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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 18 August 2023; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicates actual data

G3

Date	Country	Event	Period	Survey*	Prior
22 Aug	**US**	**Richmond Fed Manufact. Index**	**Aug**	**-10.0**	**-9.0**
	EZ	ECB Current Account SA	Jun	--	9.1b
23 Aug	US	New Home Sales	Jul	707k	697k
	EZ	PMI Mfg/Svcs	Aug P	42.6/50.5	42.7/50.9
	EZ	Consumer Confidence	Aug P	-14.5	-15.1
	JP	PMI Mfg/Svcs	Aug P	--	49.6/53.8
	JP	Machine Tool Orders YoY	Jul F	--	-19.8%
24-26 Aug		Jackson Hole Economic Policy Symposium			
24 Aug	US	Initial Jobless Claims		240k	239k
	US	**Durable Goods Orders/Nondef Ex Air**	**Jul P**	**-4.0%/0.1%**	**4.6%/0.1%**
	US	**Chicago Fed Nat Activity Index**	**Jul**	**-0.2**	**-0.3**
	US	**Kansas City Fed Manf. Activity**	**Aug**	**-9.0**	**-11.0**
25 Aug	US	U. of Mich. Sentiment	Aug F	71.2	71.2
	US	**U. of Mich. 1/5-10 Yr Inflation**	**Aug F**	**--/--**	**3.3%/2.9%**
	JP	PPI Services YoY	Jul	1.2%	1.2%
	GE	IFO Business Climate/Expectations	Aug	86.7/83.6	87.3/83.5

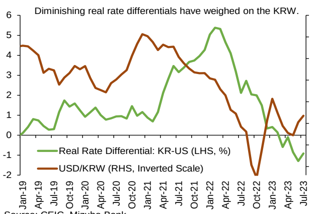
Asia

Date	Country	Event	Period	Survey*	Prior
21 Aug	CH	1Year/5-Year Loan Prime Rate		3.45%/4.20%	3.55%/4.20%
	TH	**GDP YoY/SA QoQ**	**2Q**	**3.0/1.2%**	**2.7%/1.9%**
	TW	BoP Current Account Balance	2Q	--	$19004m
22 Aug	ID	BoP Current Account Balance	2Q	-$635m	$3000m
	TW	Unemployment Rate	Jul	3.5%	3.5%
23 Aug	**SG**	**CPI/Core YoY**	**Jul**	**4.2%/3.8%**	**4.5%/4.2%**
	TW	**Industrial Production YoY**	**Jul**	**-14.2%**	**-16.6%**
24 Aug	**ID**	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
	KR	**Retail Sales YoY**	**Jul**	**--**	**6.6%**
	KR	**BOK Base Rate**		**3.50%**	**3.50%**
25 Aug	**SG**	**Industrial Production YoY**	**Jul**	**-3.7%**	**-4.9%**
	MY	**CPI YoY**	**Jul**	**2.1%**	**2.4%**

