00% in consideration of tight labour labour underpinning core inflation .
- Nonetheless, any **surprise hike will be unlikely to boost the TWD given structural headwinds**. Substantial **primary income inflows** seen in H1 may **soften** in H2 and rising energy prices **inflating import expenditures will narrow current account surplus**.
- Looking ahead, **TWD will also face political complications** as elections heat up.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	147.85	0.020	0.01%	145.00	~	148.80
EUR/USD	1.0657	-0.0043	-0.40%	1.058	~	1.080
USD/SGD	1.3636	-0.002	-0.15%	1.3580	~	1.3700
USD/THB	35.815	0.157	0.44%	35.40	~	36.20
USD/MYR	4.6833	0.006	0.13%	4.650	~	4.720
USD/IDR	15353	25	0.16%	15,220	~	15,500
JPY/SGD	0.9221	-0.002	-0.18%	0.913	~	0.945
AUD/USD	0.6432	0.006	0.88%	0.625	~	0.650
USD/INR	83.18	0.235	0.28%	82.5	~	83.8
USD/PHP	56.812	0.172	0.30%	56.1	~	57.2

^Weekly change.

FX Outlook: Sidelined USD Bears

- Whether the Fed hikes or not (and most likely it will not) is beside the point (and of little respite) for sidelined USD bears.
- In fact, even if the Fed does not indulge overtly hawkish flex, much less bite, the case for short USD bets setback to come up for air may be somewhat compromised.
- The most unequivocal case not to bet against the USD in the run up to, and arguably even after, the FOMC would be hawkish caveats and sound bites that are likely to accompany a hold.
- This, we expect, would keep UST yields elevated, if not at least backstopped, and that ought to retain some traction in the USD.
- Especially with inflation's recent reacceleration alongside robust consumer appetite.
- Crucially, even if the FOMC remarks were to come across as being less aggressively hawkish, the relative hawkish hold (emphasis on hawkish) vis-a-vis the ECB's dovish hike (dovish being the operative term) is likely to favour USD over EUR.
- In particular as US exceptionalism draws a stark contrast to relative economic gloom (amid stagflation-type risks) in Europe. What's more, this is backed by real rate advantages of the USD.
- The only scenario in which the USD could, unexpectedly, tumble sharply is if the pause was accompanied by reduced 'Dot Plot' as this could catalyse a more acute Fed pivot bet that drags the USD.
- In EM Asia, hawkish Fed hues suggest deference to USD dominance broadly.
- Although, aggressive PBoC support for CNH initially and pre-BoJ caution around upward yield/rate calibrations squeezing JPY shorts counsel some restraint, rather than total abandon, in short AXJ vs. USD positions.
- This FOMC week, it appears that side-lined USD bears may find little relief. But equally, more calibrated hawkish tuning amid a rate hold alongside PBoC and BoJ pushback on excessive (CNH and JPY) weakness favour measures momentum and nimble positioning.

Bond Yield (%)

17-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.033	4.2	4.332	6.8	Steepening
GER	3.205	14.1	2.671	6.5	Flattening
JPY	0.017	1.8	0.703	5.9	Steepening
SGD	3.489	7.6	3.251	7.1	Flattening
AUD	3.849	3.7	4.101	0.1	Flattening
GBP	4.995	-4.4	4.352	-6.5	Flattening

Stock Market

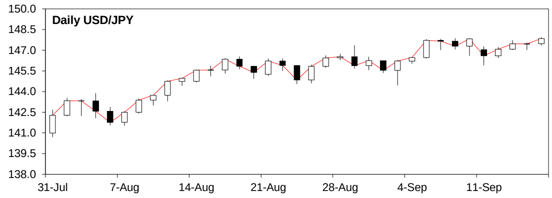
	Close	% Chg
S&P 500 (US)	4,450.32	-0.16
Nikkei (JP)	33,533.09	2.84
EuroStoxx (EU)	4,295.05	1.37
FTSE STI (SG)	3,280.69	2.27
JKSE (ID)	6,982.79	0.84
PSEI (PH)	6,126.34	-1.55
KLCI (MY)	1,459.03	0.28
SET (TH)	1,542.03	-0.33
SENSEX (IN)	67,838.63	1.86
ASX (AU)	7,279.03	1.71

