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WEEK AHEAD

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24-Jul-2023

Economic Calendar

•Survey results from Bloomberg, as of 21 July 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
24 Jul	**US**	**Chicago Fed Nat Activity Index**	**Jun**	**-0.2**	**-0.2**
	EZ	Services/Mfg PMI	Jul P	51.6/43.5	52.0/43.4
	JP	PMI Services/Mfg	Jul P	--	54.0/49.8
25 Jul	US	Conf. Board Consumer Confidence	Jul	112.0	109.7
	US	**Richmond Fed Manufact. Index**	**Jul**	**-10.0**	**-7.0**
	GE	**IFO Business Climate/Expectations**	**Jul**	**88.0/83.5**	**88.5/83.6**
26 Jul	US	New Home Sales	Jun	725k	763k
	JP	Coincident Index/Leading Index CI	May F	--/--	113.8/109.5
	US	**FOMC Decision (Upper/Lower Bound)**	**Jul**	**5.50%/5.25%**	**5.25%/5.00%**
27 Jul	**US**	**Initial Jobless Claims**	**Jul**	**235k**	**228k**
	US	**GDP Annualized QoQ**	**2Q A**	**1.8%**	**2.0%**
	US	**Durable Goods Orders/Nondef Ex Air**	**Jun P**	**0.4%/-0.2%**	**1.8%/0.7%**
	US	Kansas City Fed Manf. Activity	Jul	--	-12.00
	EZ	**ECB Main Refinancing Rate**	**Jul**	**4.25%**	**4.00%**
28 Jul	**US**	**U. of Mich. Sentiment**	**Jul F**	**72.6**	**72.6**
	US	PCE Core/Deflator YoY	Jun	4.2%/3.0%	4.6%/3.8%
	US	**Personal Income/Spending**	**Jun**	**0.5%/0.4%**	**0.4%/0.1%**
	JP	**BOJ Policy Balance Rate**	**Jul**	**-0.10%**	**-0.10%**

Asia Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
24-28 Jul	**TH**	**Customs Trade Balance**	**Jun**	**-$800m**	**-$1849m**
24 Jul	**SG**	**CPI/Core YoY**	**Jun**	**4.4%/4.2%**	**5.1%/4.7%**
	MY	**CPI YoY**	**Jun**	**2.5%**	**2.8%**
	TW	Unemployment Rate	Jun	3.6%	3.5%
	TW	Industrial Production YoY	Jun	-16.6%	-15.7%
25 Jul	**ID**	**Bank Indonesia 7D Reverse Repo**	**Jul**	**5.75%**	**5.75%**
	KR	**GDP YoY/SA QoQ**	**2Q A**	**0.8%/0.5%**	**0.9%/0.3%**
26 Jul	SG	Industrial Production YoY	Jun	-5.9%	-10.8%
	AU	**CPI/Trimmed Mean YoY**	**2Q**	**6.2%/6.2%**	**7.0%/6.6%**
27-28 Jul	SG	Unemployment rate SA	Jun	--	1.8%
27 Jul	CH	Industrial Profits YoY	Jun	--	-12.6%
28 Jul	**AU**	**Retail Sales MoM**	**Jun**	**0.0%**	**0.7%**
	KR	Industrial Production YoY	Jun	-6.4%	-7.3%
	TW	**GDP YoY**	**2Q A**	**0.85%**	**-2.87%**
29-Jul	**VN**	**Trade Balance**	**Jul**	**$2481m**	**$2590m**
	VN	**Retail Sales YoY**	**Jul**	**--**	**6.5%**
	VN	Industrial Production YoY	Jul	--	2.8%
	VN	**CPI YoY**	**Jul**	**1.9%**	**2.0%**

