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MIZUHO

WEEK AHEAD

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31-Jul-2023

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Economic Calendar

•Survey results from Bloomberg, as of 28 July 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
31 Jul	US	MNI Chicago PMI	Jul	43.5	41.5
	US	Dallas Fed Manf. Activity	Jul	-22.5	-23.2
	EZ	CPI Core/Estimate YoY	Jul	5.3%/5.2%	5.5%/5.5%
	EZ	GDP SA YoY/QoQ	2Q A	0.5%/0.2%	1.1%/0.0%
	JP	Retail Sales YoY	Jun	5.4%	5.8%
	JP	Industrial Production YoY	Jun P	0.3%	4.2%
01 Aug	US	JOLTS Job Openings	Jun	9600k	9824k
	US	ISM Manufacturing / Prices Paid	Jul	46.9/43.0	46/41.8
	EZ	PMI - Mfg	Jul F	42.7	42.7
	EZ	Unemployment Rate	Jun	6.5%	6.5%
	JP	Job-To-Applicant Ratio/Jobless Rate	Jun	1.3/2.6%	1.3/2.6%
02 Aug	US	ADP Employment Change	Jul	183k	497k
03 Aug	US	Initial Jobless Claims		227k	221k
	US	Durable Goods/Nondef Ex Air Orders	Jun F	4.7%/--	4.7%/0.2%
	US	ISM Services Index	Jul	53.0	53.9
	EZ	PMI - Services	Jul F	51.1	51.1
04 Aug	US	Nonfarm Payrolls/Unemployment Rate	Jul	200k/3.6%	209k/3.6%
	EZ	Retail Sales YoY	Jun	-1.7%	-2.9%

Asia Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
31 Jul	CH	Manufact./Non-manufact. PMI	Jul	48.9/53.0	49.0/53.2
	TH	BoP Current Account Balance	Jun	$1236m	-$2766m
01 Aug	CH	Caixin China PMI Mfg	Jul	50.2	50.5
	AU	Building Approvals MoM	Jun	-8.0%	20.6%
	AU	RBA Cash Rate Target		4.35%	4.10%
	ID	CPI/Core YoY	Jul	3.1%/2.5%	3.5%/2.6%
	KR	Trade Balance	Jul	$2700m	$1126m
		PMI Mfg (ID/IN/KR/MY/PH/TW/VN)	Jul		
02 Aug	SG	Purchasing Managers/Elect. Sector Index	Jul	--	49.7/49.0
	KR	CPI YoY	Jul	2.4%	2.7%
	TH	BoT Benchmark Interest Rate	Aug	2.25%	2.00%
03 Aug	CH	Caixin China PMI Services	Jul	52.4	53.9
	AU	Trade Balance	Jun	A$10700m	A$11791m
	IN	PMI - Services	Jul	--	58.5
04 Aug	CH	BoP Current Account Balance	2Q P	--	$81.5b
	SG	Retail Sales/Ex Auto YoY	Jun	2.1%/--	1.8%/1.8%
	AU	RBA-Statement on Monetary Policy	Aug	--	--
	PH	CPI YoY	Jul	4.9%	5.4%