US Treasuries: Of Headlines and Closing Plots

- Inevitably the **plot heading into the FOMC has thickened** as markets contemplate the "in line" inflation print which **saw headline inflation rise as well as the ECB's choice to hike last week.**
- To be upfront, while our call is for **yields to remain buoyant to trade in the 4.95%-5.15%**, the extent of upside on 2Y UST yields will likely be determined by **the Dot Plot**.
- To be clear, **room for upside** is not numerically translated from the exact shift in Dot Plot but rather it will be derived from the **pushback on the "closure" rate cut bets.**
- That said, it looks inevitable that a status quo Dot Plot will excite UST bulls as they latch onto the peak rate narrative barring clear policy direction from Fed Chair Powell which at this clouded juncture looks unlikely.
- What is more certain though is that longer end UST yields remains backstopped by defict needs and trade in the 4.25-4.45%.
- Looking further, **shutdown** threats in November may soon enlarge volatility on the very short end of USTs.

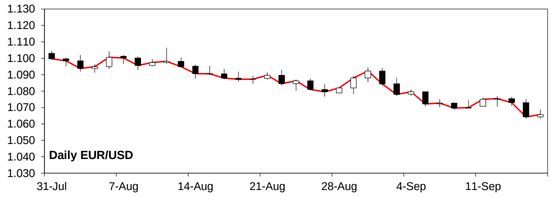
JPY: Surges, Trips and Retreat

- Higher UST yields and surging Brent prices alongside BoJ's pushback on interperatation of Governor Ueda's remarks had JPY bulls retreating last week.
- Nonetheless, outright bets for JPY bears this week warrant caution as JPY bears may trip not merely because of BoJ policy but also due to the fact that intervention risk remains live.
- All in, this week USD deferrence is our base case and as such USD/JPY is expected to trade in the 145-149 range given that any upgrades in the Fed's Dot Plot will justifably send UST yields higher.



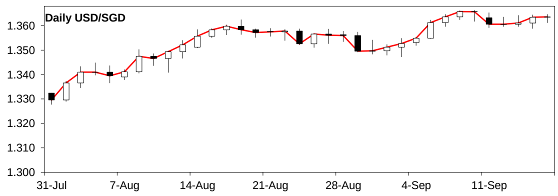
EUR: No Room

- As we had flagged last week "a surprise hike will also imply that the **policy room gets even tighter ahead which is no win for EUR bulls"** , the EUR fell to mid-1.06 post the ECB's hike.
- Meanwhile, insistence from ECB officials that this may not not the peak rate alongside calls for a faster pace of balancesheet reduction may assist in consolidation in the 1.06-1.07 range.
- That said, shallow test of 1.06 will be par for the course on further hawkish Fed guidance.



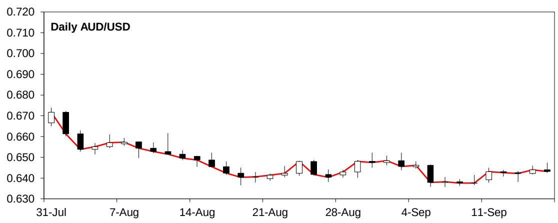
SGD: Range-bound

- USD/SGD tested 1.3650 levels last week, as broadbased USD rally got some respite heading into the weekend on moderating inflation expectations.
- We expect SGD movements for the weak ahead to be driven mainly by developments in the US. In particular, any upward revision to 2023 and/or 2024 terminal rates, would weigh on the SGD.
- We expect CNH and EUR to serve as counteracting forces on the SGD. While hints of an end of ECB's hiking cycle paves the way to a softer EUR, CNH may stabilise this week with better-than-expected data print last week. As PBoC is likely to keep the LPR rates unchanged this week, CNH volatility will be more externally driven rather than domestically induced.
- USD/SGD to trade range-bound between 1.36 and 1.37 levels going into FOMC meeting.



AUD: China Risks

- Cautious consolidation rather than unmitigated weakness could be the theme for the AUD, despite our expectations for USD to retain, if not extend, traction.
- But this is mainly due to much of the weakness already being baked in; having fallen fairly sharply over a couple of months from 0.67-0.68 levels to mid-0.63 to 0.65-ish levels.
- Moreover, the RBA is also likely to retain the option to tighten more instead of beating a retreat with a hasty and unconditional abandonment of tightening bias; especially sticky inflation and supported jobs provide justification for not capitulating just yet.
- In addition, indirect AUD support from the PBoC's emphatic CNY buoyancy efforts could be further accentuated by Beijing's on-going property market support measures.
- This is bound to provide distinct fillip for commodities, which in turn is likely to endow AUD with upside via commodity channels.
- 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.



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