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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 11 August 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
15 Aug	**US**	**Empire Manufacturing**	**Aug**	**-0.7**	**1.1**
	US	**Retail Sales/ Ex Auto and Gas MoM**	**Jul**	**0.4%/0.4%**	**0.2%/0.3%**
	JP	**GDP Annualized SA QoQ**	**2Q P**	**3.1%**	**2.7%**
	JP	GDP Deflator YoY	2Q P	3.8%	2.0%
	GE	**ZEW Survey Expectations**	**Aug**	**-15.0**	**-14.7**
16 Aug	US	Building Permits/Housing Starts	Jul	1468k/1445k	1441k/1434k
	US	Industrial Production MoM	Jul	0.1%	-0.5%
	EZ	**GDP SA YoY/QoQ**	**2Q P**	**0.6%/0.3%**	**0.6%/0.3%**
	EZ	**Industrial Production WDA YoY**	**Jun**	**-4.4%**	**-2.2%**
	US	**FOMC Meeting Minutes**			
17 Aug	**US**	**Initial Jobless Claims**		**240k**	**248k**
	US	**Leading Index**	**Jul**	**-0.4%**	**-0.7%**
	US	**Philadelphia Fed Business Outlook**	**Aug**	**-10.5**	**-13.5**
	JP	Trade Balance	Jul	¥43.7b	¥43.1b
	JP	Tertiary Industry Index MoM	Jun	-0.2%	1.2%
18 Aug	**EZ**	**CPI/ Core YoY**	**Jul F**	**5.3%/5.5%**	**5.5%/5.5%**
	JP	**Natl CPI/ Ex Fresh Food, Energy YoY**	**Jul**	**3.3%/4.3%**	**3.3%/4.2%**

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
14-18 Aug	PH	Overseas Cash Remittances YoY	Jun	--	2.8%
14 Aug	**IN**	**CPI/Wholesale Prices YoY**	**Jul**	**6.5%/-2.5%**	**4.8%/-4.1%**
15 Aug	CH	Industrial Production YoY	Jul	4.3%	4.4%
	CH	Fixed Assets Ex Rural YTD YoY	Jul	3.8%	3.8%
	CH	Retail Sales YoY	Jul	3.8%	3.1%
	CH	1-Yr Medium-Term Lending Facility Rate		2.65%	2.65%
	AU	**Wage Price Index YoY**	**2Q**	**4.3%**	**3.7%**
	AU	RBA Minutes of Aug. Policy Meeting			
	ID	**Trade Balance**	**Jul**	**$2531m**	**$3460m**
17 Aug	SG	Non-oil Domestic/Elect. Exports YoY	Jul	-14.1%/--	-15.5%/-15.9%
	AU	**Employment Change/Unemployment Rate**	**Jul**	**15.0k/3.6%**	**32.6k/3.5%**
	PH	**BSP Overnight Borrowing Rate**		**6.25%**	**6.25%**
18 Aug	MY	Trade Balance MYR	Jul	23.0b	25.8b
	MY	**GDP YoY/SA QoQ**	**2Q**	**3.5%/1.4%**	**5.6%/0.9%**
	TW	**GDP YoY**	**2Q F**	**1.5%**	**1.5%**

Week-in-brief: Setback

- It is not that markets will not find some way to frame the situation as half-full, but **the fact of the matter is that setbacks to optimistic expectations are hard to ignore.**
- For one, the **pick-up in US PPI** in the context of relatively hot wage growth and sticky non-rental services means that aggressive pivot bets are setback.
- And while the Fed retains data dependence, it appears to us that the data need to provide reasons not to hike. And so the realisation of a de facto hawkish bias must surely setback overly aggressive short USD bets. **Europe is also setback by the surge in gas prices** that now fuel fears of resurgent inflation forcing the ECB into sharper trade-offs with more hikes. And hard landing risks are consequently nudged higher.
- **Norges Bank** may be the front-runner on this account as it is set to hike rates amid persistent inflation troubles despite economic headwinds. And even if SEK gains lend some lift to the EUR on ECB hike expectations reflex, it does not nagged the downside risks that lurk beyond on account of eroding real rate spreads and recession risks.
- Elsewhere, hot on the heels of **China's deflation** reckoning alongside **credit growth pullback**, soft spots in industrial activity, a lack of consumer rebound and most worryingly, feeble (if not faltering) investments dragged by real estate woes will setback Beijing's efforts at economic revival.
- Country Garden's teetering **default woes is also a setback for Beijing** trying to draw a line under property market travails; and is likely to frustrate further measures to restore confidence.
- All else equal, this may be widely expected setback Chinese assets and the CNY. But that is exactly why PBoC may pre-empt and set a strong CNY fix to backstop.
- Backstops however don't negate setbacks. And so **EM Asia FX** finding any relief on CNY boost will do well to exercise cautious restraint over reckless abandon.
- Speaking of setbacks, the **RBI** is faced with one on **account of India's July inflation** that is set to re-accelerate to the upper bound (6%) of inflation target. This validates the hawkish hold, but frustrates the desire to support the economy sooner rather than later.
- And while **Malaysia averted a political setback** as state elections allowed PM Anwar's coalition to hold on to existing seats, the erosion of mandate sets a challenging course for policy reform amid precarious political balance. All said, stretched cheer about soft landings and "Nirvana" may have to wake up to the realities of economic, policy and political setbacks form a bumpy path ahead. Meanwhile, whether a **"no hike by the BSP" will be a setback for the PHP remains to be seen.**