Week-in-brief: Nirvana

"I rather be hated for who I am, than loved for who I am not" - **Kurt Cobain**

- **Don't even bother with "Goldilocks"**, *merely treading precariously between bears.*
- Especially not when **markets are now proselytizing** the **idea of "Nirvana"**.
- That is, **sustained dis-inflation without adverse jobs impact**. Which is to say that the *economy humming without missing a beat despite the most brutal post-Volcker hikes* (525bp isince Mar-21).
- To be fair, **recent weeks of data have conspired to fuel this infatuation with "Nirvana"**.
- Hot on the heels of *inflation's deceleration to 3%* (core PCE cooling to 4.1%) the week before, Q2 GDP last week sizzled at an annualized 2.4% amid robust jobs and consumer sentiments.
- Against this backdrop, **markets by and large put a bullish, "peak Fed" spin** on the Fed's 25bp hike that was accompanied by data-dependent approach to a "live" FOMC in September.
- Ostensibly, there is **growing optimism about Fed hawks successfully pulling off a soft landing**; and perhaps even achieving a "no landing" scenario of defiant resilience.
- *Post-Politburo* meetings in China, *stronger signals of coordinated and emphatic stimulus* that have emerged *arguably also lean into a global "Nirvana" narrative.*
- But here's the thing. **Just because both the Fed and ECB** are **nearing**, if not already at, **peak rates, does not mean** that downside/outright **recession**) **risks have peaked**; **much less passed!**
- Point being, **policy lags** by definition suggest that **economic headwinds will persist** for a while; **perhaps even pick-up** dramatically in coming weeks and months.
- Especially as credit tightening feeds through with a lag. Post-COVID distortions, we argue, remain in the system, dulling credit tightening for the time being.
- But this is *a delay in, not a de-coupling between, the torrent of rate hikes and materially tighter credit conditions* that have typically manifested as emphatic economic drag.
- So, we are far more sober about prevailing global economic risks. Even Goldilocks is presumptuous. - Which means **assumptions of "Nirvana" are bordering on irrational exuberance**.
- Speaking of 'Nirvana", the lyrics, "*I feel stupid and contagious*" from (the band) **Nirvana's** 'Smells like Teen Spirit' resonate; both for those missing out on contagious market rallies due to caution, and we suspect for markets that may be forced to clamour for a narrow exit should risk sentiments sour.
- For now, global PMIs, and US jobs could accentuate data volatility; with EZ GDP likely to reveal less robust momentum than the US, underscoring our view of underlying USD allure.
- Down Under, **RBA is expected to hike** (25bp), although **we see some merit to a pause to assess**.
- **BoT too is set to deliver a 25bp hike**; which needs to be *far more delicate in the details.*
- *Nirvana fans will be familiar with the lines "Underneath the bridge | Tarp has sprung a leak'* ...
- And that may be a far more reflective view of the **current state of risks hiding in plain sight**.

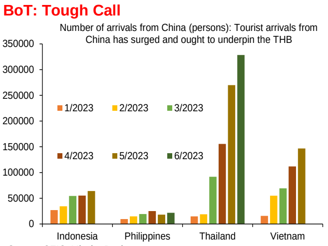
FX Brief (USD): Keeping It Real

- **USD bears** betting on "peak Fed" risk being **wrong-footed** by *over-estimated "divergence"* and *overdone soft-landing assumptions;* with attendant "risk on" that tends to weaken USD.
- Crucially, **faster US dis-inflation** sharpens **real yield spread advantages** for USD.
- Admittedly, this will involve **inverting received wisdom** on the higher inflation-currency strength positive correlation for EUR and Majors (DM) FX. But this re-think is warranted.
- Apart from **kicking the tyres of rate hike assumptions** associated with higher inflation, this entails a **fundamental shift in viewing DM FX mechanics via real** *rather than nominal* **rate differentials**.
- Arguably, this **"real" shift is compelling** in a world where risks of high and volatile inflation now involve DM; not just an "EM problem".
- And *insofar that EUR tends to have an outsized impact on* determining the wider *USD trend,* **"real" USD advantages compromise scope for fettered EM FX gains on "peak Fed"**.

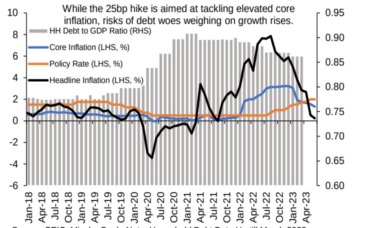
BoJ: What to Make of the "Non Rigid" YCC Ceiling Tweak?

- On Friday, the **BoJ only delivered** ***half*** **a surprise move** to be technical about it.
- Specifically, the BoJ keeping policy unchanged but for **referring to the +/-0.5% band around the YCC 10Y yield target** (of 0%) *as* ***more a guidance than a rigid target***..
- Admittedly, in the current environment of massive UST-JGB spread, the **band around YCC target is effectively an (+0.5%) upper limit** for how high JGB yields will be allowed to stray.
- By extension, **allusion to 0.5% ceiling as a "reference point, not rigid limit" implies that JGB yields will be allowed to stray somewhat higher than that**.
- All else equal, this **should thus translate into a tweak that dials back the dovish stance** (less dovish rather than outright hawkish) and should **provide the JPY a bit of boost**.
- Nonetheless, the JPY has pared gains, on two facets of such a move.
- First, it was positioning. And so **having fallen short of earlier whispers of a YCC move**, which probably had been imagined to be an outright widening of the bands, It was a *more emphatic case of "buying the rumour and selling the fact"*.
- Second, and perhaps more importantly, the **motivation to not harden wider bands but to ostensibly rein in upside for JGB yields**, we think reveals **a preference to allow Fed (and ECB) pivot to catch down with the BoJ**; *rather than hastily engage more unequivocal policy tightening*.
- This is **in line with our argument that the JPY (depreciation pressures)** is a *"****BoJ problem with a Fed solution****"* if unnecessary policy-induced pain is to be avoided.
- In all, this **move is part tease part tweak**. And perhaps the road to *optimally managing the sharp, unenviable trade-offs between JPY and economic/financial stability risks*.
- Which in turn suggests that in coming weeks, *JPY downside risks may only be managed dynamically, not unequivocally eradicated;* at least till later in 2023 when Fed pivot becomes clearer.
- Nonetheless, there is a risk that such deliberately "soft" and vague guidance may be *sub-optimal for policy clarity; and in the worst case, backfire in terms of policy credibility*.
- For one, the **BoJ conducting fixed rate purchases at 1.00% thereafter**, has inadvertently led to **markets assuming** that the **BoJ's guidance was effectively a doubling of bands to +/-1.00%**.
- **Although** we suspect the BOJ's **intent was to reserve flexibility** on the YCC ceiling.
- Consequently, the BoJ might have *unhappy policy guidance outcomes*. After all, Mahatma Gandhi defined happiness to be "*when what you think, what you say and what you do are in harmony*".