Week-in-brief: A Hawk & Bull Story

- The **ability to digest a "hawk and bull" story will be put to test this week**; as a formidable *line-up of Fed-led global central bankers unwilling to unreservedly relinquish hawkish bias* are set to *confronting ebullient market bulls* enamoured with a spin on resilience amid "peak Fed", AI mania and earnings boost.
- On the one hand, there will almost certainly be **disappointment that the Fed will deem** faster than expected **dis-inflation** in the headlines to be **insufficient in the finer details**. At the very least, *suggesting it is premature to truncate tightening bias;* much less turn course. In fact, *messaging that there is hawkish ground yet* to cover, albeit cautiously, is likely **to intensify tensions between the "hawk and bull" story**.
- Especially **given that with a 25bp hike for July FOMC deemed a forgone conclusion**, **markets will be focussing on the "talk" rather than the "walk"**.
- **Similarly for the ECB**, which less than 24 hours after the Fed; delivering in **a well-telegraphed 25bp hike will be in the context of not just a willingness, but an inclination to tighten more**.
- This **confluence of hawkish signals** are **likely to at least provide a backstop to front-end (2Y) global yields**. This could further reverse the earlier, post- USCPI rally (corresponding fall in yields) in global bonds (spurred by peak Fed rate bets) that had already started to fizzle and partly reverse late last week.
- If the **inherent tensions in the "hawk and bull" story** begin to show cracks, *market exuberance may be the one that's more liable to blink;* especially **as recent rallies appear ripe for the picking** (profit-taking).
- *More so, as* **hopes for Beijing to announce "big bang" stimulus** over the weekend appear to have been **dashed in whimpers** *about urban redevelopment* and *other underwhelming fiscal levers* that fall far **short of reviving animal spirits and confidence**.
- **EM Asia and commodity exporters may feel some of the chills from China**, thereby turning even more tentative about exploiting imagined policy-induced soft spots in UST yields and the Greenback.
- Down Under, **Aussie Q2 CPI may be sticky,** but *not enough for AUD bulls to leverage on RBA hawks*.
- Elsewhere in Asia, **Bank Indonesia is expected to stay on hold** amid receding inflation; **but might temper language to insure IDR stability**. And **Korea's and Taiwan's Q2 GDP** are likely to be **consistent with activity searching for a bottom**, not strong inflection; *with China headlines for gloomy mood music*.
- *Ironically,* it is **flashes of red** that **instigate bulls**. **Whereas hawks are trained on the inadequacies of dis-inflation**. The combination of *which leaves vulnerabilities at large to be papered over by exuberance*.
- To paraphrase Thomas Hardy "*an affliction worse than blindness is seeing what's not there*". **For the bulls**, it is an **unfettered soft landing, turned to economic revival**. **For the hawks**, it is **unrestrained inflation**. Neither is set to be unconditionally true. But both elevate pre-existing risks to stability.

FOMC: Stayin' Alive

"Well, you can tell by the way I use my walk | I'm a woman's man, no time to talk" - ***Bee Gees, Stayin' Alive***

- What does '**Staying' Alive**' the 1970s hit by Bee Gees, immortalized by images of John Travolta's slick disco moves heating up the dance floor, have to do with the Fed?
- For a start, the **opening lines are likely to be the inverse of the Fed's game-plan**.
- Specifically, **the Fed is set to** "***use*** (its) ***walk***" for **a well-telegraphed 25bp hike**. Commitment to calibrated moves ("less speed") means a 50bp hike is neither desirable nor required.
- Yet on the other hand, despite softer inflation, extending a pause in July (after June hold) will risk losing hawkish traction given how much future easing has baked in.
- Crucially, the Fed will **need to reiterate tightening bias it conveyed** most effectively via **June 'Dot Plot' guidance for another 50bp of hikes** (two 25bp moves), so as t**o lean against overdone market bets for a premature suspension of tightening bias**.
- Recent comments from Fed speakers broadly confirm this commitment to the 'Dot Plot'.
- And so, **contrary to** "**no time to talk**", the **Fed will have to talk a convincing hawkish game**.
- At the very least ***to convince markets that September FOMC will be a "live" meeting;*** so as to anchor inflation expectations that remain a tad too elevated and sticky.
- **Rate hike prospects** (and **Fed hawks**) need to be "***stayin' alive, stayin' alive***"!
- Otherwise, markets may (prematurely) conclude that the Fed is done (in July), resulting in a premature loosening of financial conditions; with potentially sharp falls in UST yields and USD.
- And the **Fed has been very clear about the undesirability of premature policy inflections** *squandering policy tightening with high and volatile inflation* reminiscent *of the 1970s.*
- The upshot is that the **Fed's assertions of "higher for longer"** (rates) are **due for assurances … that the rate hikes and tightening bias are** "*staying alive*".