FOMC Minutes - Pausing, Not Passing, Hawks

- This will not be the Minute(s) that marks the passing of hawks, but rather the Minute(s) that hawks need to pause and assess as to how much farther rates will need to go.
- Admittedly, the Minutes will no doubt allude to significant progress on dis-inflation and how the trend has continued to be encouraging. Nonetheless, this will be qualified by inflation as well as wage pressures remaining still too high for comfort amid a tight (albeit arguably less hot) job market.
- Specifically, allusion to the "inner most core" of inflation remaining a tad too sticky as well as more stubborn in resisting decline compared to headline CPI will accentuate volatility around August CPI print, including detail rather than dramatically raising pivot bets.
- In any case, not unlike the overall impact of July FOMC rhetoric (especially the press conference) will be to heighten yield volatility rather than invoke unchallenged UST rallies (and attendant slump in yields) from pivot bets. Especially as the **context of greater confidence of a soft-landing alongside sticky components of price pressures emboldens the stance that hawks may not be done yet.**

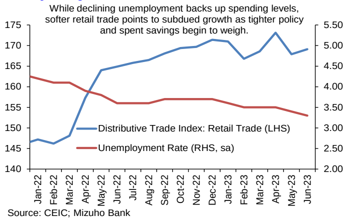
Three Things About China's Deflation

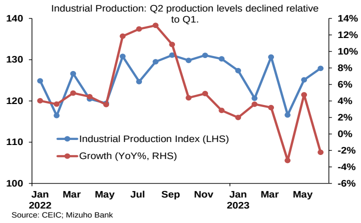
- The **sheer disparity between China's** brow furrowing **deflation and** worries about **inconveniently sticky**, if not reaccelerating, **inflation elsewhere is hard to square**.
- For that reason alone, it is worth **exploring the significance of China's deflation for the rest of the world**. Specifically, to explore *whether it heralds pipeline inflation relief.*
- The **short answer** is "No, it does not". But as is often the case, the details are somewhat more complicated. In any case, here are three key take-aways on China's deflation.
- First, **China tipping into consumer deflation does not mark an inflection**, in China's dynamics; much less globally. Instead, it *merely reflects the underlying demand and confidence deficit* issues that feed each other; and belatedly so at that.
- Second, and crucially, **most of China's deflation** is **not** even **"exportable" deflation/dis-inflation**. And therefore Why is this the case?
- Mainly because China's deflation is *predominantly due to non-exportable property market slump;*
- replete with its pernicious, far-reaching adverse cash-flow effects as well as negative wealth effects, exacerbated by a coincident *pullback in business confidence and hence, spending.*
- And this *domestic deflation cannot be meaningfully exported* as global dis-inflation beyond pre-existing global manufacturing downturn (and pockets of goods deflation) cannot be exported on its own without similar shocks in economies that account for final demand.
- Especially amid fresh inflation impulses to food from El Niño food conspiring with threats of energy price shocks from a hawkish OPEC+ alongside lingering Russia-Ukraine risks.
- *Ironically, despite deflation in China,* the *bigger impact* may be *from Chinese tourists beginning to export demand pull inflation* elsewhere as travel gathers momentum from opened border; and **at the cost of demand suction deflation at home**.
- Third, and finally, China's deflation may be of little policy consequence. Globally, ***China's deflation*** *provides little to no relief for "sticky" inflation* and the *attendant policy dilemma;* as globally sticky core services inflation amid tight jobs that have caught monetary policy on too loose a footing coming out of COVID. At home, *Beijing's sharp policy trade-offs* **involving pre-existing** *financial stability risks* are also not magically waved away, *limiting the capacity for, and efficacy of, monetary stimulus* regardless of headline dis-inflation ostensibly creating policy space. Meanwhile *local government debt overhang stifle fiscal stimulus.*
- And above all, *conflicting social-political objectives* (embedded in "Common Prosperity") inadvertently *dull the "wake-up call" for policy-makers* to jolt China out of deflation.