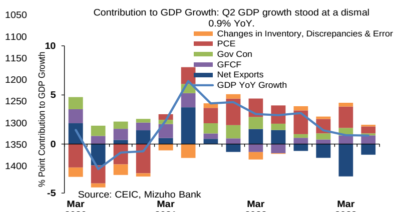
Week-in-brief: Structural Shifts

- With no tier-1 data or event releases in the G10, the **focus will be on 'Jackson Hole'**, the **Economic Policy Symposium** hosted by the Kansas City Fed (24-26 Aug).
- Why? Well, because *'Jackson Hole' has a track record of flagging up policy shifts*, if not inflections.
- And **for markets that have** already, rightly or wrongly, **converged on the notion of peak global policy rates** (that expects the Fed and other Major central banks to be done with rate hikes sooner rather than later) the **burning question is how long before rate cuts may be expected**.
- After all, the **temptation to conflate peak rates with "pivot"** (suggesting a reversal of hikes) appears to be **informed by the experience** (of of fairly rapid rate cuts typically soon after "peak") **from previous rate hike cycles of similar magnitude(and intensity**.
- But **for "pivot bulls" priming for an "everything rally"** in equities and bonds (lower yields) alike, the warning is that **embedded in the seemingly innocuous topic for the Jackson Hole Economic Symposium** - *'Structural Shifts in the Global Economy'* - **may be rude hawkish surprises**.
- For a start, **Fed Chair Powell may allude to structurally higher** (and potentially more volatile) **inflation** being the new norm. As a result of which, the *"higher for longer"* **mantra could take a more enduring flavour** that is *less sensitive to, and deterred by*, near-term inflation pullback.
- Specifically, this may have **three dimensions of policy implications**. First, it may **push out expectations for the timing of the first rate cut** *as thresholds and triggers for policy response to dis-inflation may require are calibrated* to account for "sticky" and lagged expectations impact.
- Second, albeit as a temporary, not enduring, expectations jolt**, potential for more upside to peak rate** insofar inflation is volatile in the headline and sticky in the "inner-most" core for now.
- Finally, **expectations** for the **level of neutral rates** and the **timeline to reach this could also be reevaluated** if *longer-term inflation targets are open to be re-assessed* in a world where heightened geo-political tensions (triggering a race for resources and security stockpiling) lift costs.
- The upshot is that "**structural shifts**" **could profoundly** *entail profound and pervasive policy implications* that tend to **undermine received wisdom that the "street" is trafficking in**. And if so, it follows that widely-accepted **positioning** by markets **may be caught wrong-footed**.
- The **Wall Street Journal's article** *"Why the Era of Historically Low Interest Rates Could be Over"* **resonates with risks entailed at 'Jackson Hole'**, and how it may blind-side big bets on 'pivot'.
- **Speaking of structural shifts**, *Beijing is struggling to revive growth as structural headwinds* (demographic, financial, socio-political, geo-economic) *relentlessly pummel the economy.*
- The earlier drip-feed of stimulus measures have admittedly gathered pace, urgency and intensity;
- with the **PBoC and other financial regulators suggesting an engineering of credit-push stimulus** (as banks have been asked to reduce lending rates and increase loans to the economy).
- Alongside **more emphatic steps to backstop the CNY**, the PBoC is stepping up the game *to avert an adverse feedback loop of self-reinforcing financial/currency instability and capital flight.*
- **Fears of an imminent crisis are admittedly alleviated** given the policy activism and promise of coordination to check local government debt vulnerabilities.
- **Nevertheless**, this is a **long way off a resolution** of entrenched structural impediments amid adverse balance sheet and cash-flow shocks that are at best mitigated (not eradicated).
- Against this backdrop of constant global flux, the **BoK may be set to hold**. Admittedly, the BoK stands ready to hike if need be. But **with mounting headwinds to the economy**, a hold may be the path of least harm at this juncture. Especially as **it may borrow KRW stability from CNY backstops**.
- Likewise, Bank Indonesia could also choose to hold, but at the price of IDR stability.
- Elsewhere, **Thailand's Q2 GDP could show glimmers of tourism recovery, but cannot shrug off weak global demand** evident in industrial measures.

BoK: Forced Hold



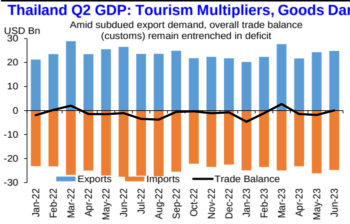
Source: CEIC, Mizuho Bank



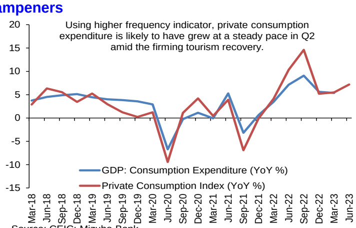
Source: CEIC, Mizuho Bank

- While the BoK has often kept their options open for a further hike to 3.75% from the current 3.50%, the **case for a hold at their upcoming meeting remains the stronger one.**
- First, **Q2 GDP at 0.9% YoY was an outright disappointment**.
- Even on a sequential basis, the headline 0.6% QoQ SA expansion could not mask the **ugly underlying details**. **Consumption (private and government) as well as investments contracted** with only net exports growing. Even then, it was a **case of severe import contraction which exceeded the lower export revenue** that allowed the net exports expansion.
- Second, given on-going KRW weakness, rates cuts in support of growth risks rupturing into macro-financial stability risks and are therefore likely to be deemed unsuitable at this juncture.
- In fact, the BoK may very well be desiring a rate hike to lean against the **diminished real rate differentials** relative to the Fed **and address** the **still sticky core inflation** at 3.3% which faces prospects of a resurgence driven by weather woes.
- Yet, given the external demand headwinds, raising rates even higher will conflict attempts by the FSC to provide more credit support to exports.
- All in, the BoK will have to **rely on the low headline inflation** print of 2.3% and **stand pat.**
- The implication is that the BoK **cannot and will not** give up **their hawkish** bias in their communications which they will be hoping that **leans against KRW weakness**.

