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MIZUHO

# WEEK AHEAD

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03-Jul-2023

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## Economic Calendar

•Survey results from Bloomberg, as of 30 June 2023; The lists are not exhaustive and only meant to highlight key data/events

**G3**

| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 03 Jul | **US** | **ISM Manufacturing** | **Jun** | **47.2** | **46.9** |
| | EZ | Mfg PMI | Jun F | 43.6 | 43.6 |
| | JP | Tankan Large Mfg Index/Outlook | 2Q | 5.0/9.0 | 1.0/3.0 |
| | **JP** | **Tankan Large All Industry Capex** | **2Q** | **13.4%** | **3.2%** |
| | | | | | |
| 05 Jul | US | Durable Goods Orders/Nondef Ex Air | May F | 1.7%/-- | 1.7%/0.7% |
| | EZ | Services PMI | Jun F | 52.4 | 52.4 |
| | EZ | PPI YoY | May | -1.4% | 1.0% |
| | JP | Services PMI | Jun F | -- | 54.2 |
| | **US** | **FOMC Meeting Minutes** | | | |
| | | | | | |
| 06 Jul | US | ADP Employment Change | Jun | 240k | 278k |
| | US | JOLTS Job Openings | May | 9968k | 10103k |
| | US | Initial Jobless Claims | | 245k | 239k |
| | **US** | **ISM Services Index** | **Jun** | **51.3** | **50.3** |
| | **EZ** | **Retail Sales YoY** | **May** | **-2.7%** | **-2.6%** |
| | | | | | |
| 07 Jul | **US** | **Change in Nonfarm Payrolls** | **Jun** | **225k** | **339k** |
| | US | Unemployment Rate | Jun | 3.6% | 3.7% |
| | JP | Coincident/Leading Index CI | May P | 97.1/97.6 | 97.3/96.8 |
| | JP | Labor/Real Cash Earnings YoY | May | 1.2%/-2.7% | 0.8%/-3.2% |

**Asia**

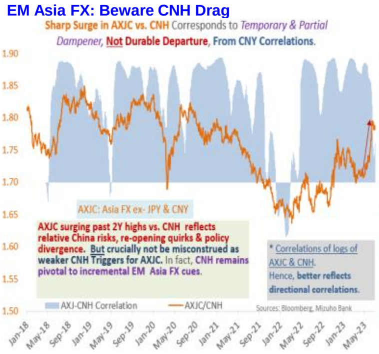
Yellow highlight indicates actual data

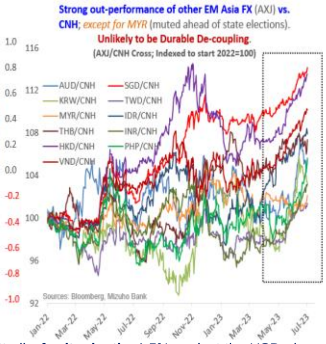
| Date | Country | Event | Period | Survey* | Prior |
|---|---|---|---|---|---|
| 03 Jul | **CH** | **Caixin China PMI Mfg** | **Jun** | **50.0** | **50.9** |
| | SG | Purchasing Managers/Elect. Sector Index | Jun | -- | 49.5/49.1 |
| | AU | Building Approvals MoM | May | 3.0% | -8.1% |
| | **ID** | **CPI/Core YoY** | **Jun** | **3.7%/2.7%** | **4.0%/2.7%** |
| | TH | Business Sentiment Index | Jun | -- | 49.7 |
| | | | | | |
| 04 Jul | **AU** | **RBA Cash Rate Target** | | **4.10%** | **4.10%** |
| | **KR** | **CPI/Core YoY** | **Jun** | **2.8%/-** | **3.3%/4.3%** |
| | | | | | |
| 05 Jul | CH | Caixin China PMI Services | Jun | 56.2 | 57.1 |
| | **SG** | **Retail Sales/ Ex Auto YoY** | **May** | **--** | **3.6%/4.2%** |
| | **TH** | **CPI/Core YoY** | **Jun** | **0.2%/1.4%** | **0.5%/1.6%** |
| | **PH** | **CPI YoY** | **Jun** | **5.50%** | **6.1%** |
| | | | | | |
| 06 Jul | AU | Trade Balance | May | A$10700m | A$11158m |
| | **MY** | **BNM Overnight Policy Rate** | | **3.00%** | **3.00%** |
| | **TW** | **CPI/ Core YoY** | **Jun** | **1.8%/-** | **2.0%/2.6%** |
| | | | | | |
| 07 Jul | **KR** | **BoP Current Account Balance** | **May** | **--** | **-$792.6m** |
| | **PH** | **Unemployment Rate** | **May** | **--** | **4.5%** |
| | **TW** | **Trade Balance** | **Jun** | **$4.99b** | **$4.89b** |