Malaysia Political Risk Premium: Relief, Not Resolution

- The weekend's state elections that maintained the status quo of PM Anwar's ruling coalition and the Opposition retaining their seats has probably averted immediate challenges to his leadership, but perhaps falls short of unfettered political bandwidth to push through reforms.
- In fact, the Opposition's creeping gains reveal an urgency for PM Anwar to widen the appeals of his policies, which may invariably require greater compromises and trade-offs.
- And so, the policy mandate risks being compromised by political challenges amid economic drag. And questions of the coalition's stability and durability may not be fully put to rest.
- Inevitably, this may translate into only measured relief from, and not resounding resolution of, the political risk premium evident in the MYR. Relative catch up in MYR as such may be a restrained affair.

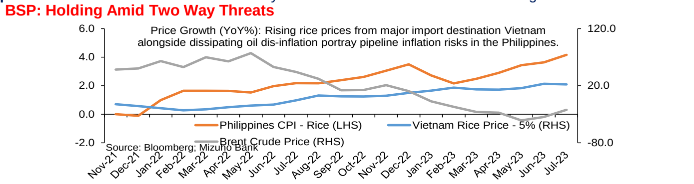
Malaysia Q2 GDP: Subdued Growth





- Coming off the contrast between Indonesia's resilient growth and Philippines' disappointing Q2 GDP, the question for Malaysia will inevitably rest on **the ability of private consumption to hold up against external headwinds.** The latter's impact is reflected across various channels.
- First, Q2 export revenue has declined 11.1% YoY alongside a 8.8% drop in trade surplus. Second, Q2's industrial production decreased by 2.4% from Q1 and is also 0.3% lower than a year ago. As such, **manufacturing GDP is expected to remain lacklustre.**
- While unemployment rate remains at admittedly very low levels, we caution against outright optimism on private consumption as **monetary policy tightening filters through alongside depleted retirement savings after multiple rounds of withdrawals in the previous years.**
- The upshot is that domestic consumers may have little more to give.
- While the **services sector may remain a bright spot** on tourism recovery concomitant with observation of **rising expenditure on purchases from foreign credit cards**, rather **flat tourist arrivals in April and May** tempers our expectations.
- All in, beyond our Q2 expectations for GDP growth to slow below 4% YoY, the impact from **FDI commitments** from manufacturers in the automobile and chip industries alongside the **new economic plan** Madani will be watched on their ability to restructure and boost medium term growth.

BSP: Holding Amid Two Way Threats



- While our **base case is for the BSP to continue to stand pat** on monetary policy and keep their overnight borrowing rate at 6.25% on 17 August, **the threats of rising inflation upside and accentuated growth risks are narrowing their policy space beyond this August meeting.**
- Even without a **clear direct** El Nino hit on the domestic economy, the **indirect** spillover from India's rice export ban will not be taken lightly considering the hefty weight of food on the CPI basket.
- As such, the damage on household's cost of living will certainly be a material one and the ensuing impact on private consumption is a fundamentally real one rather than just nominal effects.
- Furthermore, the **broad dissipation of headline dis-inflation** from sticky oil prices backed by OPEC+ actions to keep supplies tight may begin to support a bumpy inflation path in early Q4.
- In short, while we do not doubt BSP's projection that headline inflation will technically fall within their 2-4% range in Q4, **reality may be must closer to their upper limit** rather than resting comfortably within.
- **Dismal Q2 GDP growth at 4.3% YoY** amid private consumption's sequential contraction alongside an uptick in unemployment rate will have the authorities **watchful of the lagged effects from their earlier tightening moves**.
- At this juncture, on the back of earlier relief from easing core inflation and falling headline inflation, the BSP **will retain caution on raising policy rates** higher as growth woes rise. Meanwhile, rate cuts are similarly not on the table amid **PHP instability woes exacerbating inflation upside risks**.