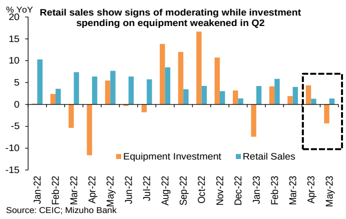
JPY: A BoJ Problem With a Fed Solution

- We have asserted before that the "*JPY is a BoJ problem with a Fed solution*".
- By that, we mean that **bouts of acute JPY depreciation are presented as a consequence of the BoJ's** easing **stance** being sharply at odds with aggressive global policy tightening.
- **Consequently**, that presents as **pressures on the BoJ to shift stance** , and in particular untether YCC to meaningfully to narrow rate differentials, **so as to alleviate JPY pressures**.
- **But** trouble is, l**ate-cycle hawkish jolts can cause more harm than good** via accentuated FX volatility, fiscal strains and financing stress.
- That's to say, the so-called *"cure" may be worse than the "disease"* of inconvenient policy divergence; from being a touch too dovish.
- Instead, the **BoJ's optimal strategy may be to manage excessive volatility while awaiting a far more efficacious and cost-effective Fed solution**; that is a Fed peak-to-pivot transition.
- Hence, the **BoJ is best set to cautiously asses**s; with perhaps the *option to widen YCC bands if need be.* **Meanwhile, Fed pivot bets and USD pullback provide respite** and **reinforce the view of BoJ problem with a Fed solution**.

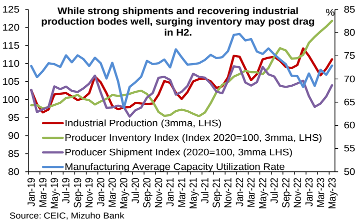
ECB: Sticky Core Challenges

- The **slight uptick in Eurozone core inflation's** final print to 5.5% for June which coincidentally matches headline inflation all but confirms the impending 25bps hike on 27 July.
- Beyond July, the odds of further hikes in September is about 2 in 3 and remains of an **increasingly volatile nature and dependent on subsequent inflation outturns.**
- On a marginal basis, EUR rallies which helps dampen imported inflation comes up against **fresh food prices from the grain deal collapse. The persistence of these shocks will impart further volatility onto the ECB's policy trajectory.**