BoT: Tough Call



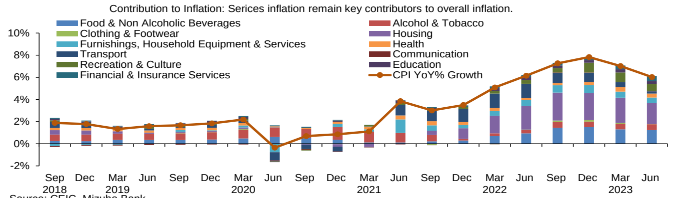
Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank, Note: Household Debt Data Up till March 2023

- **While the BoT has set sights on further normalisation, this step-up of another 25bp is a tough call.** Fact is, at these historically elevated rates, further hike involves sharp trade-offs amid fragilities.
- Admittedly, the **premise of further monetary normalisation amid economic recovery backed by renewed tourism inflows remains intact**. Specifically, tourist arrivals have persistently stay above 67% of pre-Covid levels and brought in substantial receipts.
- The consequent on the services inflation via stronger activity and employment is well noted.
- That said, **political uncertainty has risen significantly** since the previous meeting. Aside from risk of fiscal budget delays, the PM selection challenges and coalition government stability are bugbears for the THB. (See Mizuho Flash: THB: The Political Uncertainty Premium 19, July 2023)
- The ensuing implication of an adverse spillover onto imported inflation will not be lost on the BoT.
- What's more, dented confidence amid corporate debt and governance woes is also an accomplice for THB underperformance and **highlights the perils of the elevated debt burdens**.
- Furthermore, the tourism recovery has not absolved the threat of household debt burden restraining and destabilising growth. The BoT has recently resorted to recent multi-year plan to resolve this.
- However, these plans which includes risk-based pricing guidance and debt servicing ratios to address household debts issues **will only be implemented in 2024 and 2025**; and necessarily set to guide household debt ratios lower rather than jolt the system into instability with rapid reductions.
- Turning back to their inflation mandate, both headline and core measure reside comfortably within their target range with the worrisome comparison being core inflation's relatively elevated levels compared to its own historical trends.

RBA: Skipping & Kicking



Source: CEIC, Mizuho Bank

- As we have said before, policy concerns Down Under are now focussed on how **best to time and optimise late-cycle calibrations** amid policy transmission lags. As such, the RBA will likely skip a rate hike at this meeting and kick the troubling inflation can down the road.
- Specifically, headline inflation heading lower to 6.0% in Q2 from 7.0% in Q1 **backs up the case for RBA doves to prolong their rate hold at the upcoming meeting on 1 August.**
- That said, the transition of goods dis-inflation to higher services inflation remains well intact.
- Furthermore, the continued rise in services inflation is a broad based one.
- Even on the goods front, the RBA's latest minutes flagged upside risk to food prices via El Nino as well as the absence of lower global food prices transmitting to their domestic prices.
- On a higher frequency basis, June's monthly inflation print at 5.4% down marginally from May's 5.5% underscores **our point on sticky prices**.
- Looking ahead, the **fortuitous effects of lower fuel prices on a year ago basis which has been dragging headline inflation lower will likely wash out in late Q4.**
- As such, the road ahead for monetary policy to stay tight or get tighter is a long one.
- At this juncture, we remain of the view that the trajectory of inflation back towards the RBA's target remains a bumpy one given immigration inflows, resilient services activity and strong wage growth.
- The **labour market tightness is still evident** with increased hiring driven by more full time roles.
- Despite the fact that employment ought to boost household purchasing power, the **RBA will desire more time for these effects to be transmitted and assessed with significant amount of fixed rate loans being repriced in the months ahead.**
- Given that this hold is unlikely to be the peak for the RBA's cash rate, **Governor Lowe may be required to display a hawkish flex** at his penultimate press conference.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	141.16	-0.570	-0.40%	139.00	~	144.00
EUR/USD	1.1016	-0.0108	-0.97%	1.105	~	1.135
USD/SGD	1.3316	0.001	0.07%	1.3100	~	1.3400
USD/THB	34.083	-0.367	-1.07%	33.80	~	35.20
USD/MYR	4.555	-0.008	-0.17%	4.520	~	4.620
USD/IDR	15095	70	0.47%	14,900	~	15,150
JPY/SGD	0.9431	0.005	0.50%	0.910	~	0.964
AUD/USD	0.665	-0.008	-1.17%	0.658	~	0.690
USD/INR	82.26	0.298	0.36%	81.8	~	82.6
USD/PHP	54.9	0.147	0.27%	54.0	~	55.2