RBA Minutes: Pipeline Growth and Inflation Concerns?

- The RBA's recent Statement On Monetary Policy (quarterly publication) displayed a sense of **narrowing policy space.**
- **First**, inflation forecast was upgraded with **estimates for June 2025 ticking up to 3.1%** from 3.0% in May's publication **despite actual Q2 inflation outturns clearly coming in below estimates**.
- **Second, growth forecast trajectory was downgraded over the forecast horizon** from H2 2023 to H1 2025 and comes in **spite of upward revision on population growth assumptions**.
- **Third**, it is notable that the forecast in the latest **August publication was conditional on the RBA's peak cash rate being at 4.25%** which is marginally higher than the **current 4.10%** and much higher than the previous May assumption of 3.75%.
- The **upcoming** jobs report is unlikely to portray a substantial change in the **tight labour market situation**. Hiring intentions continue to remain resilient but supply constraints and skills mis-match may imply slower pace of job gains. **That said, given retail sales weakness, some shedding of temporary workers may be on the cards.**
- All in, amid two consecutive rate holds, the upcoming RBA minutes while leaning towards growth concerns may find it tough to give up its hawkish inflation talk especially given Governor Lowe's latest allusion to "Calibration Phase" for monetary policy.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	144.96	3.200	2.26%	142.80	~	146.00
EUR/USD	1.0949	-0.0057	-0.52%	1.085	~	1.112
USD/SGD	1.3522	0.013	0.95%	1.3400	~	1.3580
USD/THB	35.085	0.440	1.27%	34.50	~	35.20
USD/MYR	4.588	0.034	0.75%	4.540	~	4.615
USD/IDR	15215	45	0.30%	15,150	~	15,280
JPY/SGD	0.9331	-0.012	-1.23%	0.918	~	0.951
AUD/USD	0.6496	-0.007	-1.13%	0.640	~	0.670
USD/INR	82.84	-0.002	0.00%	82.1	~	83.5
USD/PHP	56.325	0.575	1.03%	55.8	~	57.0

^Weekly change.

FX Outlook: Divergent

- To be sure, FOMC Minutes may be mostly stale, given the subsequent jobs and inflation data accompanied by Fed comments.
- And so the bottom-line that September remains "live" with Fed hawks not being done ought to backstop the USD by and large; more so in the context of US PPI pick-up that underscores sticky inflation risks that require Fed vigilance.
- But with Norges Bank set for another hike amid inflation upside risks that echo worries of gas-price driven inflation resurgence in Europe, SEK could outperform with EUR potentially hitching a ride.
- Although our view is of real rates in Europe being compromised by higher inflation undermining EUR eventually, two-way interim volatility might persist given how used markets are to gauging DM FX on nominal rate spreads.
- In addition intervention risks, and possibly realised rebound in JPY, could add to the two-way risks (and noise) in FX markets.
- Elsewhere though the AUD appears to be on the back foot as policy divergence and China's economic gloom are likely to drag.
- EM Asia FX could accordingly be set back by China concerns although PBoC setting for CNY may surprise with strength. And while it may not transform conviction, it could sway positions caught by surprise.
- Divergent FX outcomes are thus likely into FOMC Minutes and on the other side; although underlying caution may limit short USD momentum.

Bond Yield (%)

11-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.895	13.1	4.152	11.8	Flattening
GER	3.027	2.6	2.620	6.4	Steepening
JPY	0.004	-1.0	0.573	-6.2	Flattening
SGD	3.429	5.5	3.033	-0.5	Flattening
AUD	3.866	-4.9	4.108	0.1	Steepening
GBP	4.995	14.7	4.521	14.9	Steepening

Stock Market

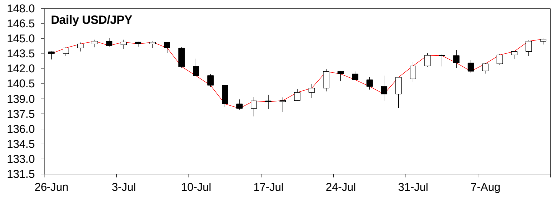
	Close	% Chg
S&P 500 (US)	4,464.05	-0.31
Nikkei (JP)	32,473.65	0.87
EuroStoxx (EU)	4,321.33	-0.27
FTSE STI (SG)	3,294.28	0.06
JKSE (ID)	6,879.98	0.40
PSEI (PH)	6,405.91	-0.70
KLCI (MY)	1,457.16	0.83
SET (TH)	1,535.16	0.31
SENSEX (IN)	65,322.65	-0.61
ASX (AU)	7,340.13	0.20