Thailand Q2 GDP: Tourism Multipliers, Goods Dampeners



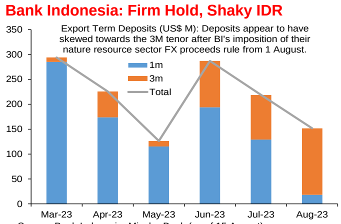
Source: CEIC; Mizuho Bank



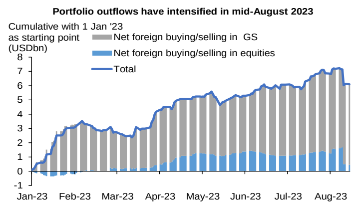
Source: CEIC; Mizuho Bank

- **Thailand Q2 GDP growth will be expected to hover around Q1's 2.7% YoY print** amid steady tourism recovery. Admittedly, while tourist arrivals are lower in Q2 compared to Q1 due to **seasonal** effects, a more representative quarterly comparison relative to 2019, shows that **Q2 2023 levels were 72% of 2019 Q2 levels while Q1 2023 levels is lower at 60% of Q1 2019 levels**.
- Critically, given firm household spending growth indicated by private consumption index, it appears that **multiplier effects from stronger economic activity** and incomes **may be taking place**.
- In short, **GDP growth** ought to enjoy positive spillovers **beyond net services export receipts**.
- Nonetheless, **falling consumer confidence restrains our optimism**. On the external front, **weak export demand remains a key concern**. While a 1.9% QoQ increase in Q2 **export revenue** (customs basis) is welcomed, the reality is that it is **still 5% lower relative to a year ago**.
- Meanwhile, **government consumption ought to have remained a positive** for Q2 growth given the fiscal outlay for the May general elections. On **politics, uncertainty** over election outcomes may have translated into **restrains for investment spending** and **likely to even weigh in Q3** as Budget 2024 approval is set to be delayed for 3-6 months.
- Looking ahead, while tourism ought to bolster Q2 growth, **caution surrounding both household debt and corporate debt burdens should temper outright optimism.**

Bank Indonesia: Firm Hold, Shaky IDR



Source: Bank Indonesia; Mizuho Bank (as of 15 August)



Source: Bloomberg; Mizuho Bank

- Given that **headline inflation for July at 3.1% resides comfortably with the Bank Indonesia's 1-4% range**, it is a **rather clear case for BI to continue to stand pat on policy rates on 24 August**.
- While IDR depreciation (-2.3% since the last meeting) has increasingly become a concern in recent times which necessitated FX interventions on 14 August, the **inappropriateness of the macroeconomic environment to raise policy rates** to bolster the IDR would have been well noted by BI. In addition, pockets of concerns linger over the debt burdens of major construction firms.
- As we have stressed before, **IDR stability will continue to the key focus for BI.**
- The revised regulations which mandate exporters from mining, plantation, forestry and fishery sectors to repatriate 30% of their FX proceeds onshore for **at least 3 months** was effective from 1 August. Since then, it is notable that the **usage of BI's Term Deposits** for FX export proceeds which commenced in March 2023 has **skewed towards the 3 month tenor** (see chart above).
- Given that **deposit amounts have not seen a visible surge**, we **retain our view** that the hard currency buffer over 3 months **acts as a liquidity backstop** for the IDR during volatile episodes rather than serve as outright IDR boost. Admittedly, **initial** FX inflows may provide **some** relief as BI's term deposit facility is not the only instrument which foreign exchange proceeds can be parked at.
- While **growth indeed proved to more resilient** than expected, the domestic demand driven nature imply that the outturn **should not be mistaken as a positive IDR catalyst**.
- Specifically, the **resilience of consumption translates to higher import expenditures which worsens the net exports position** which fading commodity price tailwinds from the likes of coal.
- At this meeting, BI will **lean on communication** to re-iterate their current account strength and emphasize their keen watch on IDR stability to ward off excessive speculation and volatility as **excessive FX rules may dent investor confidence and worsen worries about the IDR.**