^Weekly change.

Bond Yield (%)

28-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.874	3.7	3.951	11.6	Steepening
GER	3.037	-3.8	2.489	2.8	Steepening
JPY	-0.036	2.5	0.543	11.2	Steepening
SGD	3.433	4.0	2.997	6.3	Steepening
AUD	3.937	-6.7	4.066	0.1	Steepening
GBP	4.918	4.3	4.316	5.4	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,582.23	1.01
Nikkei (JP)	32,759.23	1.41
EuroStoxx (EU)	4,466.50	1.71
FTSE STI (SG)	3,371.17	2.83
JKSE (ID)	6,900.23	0.28
PSEI (PH)	6,625.26	-0.34
KLCI (MY)	1,450.35	2.61
SET (TH)	1,543.27	0.92
SENSEX (IN)	66,160.20	-0.79
ASX (AU)	7,403.65	1.23

FX Outlook: Policy Undulations

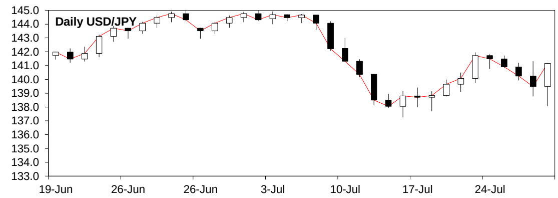
- A plethora of **policy undulations** last week, with the *ECB dialing back on hawkish flex* amid evidence of credit tightening has in relative terms diminished EUR allure vis-a-vis the USD while the BoJ's purposefully vague yield ceiling lift has nevertheless stifled JPY rebound potential.
- And so, as the dust settled, **USD position has proven to be oversold too much too soon** (pre-FOMC); with the broader strokes of why USD decline from "peak Fed" may be a bumpier process lining up with what has been flagged in our recent publication (Mizuho Brief - "USD: Keeping it Real, 25th July 2023"), *the* .
- ECB: One **point of clarity** (from earlier obfuscations) has been that while the **ECB** might have appeared to out-talk the Fed in hawkish terms, it is **in no position to out-walk the hawkish turf**.
- **ECB's "open mind"** about the next September policy meeting has hints of **being a shade less hawkish than the Fed's "live"** policy meeting at the **September FOMC**.
- BoJ: Whereas the "not a rigid" target reference for the BoJ's effective 0.5% YCC target allowed to be lifted to 1.0%, has run into inherent **JPY upside limitations that come with non-committal BoJ shift**.
- BoE: Admittedly, the BoE this week effect a far more hawkish 25bp hike, in contrast to the ECB's markedly less hawkish lift to rates. But even then, we expect any GBP surge to be reined in later.
- Primarily, as the **combination of sizzling growth and fizzling inflation for the US may not be matched elsewhere in the DM**;
- which in turn will **imply eroding real rate advantages for EUR, GBP and JPY** alike.
- And so, we expect that the USD's consolidation higher from pre-FOMC levels will be likely to retain traction this week. RBA's 25bp hike will probably not upstage that meaningfully as softer retail and lingering China demand concerns keep RBA-driven AUD upside potential in check.
- Elsewhere in EM Asia, while the BoT's 25bp hike may provide incremental traction for THB, limited gains in the CNH beyond last week could stall fresh attempts at AXJ rallies this week.
- In all, policy undulations should result in an underpinned Greenback; challenging the more extreme (one-way down) iterations of 'peak USD' bets.