US Treasuries: The Short and Long Story

- Notably, resurgence in 2Y UST yields occurred after the CPI and PPI prints and resulted in 2Y yields heading 13.1bp higher. In short, the **need for the Fed to retain optionality** implies that data prints will display outsized influence.
- At this juncture, the asymmetry lies in that there **is greater room for front yields to head higher** with markets already targeting barely any hike in September and cuts in 2024.
- That said, we do not discount the **actualisation** of **keen demand for safe havens** (implying opportunistic bids) arising from growth worries in EZ and China.
- On the longer end, issuance worries will continue to buoy longer end 10Y yields.
- Furthermore, rising worries of QT's impact may also retain upside.
- All in, 2Y yields look to trade in the 4.8%-5.0% range while 10Y yields are likely to continued in the 4.1% - 4.3% range.

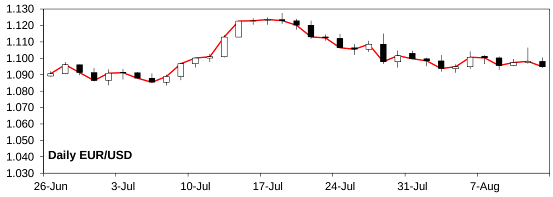
JPY: Substantial Intervention?

- While the buoyancy for the USD/JPY panned out as expected last week amid higher UST yields, the USD/JPY's cautious testing of 145 speaks to rising FX intervention risks.
- To be sure, while actual and substantial intervention may not be conducted yet, the anticipation effects are hard to ignore. What's more the flexibility surrounding 10Y JGB yields warrants caution surrounding the uncertainty.
- Nonetheless, the buoyant USD/JPY case remains intact as buonces off 143 will face bids for opportunistic JPY bears as energy prices and CNH weakness emboldens them.
- USD/JPY breaking 145 leading to outright surges a possibilty but quick fade and reversals are on the cards.



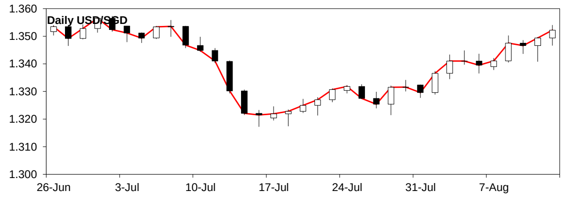
EUR: Tired

- EUR's slipped to mid-1.09 offers another grim reminder of growth woes amid inflation shocks from grain, gas and oil.
- While the Norges Bank may incite bets for another ECB hike, the EUR's attempts to climb abve 1.10 look laboured.
- Amid Chinese growth concerns and a Fed retaining optionality, the **EUR may face prospects of slipping towards sub-1.09.**



SGD: Dodging, Not Surmounting

- Consolidation around the 1.35 handle could retain slight upside bias in the absence of Beijing's boost for CNY or EUR rallies.
- For one, economic disappointments in China are likely to resonate in the SGD to some degree. At the very least, not embolden SGD bulls.
- What's more, the final revisions of Q2 GDP showed downward revisions and dodging a technical recession by the skin of its teeth. And that's a long way from surmounting an economic downturn.
- Likewise, while the SGD could dodge outright weakness amid cross-winds in FX markets, surmounting downside risks is not a given. Not with China soft spots, Europe's recession risks and JPY weakness.
- The USD/SGD pair will most likely be reeled in before 1.34 dips with upside towards high-1.35 not written off (even if not imminent).



AUD: Soft

- The Antipodean will have more wounds to nurse if China's FAI and real estate investments remain in the doldrums while Country Garden fallout expands.
- Fact is, China's local government led infrastructure plans simply cannot offset further caving in the property sector; and that will resonate via the commodity complex for AUD; where 0.63-0.64 does not look like an outlandish downside risk.
- RBA being deemed to be at the end of the cycle while US and Europe push ahead with more hikes already set the stage for undermining AUD.
- And with early glimpses of retail sales weakness might further set back policy expectations, and as an extension, the AUD.
- Two way swings could remain in place. But with JPY carry allure dimmed by intervention risks, spots of buying interest may be thinned further for now.
- Volatility around China data and FOMC Minutes expected. And regardless of the tactical reflex, underlying impetus may be for AUD to be soft.