China Woes: Signals, Not Solutions

- **Gloomy economic data underscore chronic confidence deficit** that drags across household consumption and business investments as the **pernicious effects of the property sector slump**.
- The **sheer magnitude of balance sheet and cash-flow shocks** mean stimulus, including rate cuts (MLF:-15bp; 10bp for overnight, 7-day and 1-mth) are ***mere signals not solutions.***
- **Especially as further property sector and wealth management product risks threaten** with fresh balance sheet and cash-flow shocks.
- Meanwhile, a suspension of youth unemployment data release, whether or not due to bona fide data revaluation reasons, inadvertently undermines confidence further; compounding, not distracting from, confidence deficit. As falling short of 5% growth remains a risk, **Beijing has a much higher bar to clear in terms of putting through convincing stimulus** measures that may be *sufficient to achieve "escape velocity"*, which requires reasonable reparation to confidence.
- In the meantime, *fresh assaults on CNY stability pose an overarching policy challenge* and dilemma; given sharp stimulus and stability trade-offs. And the **weekend's credit stimulus/moral suasion*** step up **does not eradicate these risks despite alleviating worries** of an immient meltdown.

* See Mizuho Daily (21 August) for more details

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	145.39	0.430	0.30%	144.00	~	148.00
EUR/USD	1.0873	-0.0076	-0.69%	1.082	~	1.105
USD/SGD	1.3572	0.005	0.37%	1.3500	~	1.3650
USD/THB	35.373	0.288	0.82%	34.80	~	35.60
USD/MYR	4.6488	0.061	1.33%	4.610	~	4.680
USD/IDR	15285	70	0.46%	15,200	~	15,350
JPY/SGD	0.9334	0.000	0.03%	0.912	~	0.948
AUD/USD	0.6406	-0.009	-1.39%	0.635	~	0.650
USD/INR	83.11	0.267	0.32%	82.1	~	83.8
USD/PHP	56.17	-0.155	-0.28%	55.8	~	57.0

^Weekly change.

FX Outlook: Twitchy

- The risk is that **FX markets could be very twitchy** given the **sensory overload of policy signals, surprises and stimulus** primed for the week.
- Right off the bat **USD tensions will be hard to avert** and the eventual swing perhaps even harder to predict.
- On one hand, **fervent bets on "peak Fed" means that USD bears are itching to short the Greenback**; especially off the upswing last week.
- But equally, **should the Fed blind-side pivot bets,** a **USD squeeze could result**;
- In particular with allusions to a **more profound rendition of** *"higher for longer" in the context of "structural shifts" at Jackson Hole,*.
- In any case, **higher global yields** (whether driven by Europe of US) **could also induce enlarged JPY volatility**;
- as markets get caught between yield spreads and intervention risks.
- Meanwhile, the **PBoC's far more forceful intervention to shore up CNY** whilst boosting stimulus to revive growth could also **heighten two-way volatility amid EM Asia FX**.
- Arguably, a firmer CNH alongside economic backstops in China may boost AUD and other EM Asia FX off lows.
- But this is likely to be in **opportunistic, leveraging on spots of USD pullback** (on pivot bets);
- **rather than outright defiance of bullish USD waves** should Fed hawks hijack the Jackson Hole agenda.
- All said, it appears that **FX markets could be twitchy and flippant rather than resolute**.

Bond Yield (%)

18-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.943	4.8	4.255	10.3	Steepening
GER	3.017	-1.0	2.616	-0.4	Steepening
JPY	0.013	0.9	0.622	4.9	Steepening
SGD	3.540	11.1	3.156	12.3	Steepening
AUD	3.914	4.7	4.230	0.1	Flattening
GBP	5.145	15.0	4.668	14.7	Flattening

Stock Market

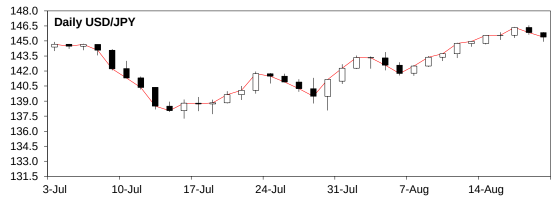
	Close	% Chg
S&P 500 (US)	4,464.05	-0.31
Nikkei (JP)	32,473.65	0.87
EuroStoxx (EU)	4,321.33	-0.27
FTSE STI (SG)	3,294.28	0.06
JKSE (ID)	6,879.98	0.40
PSEI (PH)	6,405.91	-0.70
KLCI (MY)	1,457.16	0.83
SET (TH)	1,535.16	0.31
SENSEX (IN)	65,322.65	-0.61
ASX (AU)	7,340.13	0.20

US Treasuries: Thinking Long Term?