## Week-in-brief: Of Minutes, Misses & Mayhem

- **FOMC Minutes** are **unlikely to excite**. Reason being, after digesting June's 'Dot Plot' 50bp step-up and Powell's testimony to the Congress, the **bar for policy revelation appears to be higher**.
- Perhaps an exaggeration, but one could arguably *give the Minutes a miss and not miss much.*
- To be more specific though, **nothing in the Minutes will distract from the propensity** of the Fed **to hike**; and the corresoponding pick-up in hard-landing risks as the Fed raises the rates hurdle.
- In short, you *can't miss the Fed's tightening bias.* And markets may be fretting that the Fed may miss early warnings of economic sputter, thaht may lead to a messier splatter of red.
- But for now, the **misses that worry markets have more to do with China data**, led by Caixin PMIs, *after NBS PMIs miss;* with unrelenting manufacturing contraction and deceleration in services.
- And the **fear is that there may be more downside left in China's data**. In turn, this **could keep markets swinging** (sometimes wildly) *between worries about ailing economic momentum and hopes of policy stimulus* as Beijing tries to get the economy on track for growth "around 5%".
- On that note, the *nomination of PBoC deputy Governor, Pan Gongsheng as party chief of the* PBoC points to a transition for **Pan to take over from Governor Yi Gang**.
- The **"half full" version** is that **policy** (**easing**) **continuit**y may provide degree of relief, perhaps even confidence, to markets. But the more sobering reality is **that policy continuity misses the point about binding constraints that render "policy solutions" are all but elusive**.
- For now though, the *bar is lower, although the urgency is higher,* with the **PBoC set on just averingt mayhem from CNH sell-off**. From last week, the **PBoC's hand in the markets to stabilize CNH, if not dissuade depreciation pressures, has been evident**. That could of course dampen CNH pressures for the time being; but it is however to **stop short of forcefully curbing CNH bears**.
- Fact is, the breadth and depth if China-related headwinds and uncertainties are excpetional.
- From *bumpy policy transitions, to mounting geo-political tensions* to *structural trends of economic decline,* **cheer about stimulus misses the binding challenges of geo-economic headwinds**; more worryingly, **growing risks of mayhem from financial instability and/or geo-politcal flare-ups**.
- Post-Minutes, markets will asssess US jobs data; given the cooling in headline PCE is not adequate to dent hawkish Fed views. And the risk may be that jobs underpins rather than dilutes Fed hike bets.
- Down Under, there is **no missing the RBA's hawkish inclination** *wregardless of whether it pauses this time*. And the **BNM**, *despite a high bar to hike,* **might consider insuring against MYR mayhem**.
- All said, FOMC *Minutes may miss approaching risks* and the *threats of mayhem on miscalculations*.

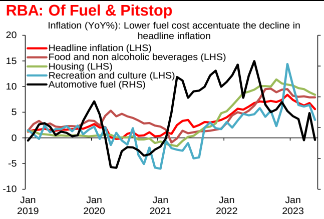
## EM Asia FX: Beware CNH Drag



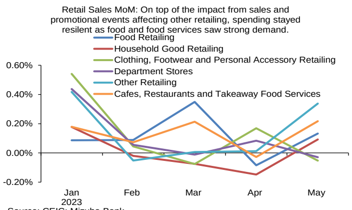




- Recent **CNH under-performance** is **remarkable**. Admittedly, **for its depth**; *4-5%* against the USD *since mid-May.* But arguably, **more for its dampened effect on EM Asia FX** as a whole; which is *fairly visible in the sharp upswing in AXJ/CNH* (consistent with AXJ out-performing CNH).
- That's to say, the **sway of CNH sell-off on other Asia FX** (as well as AUD) have been **far more muted** than historically high (positive) correlations would have otherwise suggested.
- Specifically, the (*positive*) *correlation between CNH moves and Asia FX* (including AUD) has been **significant** and **consistent**; to the order of *some 68%* since 2018, and with a tendency for reversion from dips. What's more, *with over 70% sensitivity (of AXJ to CNH)*, CNH impact is **material**.
- Admittedly, there are one-off and cyclical China-specific triggers and pressures at work undermining the CNH currently, accounting for relative AXJ out-performance vis-à-vis the CNH.
- Nonetheless, **inextricable and enlarged supply-chain and investment linkages** between China and the rest of Asia, which dwarfs almost all other bi-lateral commercial linkages, **underpin** the **intertwined fates of the CNH and other EM Asia currencies**.
- Broader point being, the **buffer that EM Asia FX have against drag from CNY** pressures is likely *temporary and partial dampener,* **not a durable departure from entrenched positive correlation**.
- Point being, any **weakening in correlations** between CNH and other AXJ currencies have been **brief**, and *crucially,* the **reasserted CNH impact** on other AXJ **has been significant**.
- What's more, this suggests is that it is **reckless to assume the same degree of buffer on further bouts of CNH pressures**. *In fact,* it is *too presumptuous to* even *have confidence that current AXJ out-performance against CNH will be retained* should risks sentiments sour.
- Upshot being, if **CNH soft spots show further signs of stress**, accentuated by greater pressures for capital outflows, it will lay bare **dangers of more generalized and sympathetic AXJ sell-off**.