Korea Q2 GDP: Finding Feet



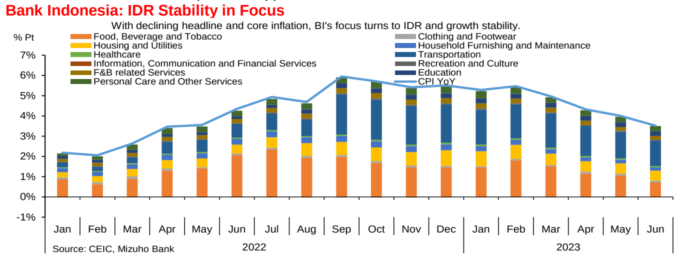
Source: CEIC; Mizuho Bank



Source: CEIC, Mizuho Bank

- **Korea's Q2 GDP** will center around the extent of underlying **support from net exports** and the associated value added from the manufacturing sector in the search for a turnaround.
- Following Q1's 0.9% YoY (0.3% QoQ SA), we expect that the weak quarterly **sequential momentum to persist** and culminate in 0.7% YoY growth which speaks to the **significant obstacles.**
- **Simply put, growth momentum is likely to remain below historical trends** as major trading partners such as **China provide little support**.
- On the external front, amid stabilising terms of trade, the **current account is likely to show a slight improvement** and post a small surplus in Q2 concomitant with the return of surplus in trade balance.
- Reflecting so, **manufacturing utilisation rate display signs of bottoming as industrial production edged up.** That said**, surging inventory will post a drag in H2 as drawdowns occur**.
- Meanwhile, the **domestic economy is also still trying to find its feet in a restrictive monetary environment**. Specifically, **retail sales growth for April-May moderated to 1.3% YoY** while **equipment investment is lower by 0.2%.**
- The **continuous fall in housing prices** will inevitably **restrain domestic consumption recovery** as wealth effects assert and dampen the support from **still resilient labour markets** .

Bank Indonesia: IDR Stability in Focus



Source: CEIC, Mizuho Bank

- **With inflation now within Bank Indonesia's** target range, the focus turns to **ensuring IDR stability and backstopping growth.** Since the previous meeting, the **IDR has underperformed regional peers** amid a backdrop of broadly weaker USD.
- June's stellar trade balance of US$3.5bn barely assisted the IDR. As pointed out before, the trade balance was a result of a sharp plunge in import expenditure which offsets lower export revenue.
- Given **continued foreign inflows** into capital and equity markets, IDR performance underscores **fading commodity tail winds**. **Softening commodity prices from the likes of coal and nickel** add to worries of possible **persistence of export weakness.** Furthermore, China's **frontloaded stockpile of coal** alongside its **weak economic growth** portend slowing energy demand ahead.
- IDR concerns are clearly on top of mind as revised regulations mandate exporters from the mining, plantation, forestry and fishery sectors to repatriate 30% of their FX proceeds onshore for at least 3 months. These sectors contribute nearly 20% of GDP and approximately 32% of export revenue.
- The regulation allows for FX conversion of these deposits to bolster IDR stability in volatile episodes. On balance, BI is likely to espouse continued growth stability imparted by net exports as a **premise to hold rates especially in light of widening real rate differentials.**
- **To be clear, rate cuts which will comprise IDR stability are certainly off the table.**

Taiwan Q2 GDP: No Relief on Statistical Respite

- Coming off Q1's dire 2.9%YoY contraction, Taiwan's **dismal growth performance is likely to continue for Q2** as industrial production remains in a dismal state down 19% over April-May YoY.
- While private consumption is supportive given the tight labour market, it will be insufficient to compensate for the weak external demand and cautious investment spending.
- Admittedly, due to **favourable base effects**, Q2 GDP YoY outturn will be an improvement from Q1 though there is little respite on these statistical occurrences. While the electronic production expansion in May is welcomed, we remain watchful of further data points before calling a turnaround.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	141.73	2.930	2.11%	139.00	~	144.00
EUR/USD	1.1124	-0.0104	-0.93%	1.105	~	1.135
USD/SGD	1.3307	0.009	0.70%	1.3100	~	1.3400
USD/THB	34.450	-0.175	-0.51%	33.80	~	35.20
USD/MYR	4.5627	0.036	0.80%	4.520	~	4.620
USD/IDR	15025	67	0.45%	14,900	~	15,100
JPY/SGD	0.9384	-0.014	-1.43%	0.910	~	0.964
AUD/USD	0.6729	-0.011	-1.59%	0.660	~	0.690
USD/INR	81.96	-0.211	-0.26%	81.8	~	82.6
USD/PHP	54.753	0.343	0.63%	54.0	~	55.2

^Weekly change.