US Treasuries: What's Real?

- Despite having gone through a major week, realism shone through.
- Front end yields were still up 3.7bp last week as the Fed stays resolute on tackling inflation pressures. On the longer end (10Y), surging oil prices have also lent a hand to send yields higher.
- This week, Fed talk will signal for realism on the inflation trajectory to dial back pivot bets though it looks inevitable for them to inject a dose of optimism surrounding growth.
- As such, **further (bumpy) steepening of the UST yield curve may be the base case**.
- While initial early week "risk-on" sentiments may invite longer end sell-off, one ought to watch for ISM services and non-payfarm payrolls which may create a **dissonance between activity and labour markets.**
- This week, 2Y and 10 yield are projected to stay buoyed above 4.75% and 3.85% respectively.

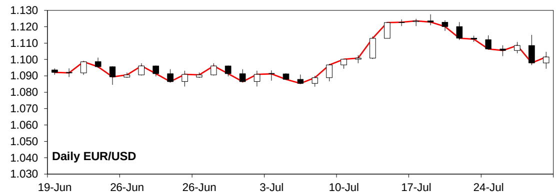
JPY: Rigidities

- Admittedly, the BoJ may be deemed to have pushed through an effective dovish dial-back (if not a mild hawkish shift);
- insofar that 10Y JGB yields were allowed to rise to 1% even as the BoJ left the +/-0.5% YCC bands intact. In turn, this is expected to provide JPY with a boost (as was the case for USD/JPY test below 139 pre-BoJ).
- But falling short of pre-BoJ Nikkei reports of an outright shift in YCC and suggestions of preference to maintain accommodation limit scope for JPY surge.
- Fact is, even as 0.5% ceiling for YCC was characterized as "not a rigid target", JPY bulls struggle with soft references.
- And the BoJ preferring to retain dovish options will for now hinder sustained JPY gains.
- Range of 139 to 141 may be the preference amid wider 140 consolidation.



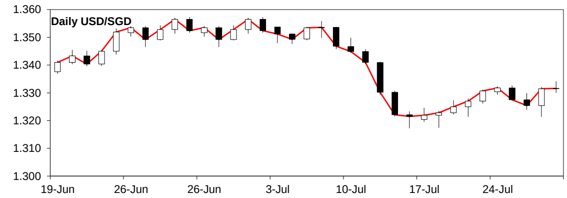
EUR: "Open Minds" & Closed Longs

- The ECB's "open mind", rather than (hike) conviction, with regards to the next meeting in September dealt a dovish surprise for EUR.
- And so the "open mind" was a trigger to close extended longs in the EUR;
- as EUR has declined from earlier 1.12 levels to consolidate around 1.10 for now.
- The resistance to sustained traction is not just in terms of policy talk;
- but more importantly in supporting economic evidence determining policy calculus.
- Much stringer US economic momentum and greater evidence of "forceful" credit tightening in EZ suggest that ECB cannot outdo Fed hikes.
- And so, until evidence to the contrary emerges, 1.09 to sub-1.11 consolidation looks likely.



SGD: Exhausted Piggy-Back

- Last week's surge in CNH, on China stimulus hopes has earlier dragged the USD/SGD to low-1.32.
- But this was abruptly torpedoed as post-ECB slump in EUR triggered a squeeze back to 1.33 initially;
- with post-BoJ JPY pullback (as BoJ) fell short of outright lift to YCC ceiling, underpinned 1.33+ consolidation.
- We expect that CNH stimulus hopes surge followed by (pre-BoJ) JPY boost are mostly depleted;
-leaving little in the tank to piggy-back exhausted SGD bulls at this juncture.
- With firm US jobs data expected to underpin USD on dips, wider USD/SGD consolidation in the 1.32 to high-1.33 range looks likely.



AUD: Limited RBA Lift

- Admittedly, with the RBA set to maintain some hawkish bias, with the likelihood of a hike, the argument may be in favour of AUD upside.
- That may be so; especially considering the late-week AUD sell-off down below 67 cents.
- But we think AUD lift will be limited. Certainly on account of the RBA.
- For one, with details of China stimulus conspicuously absent, commodity-motivated rallies in AUD may be restrained.
- What's more, the RBA may also be less comfortable with sustained and emphatic hikes as signs of retail weakness come through.
- And so, we think USD deference may cap AUD pick-up ahead of 678 cents; even if RBA provides some boost.