## RBA: Of Fuel & Pitstop



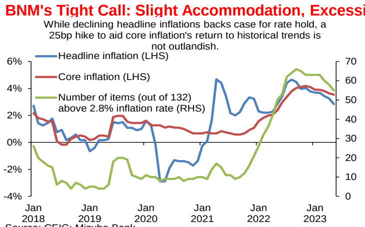

Source: CEIC; Mizuho Bank



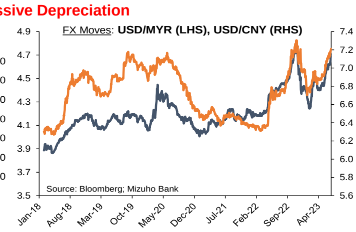

Source: CEIC; Mizuho Bank

- The question for the RBA will surround the **policy implications** of a **sharper than expected decline in May's headline inflation to 5.6% from 6.8% in April.**
**- It would be hard not to notice that the key driver behind the decline was an 8% YoY decline on fuel costs.** As such**, inflation measures excluding volatile items** (fruit and vegetables, fuel) and holiday travel stood rather firm at 6.4% YoY (down marginally from 6.5% in April).
- Apart from these historical data, the **RBA's concern will be inevitably be a forward looking one** to determine if the lower transportation cost will pass on to dent upside in price pressures.
- The likely answer is that **the passthrough impact on businesses will be insufficient** considering continued labour cost concerns and impending electricity tariff increases.
- In fact, **aside from statistical base effects**, **further fuel price declines are in doubt.**
- Furthermore, the **Australian household's purchasing power looks resilient with retail sales staying buoyed** on food and food services such as cafes, restaurant and takeaway food services on top of discretionary occasional promotional retail events.
- Thus far, RBA's hawkish tones and successive out of consensus hikes have shifted the markets perceptions of their rate hike path. Specifically, markets are pricing in another 40bps of hikes in H2 2023 compared to expecting (as at early May) prolonged rate hold followed by rate cuts at the end of 2023. This inflation print alone will not and should not revert expectations for policy easing.
- As for the **policy calculus,** the RBA Minutes' **documented fears of price and wage setting behaviours** based on recent inflationary trends have certainly not faded in this short span. If anything, these fears continue to be backed **by tight labour market conditions displaying strong employment gains**.
- That said, the Minutes's allusion to reconsider pausing at subsequent meetings is now on the cards.
**- On balance, we think that the RBA may not have ran out of hawkish fuel at their 4 July meeting despite the looming sight of a pit stop ahead.**

## BNM's Tight Call: Slight Accommodation, Excessive Depreciation




Source: CEIC; Mizuho Bank




- While we had expected the BNM to hold rates at their next meeting on 6 July, this **call to stand pat on policy is now admittedly very tight** amid recent (end-June) **signals of FX intervention by the BNM's Financial Markets Committee to stem excessive volatility**.
Admittedly, insofar that the **previous** hike in May was **intended** to **"withdraw" monetary stimulus related to the Covid-19 pandemic**, there might have been scope to tighten.
- But the **bar for a further hike** to remove the **current "slightly" accommodative** stance has been since **raised higher** given ongoing global manufacturing headwinds.
- The manufacturing troubles were laid bare as **industrial production declined** on both a year ago basis and sequentially and PMIs continued sinking in contractionary territory.
- **Furthermore**,**headline inflation's continued decline** dampens the case for further hikes. Nonetheless, elevated **core inflation at 3.5% (in May) remains a key challenge for the BNM**.
- Specifically, under the hood examination reveals that 55 out of 132 item categories in the CPI basket remains above the headline inflation of 2.8% and points to still evident price pressures.
- The recent complication stems from **MYR underperformance** alongside the CNH/CNY complex which has been deem **excessive** by the BNM. The ringgit's weakening throws up **unwelcome imported inflation challenges.**
- While It is certainly **not outlandish to suggest that a 25bp hike** to improve rate differentials may help **MYR stability**, it should not be mistakenly extrapolated as a trigger for MYR outperformance.
- All in, while our base case is for the overnight policy rate to be unchanged at 3.00%, **it is worth flagging that the odds for a further 25 hike is at a non-negligible 35%.**