FX Outlook: Noisy

- Quite literally, it will be **a noisy week with the G3 central banks** (Fed, ECB and BoJ) set to meet and more importantly, guide on the path forward.
- Meaning **central bank talk will have far greater influence given central bank "walk"** - consisting of 25bp hike each from Fed and ECB and status quo from the BoJ - **is widely already expected**.
- And the **thing about talk having far more influence than walk is that it sets the stage for more pronounced volatility**; insofar that talk is open to significantly more variance in interpretation (especially between intend and effect) versus action that is arguably more objective.
- More specifically, *parsing through noise to get the signal* may prove hard enough on a standalone basis; and *far more challenging when it involves assessing relative shifts between the Fed, ECB and the BoJ*.
- The consequent swings in FX land, transmitting via large EUR and JPY swings via -a-vis the Greenback is neither hard to imagine nor wise to ignore.
- **USD, we think may come out with an advantage** as the bet impact may be **from "peak Fed" bets being forced to adjust for more hikes on the table**; and possibly a fairly strong signal of "live" September.
- EUR, despite moderating recent gains late last week, appears to be a tad over bought. And so the **ECB might have a higher hawkish bar to clear for EUR to continue with unabated rallies**.
- Although admittedly, President Lagarde's ability to convey unflinching commitment to tame inflation could have unintended consequences of boosting EUR.
- One way or another, **JPY is more likely than not to be on the back foot as higher global yields** on both sides of the Atlantic from hawkish references by the Fed and ECB stands at stark contrast to a patient BoJ that is not convinced of, and this not responding to, demand-pull inflation risks.
- **Apart from JPY drag**, disappointment about the absence of "big bang" China stimulus with **compromised CNH traction**; thereby creating headwinds for AXJ and AUD. Which means even episodes of **USD pullback may not translate into unwavering and durable rounds to go long AXJ and/or AUD**.
- All said, there will be **much central bank talk to digest**, and **unavoidable noise that accompanies the intended nuanced messaging**. This in turn could *translate into noisy FX markets*.

JPY: Volatility Accentuated

- A tide of late week surge in UST yields and oil prices sent the USDJPY up above
- **Volatility will be accentuated** this week with the BoJ likely to stand pat on their policy rates to contrast against the Fed and ECB who will both raise their policy rates and widen the rate divergence.
- If speculation of BoJ pivots is seen dampening JPY weakeness for much of the week, BoJ's dovish confirmation may set off end of the week surge in the USD/JPY towards 144.
- On balance, trading range is inevitably enlarged this week between 138-144.

EUR: Last Legs?

- With the EUR failling to test 1.13 and fading towards 1.11 last week, EUR rallies increasingly look like they may be on their last legs.
- While grain price fears may trigger renewed inflation worries, policy implications will be more naunced given growth worries which will be revealed by PMIs and the clear supply side shock.
- That said, sticky inflation pressures may imply shallow sub-1.11 slips as ECB hawks stay cautious.

SGD: Uninspired

- Recent, inspired gains in SGD already starting to reverse out into the close of last week, suggests that the case for chasing more SGD upside is now uninspired, if not precarious.
- For one, broad-based USD sell-off, which was catalyzing the underlying breadth of SGD gains has been arrested; in fact already partly reversed. And this reversal/caution is likely to persist if not extent into the FOMC.
- What's more, a weaker JPY amid dissipating relief from CNH pressures are also likely to drag the SGD at the margin.
- This in turn is likely to stall any fresh traction in the SGD; and more likely than not, induce further pullback in the SGD.
- Against this backdrop, we expect the SGD to be mostly in the mid-1.32 to high-1.33 range.