- Last week, while UST bulls were through beaten, the emphatic 10.3 rise in 10Y UST yields serve to underscore longer term uncertainties relative to the smaller 4.8bp increase in 2Y yields.
- The **larger issuance** (higher supply issue) was compunded further by the FOMC minutes declaring that **QT (demand reduction)** will proceed even if rates were reduced. The assumption here is presumably a soft landing scenario.
- Furthermore, afterall the China worries which permeated last week, Brent crude prices still stand near a lofty US$85/barrel to back higher inflation expectations and longer term yields.
- 10Y UST yields are certainly not unaffected by front end hawkish implication on the 2Y yields. Specifically, worries about **hawkish implications during Jackson hole** will incite buoyancy for 2Y yields and trigger **unwelcomed recent memories on porfortfolio liquidity mistmatchs.**
- All in, 2Y yields may attempt to test the 5% mark this week to trade in the 4.85-5.05% range but this may be the first of several unsuccessful attempts. Meanwhile 10Y yields will inevitably face opportunistic buying to trade in the 4.15%-4.35% range.

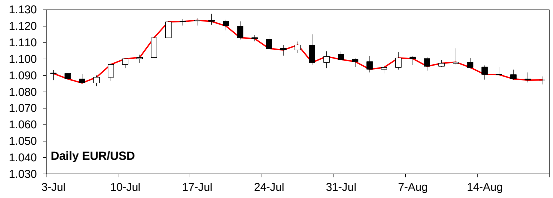
JPY: Bear Case

- Admittedly, the JPY was yet again weakened by the higher UST yields last week as the USD/JPY even tested mid-146. Nonetheless, the USD/JPY slipped back towards mid-145 to end last week.
- While sticky inflation ex-fresh food and energy prices back JPY bulls, sticky oil prices alongside a Q2 GDP beat solely on net exports and July trade balance sinking back to deficit presents a stronger bear case.
- As such, we expected buoyancy to retained off 143 while rallies towards 146 are par for the course this week.



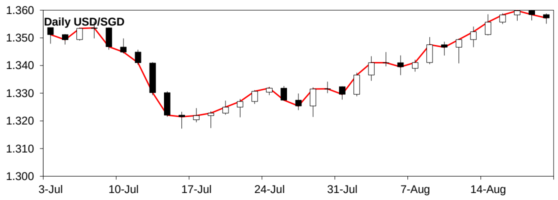
EUR: Slowing and Slipping

- With the EUR indeed slipping below 1.09, there is **a case for the slipping to slow and for some consolidation take place this week.**
- While headline inflation has been slipping, sticky core inflation woes back the case for ECB to sound hawkish especially amid still unresolved grain issues.
- That said, heading into Jackson hole, EUR rallies remain unlikely barring structural shifts and shocks from Powell's speeech.



SGD: CNH Backstop

- The forceful backstop provided for CNH by the PBoC last week is rubbing off on SGD.
- USD/SGD has been moderated back below 1.36 from a fleeting test higher.
- But this appears to be a backstop, not an outright boost.
- Tellingly, the momentum to moderate below mid-1.35 appears stifled for the time being.
- While China's economic policy stimulus efforts could provide some measured pick-up for SGD, this will be on a short leash.
- In particular, it will require that Jackson Hole does not present hawkish jolts that lift the USD.
- For now, we expect a range of sub-1.35 to mid-1.36 to contain USD/SGD trades amid two-way triggers.



AUD: Brooding

- Despite CNH backstops and signs of more emphatic China stimulus, AUD continues to brood;
- only just averting a slip back below 0.64 and hardly showing any signs of traction.
- One reason for this is that clarity on Chinese measures to revive a construction boom continue to elude.
- And even for optimists, it appears that it will take a while to get the economy back on it feet.
- In which case, commodity channel drag forces on AUD are not materially reversed into a boom.
- What's more, perceptions of a more dovish RBA also stand in stark contrast to continued G10 tightening elsewhere.
- For now AUD could remain under the weather in the mid-0.63 to 0.65 range.