**Forex Rate**

| | Close* | Chg^ | % Chg^ | Week Forecast | | |
|---|---|---|---|---|---|---|
| USD/JPY | 144.31 | 0.610 | 0.42% | 142.80 | ~ | 145.30 |
| EUR/USD | 1.0909 | 0.0015 | 0.14% | 1.078 | ~ | 1.105 |
| USD/SGD | 1.3524 | 0.000 | 0.04% | 1.3420 | ~ | 1.3600 |
| USD/THB | 35.455 | 0.235 | 0.67% | 34.50 | ~ | 35.40 |
| USD/MYR | 4.6665 | -0.012 | -0.25% | 4.628 | ~ | 4.700 |
| USD/IDR | 14993 | -1 | -0.01% | 14,800 | ~ | 15,100 |
| JPY/SGD | 0.937 | -0.004 | -0.44% | 0.924 | ~ | 0.952 |
| AUD/USD | 0.6664 | -0.002 | -0.24% | 0.662 | ~ | 0.690 |
| USD/INR | 82.04 | 0.006 | 0.01% | 81.0 | ~ | 82.8 |
| USD/PHP | 55.206 | -0.564 | -1.01% | 55.0 | ~ | 56.0 |

^Weekly change.

**FX Outlook: The Undecided Dollar**

- In past editions, we have stressed that the **USD continues to traffick in the Fed and fear**.
- That position of ours is unchanged. What is fluid however, is how markets are reading Fed (intentions) further out as well as the exact fears that markets are focussing on at any one point.
- For now, on both counts, there are reasons to equivocate.
- On the first (Fed cues), the point is that the **USD** (more precisely the bets and positions on the USD) **appears to be painfully undecided between;**

i) **a currently hawkish Fed** that ought to fuel upside, and;

ii) arguably setting itself up for a sharper dovish pivot the more aggressively hawkish it is at this point, which is consistent with short USD bets down the road.

- The **Minutes** from June meeting, where the 'Dot Plot' upped the ante with 50po more (likely over 2 instalments of 25bp hikes**) has some USD backstop left in the bag**, if one iss inclined to dig deep.
- But at the margin, **short USD bets are beginning to emerge** as *markets might construe aggressive hikes are elevating risks of a hard-landing and consequent policy correction.* This lines up as versions of 'peak USD' bets along a spectrum. And so, on the Fed, two-way volatility remains in place.
- On the **second factor of trading "fear"**, there is **a far wider berth**.
- On one hand, China risks, geo-political uncertainty and arguably, even global recesssion risks (partly manufactured from ratre hikes), could infuse some preference for the Greenback.
- But equally, any soothsaying by way of policy talk or even whispers that gets the"risk on" bets excited amid underlying AI-driven boost, could drag the USD a little more.
- The upshot is that the USD is undecided; and may well remain that way for some time.

**Bond Yield (%)**

| 30-Jun | 2-yr | Chg (bp)^ | 10-yr | Chg (bp)^ | Curve |
|---|---|---|---|---|---|
| USD | 4.895 | 15.4 | 3.837 | 10.2 | Flattening |
| GER | 3.179 | 8.7 | 2.388 | 3.7 | Flattening |
| JPY | -0.078 | 0.6 | 0.386 | 3.3 | Steepening |
| SGD | 3.549 | 16.4 | 3.043 | 6.4 | Flattening |
| AUD | 4.210 | 2.2 | 4.021 | 0.1 | Flattening |
| GBP | 5.233 | 9.3 | 4.378 | 6.7 | Flattening |

**Stock Market**

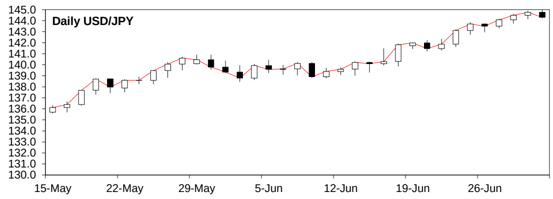
| | Close | % Chg |
|---|---|---|
| S&P 500 (US) | 4,450.38 | 2.35 |
| Nikkei (JP) | 33,189.04 | 1.24 |
| EuroStoxx (EU) | 4,399.09 | 2.98 |
| FTSE STI (SG) | 3,205.91 | 0.45 |
| JKSE (ID) | 6,661.88 | 0.33 |
| PSEI (PH) | 6,468.07 | 1.17 |
| KLCI (MY) | 1,376.68 | -1.02 |
| SET (TH) | 1,503.10 | -0.16 |
| SENSEX (IN) | 64,718.56 | 2.76 |
| ASX (AU) | 7,203.30 | 1.47 |