AUD: Setback Despite Sticky Inflaton

- In the run up to the FOMC, there is **non-negligible risks that elevated global yields will dampen AUD**. In particular, **setback** any fresh attempts to durably gain traction into 0.68-0.69 range. And this is ***despite sticky Q2 inflation read expected.***
- For one, it is not just the Fed that may be hawkish keeping UST yields high, but a hawkish ECB could also mean higher EZ yields, which in turn pressure AUD crosses on relative yield disadvantage.
- More importantly, continued China gloom, with the absence of any meaningful China stimulus over the weekend, markets could also express prolonged concerns via softer commodities resonating via AUD.
- The upshot is that the AUD is likely to be setback in a climate of China concerns colliding with hawkish Fed risks; both of which conspire to dampen AUD via risk sentiments and commodity impact.
- Near term, AUD is likely to be in the sub-0.67 to mid-0.68 range. In fairly tighter albeit more volatile consolidation as risks are re-assessed.

Bond Yield (%)

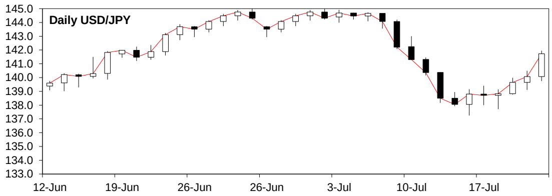
21-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.837	7.1	3.835	0.3	Flattening
GER	3.075	-11.0	2.461	-4.6	Steepening
JPY	-0.061	-1.3	0.431	-3.6	Flattening
SGD	3.393	-1.7	2.934	-8.8	Flattening
AUD	4.003	4.2	4.007	0.1	Flattening
GBP	4.875	-29.1	4.262	-17.4	Steepening

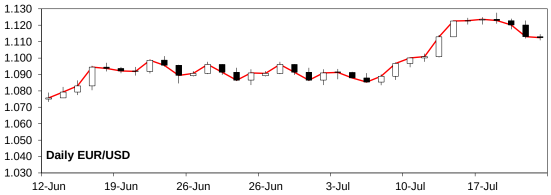
Stock Market

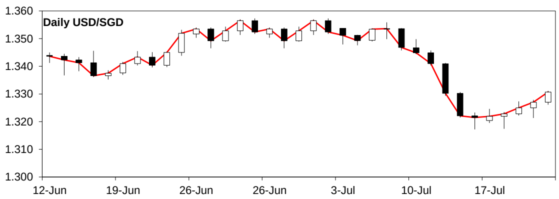
	Close	% Chg
S&P 500 (US)	4,536.34	0.69
Nikkei (JP)	32,304.25	-0.27
EuroStoxx (EU)	4,391.41	-0.20
FTSE STI (SG)	3,278.30	0.91
JKSE (ID)	6,880.80	0.16
PSEI (PH)	6,647.56	0.34
KLCI (MY)	1,413.52	0.10
SET (TH)	1,529.25	0.75
SENSEX (IN)	66,684.26	0.94
ASX (AU)	7,313.89	0.15

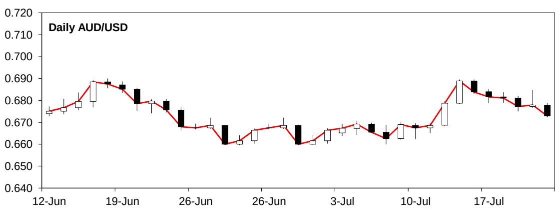
US Treasuries: Edgy

- Last week, front end UST yields (2Y: +7.1bp) were lifted by stronger than expected labour market outturns signalled by the initial jobless claim print.
- Notably, it takes the edge off imminent "Peak" Fed bets. Consequently, room for further upside in 2Y yields is available but limited. Rallies to be restrain below 5%.
- That said given that Fed hawks ought to stay alive with FOMC looming this week, UST 2 yields ought to stay buoyed above above 4.7%.
- Meanwhile, sticky oil prices may backstop 10Y yields for trading between 3.70%-3.95%. That said, any signs of GDP disappointment will inevitably incite a fervent rush to safe havens as the fears from "policy lag effects hitting home" may surface.









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