**US Treasuries: High Bars**

- Considering the tighter labour market reflected by lower initial jobless claims, the **surge in UST yields** was not outlandish given how GDP deflator print remaining elevated alongside upwardwarding revised GDP provided more policy space for elevated rates.
- With 2Y yields up 15.4bp, the **bar is now high** for a further surge barring an outsized improvement in NFP print at the end of this week. The implication being that **opportunistic case of buying back** USTs has grown stronger.
- As such, while buoyed above 4.75%, 2Y UST yields may see cautious testing of the 5.0% mark rather than outright surges.
- For this week, FOMC minute would serve as a backstop for UST yields rather than bring further damage to UST bulls.
- In a mood of relief, **recession fears may rear its head** to temper 10Y yields attempt to breech 4%.

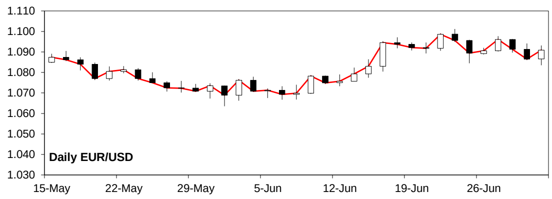
**USD/JPY: Glimmer, Not Fireworks**

- The Tankan survey displaying improvement in sentiments sparked a glimmer of hope for economic stability and recovery. Nonetheless, **JPY bulls are far from a fireworks display** with the BoJ showing little signs of pivoting.
- Inevitably, buoyancy will likely be retained above 143 given that policy divergence and sticky oil price remain structural underpinnings.
- All in, the pair is projected to trade in the mid-143-145 range.



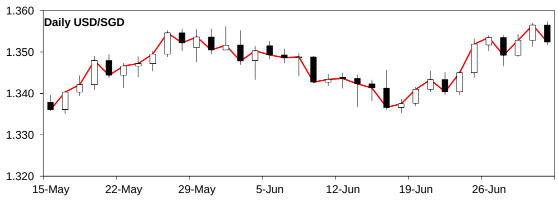

**EUR: Core Troubles**

- Core inflation remaining sticky offsets relief from a declining headline inflation.
- While the ECB appears unrelenting for another 25bp hike this month, EUR rallies have relented more often than not.
- At the core of the issue, divergence in EZ economic fundamentals sets off growth worries with various indicators far from convincing..
- We expect the EUR ought to trade sideways in the 1.08-1.103 range amid possible cautious testing of 1.10.




**SGD: Recession Risks**

- Talks of technical recesssion, possibly something stickier, working its way thorough S$NEER valuations and expectations is something that markets appear to be receptive to.
- To be sure, the S$NEER remains rich, and dovish MAS response is not the base case.
- Nonetheless, recession risks being digested prompt SGD slippage (USD/SGD traction).
- This is further accentuated by soft spots in the CNH; although last week's support for CNH from PBoC guidance, helps to stall downside and diminish pressures on SGD.
- for now, wee expect sub-1.35 slip to be shallow through mid-1.34 amid hawkish Fed/FOMC Minutes while CNH backstop falls short of a recovery boost.
- Moreover, weaker global manufacturing readings are likely to exert bouts of pressure on the SGD prospects of exports drag and capital outflow risks.




**AUD: RBA's Fleeting Flex?**

- As alluded to last week, hawkish Fed and ECB appear to have taken some edge off AUD ascendancy; more so as earlier buffer from CNH soft spots risks being stress-tested.
- With FOMC Minutes likely to display the inner working of hawkish intent and sticky European inflation set to underpin ECB's hawkish notes at Sintra, AUD may be coy about over-extending upside purely on hawkish reiterations (that are fairly well-telegraphed).
- Nonetheless, if the RBA surprises with another follow-up hike, instead of a hawkish pause that is being expected by the consensus, then there could be some upside reflex testing 0.67-0.68. Response to the RBA's hawkish flexm (action rather than talk) though may be fleeting.
- Unless a bout of CNH rallies removes some of the CNH impediments to fire up some of the commodity-driven fillip. One way or another 0.66 to sub-0.69 looks like a range, stretched at the upside.