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MIZUHO

WEEK AHEAD

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10-Jul-2023

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Economic Calendar

•Survey results from Bloomberg, as of 7 July 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
10 Jul	US	Wholesale Inventories MoM	May F	-0.1%	-0.1%
	EZ	Sentix Investor Confidence	Jul	-17.9	-17.0
	JP	BoP Current Account Balance	May	¥1862.4b	¥1895.1b
	JP	**Eco Watchers Survey Current/Outlook**	**Jun**	**54.7/54.2**	**55.0/54.4**
11 Jul	JP	Machine Tool Orders YoY	Jun P	--	-22.1%
	GE	ZEW Survey Expectations/Current	Jul	-10.5/-62.0	-8.5/-56.5
12 Jul	**US**	**CPI/ Ex Food and Energy YoY**	**Jun**	**3.1/5.0%**	**4.0%/5.3%**
	JP	PPI YoY	Jun	4.4%	5.1%
	JP	Core Machine Orders MoM	May	1.0%	5.5%
13 Jul	**US**	**Initial Jobless Claims**		**250K**	**248K**
	US	PPI/Ex-Food & Energy YoY	Jun	0.4%/2.6%	1.1%/2.8%
	EZ	Industrial Production MoM	May	0.3%	1.0%
14 Jul	**US**	**U. of Mich. Sentiment**	**Jul P**	**65.5**	**64.4**
	US	**U. of Mich. 1/5-10 Yr Inflation**	**Jul P**	**3.1%/3.0%**	**3.3%/3.0%**
	EZ	Trade Balance SA	May	--	-7.1b
	JP	Industrial Production MoM	May F	--	-1.6%

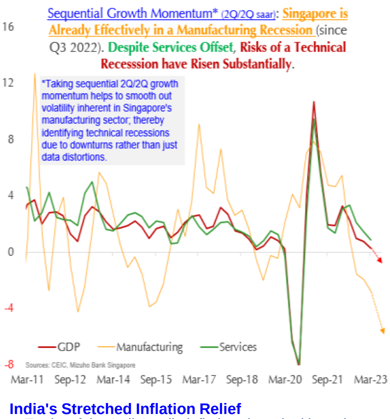
Asia — Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
10-15 Jul	**CH**	**Aggregate Financing CNY**	**Jun**	**3100.0b**	**1555.6b**
	CH	New Yuan Loans CNY	Jun	2318.5b	1362.8b
10 Jul	**CH**	**CPI/PPI YoY**	**Jun**	**0.2%/-5.0%**	**0.2%/-4.6%**
11-18 Jul	**CH**	**FDI YTD YoY CNY**	**Jun**	**--**	**0.1%**
11 Jul	**PH**	**Trade Balance**	**May**	**-$4636m**	**-$4531m**
12 Jul	**IN**	**CPI YoY**	**Jun**	**4.60%**	**4.3%**
	IN	**Industrial Production YoY**	**May**	**5.00%**	**4.2%**
	KR	Unemployment rate SA	Jun	2.60%	2.5%
	MY	Industrial Production YoY	May	1.80%	-3.3%
13 Jul	CH	Trade Balance	Jun	$74.4b	$65.8b
	KR	**BoK 7-Day Repo Rate**		**3.50%**	**3.50%**
	TH	**Consumer Confidence Economic**	**Jun**	**--**	**50.2**
14 Jul	IN	Trade Balance	Jun	-$20.05b	-$22.12b
	SG	**GDP YoY/QoQ saar**	**2Q A**	**0.4%/-0.2%**	**0.4%/-0.4%**

Week-in-brief: Surer Footing?

- That was **the phrase used to describe US-China ties** after Yellen's visit. Trouble is, ***even if on a surer footing,*** one cannot shake off the feeling that **US-China relations remain on the wrong foot**.
- Admittedly, the silver lining is that candid conversations, resulted **in common ground on**;
i) *ensuring there is no dis-engagement* (keeping channels of communications open), and;
ii) *not allowing diplomatic spats to usurp economic ties,* with adverse spillover.
- But here's the thing. The *surer footing on what both parties don't want*, in terms of inadvertent worse case economic outcomes and/or geo-political unintended miscalculations, is **the lowest common denominator on averting imminent crisis**; and not something that reinvigorates global confidence.
- Whereas, that **does not** (by a long shot) **absolve** the *predicament of being on the wrong foot structurally;* as both of these global powers are merely *taking a stab at setting fairly basic ground rules,* **for a relationship based on adversarial terms of engagement**.
- That said, **with low expectations** heading into Yellen's trip to Beijing, the fact that she had met and engaged constructively, with Premier Li Qiang, Vice Premier He Lifeng, his predecessor Liu He and PBoC governors (in transition) Yi Gang and Pan Gongsheng, provided **half-full views of guard rails**.
- Meanwhile, on the US economic front, **shortfall in NFP print (209K)** vs higher expectations set by the 497K ADP teaser (despite the fact that ADP and NFP are know for not marrying up) set off a **softening in the Greenback and front-end yields**.
- Arguably, it is fair to suggest that evidence of soft spots in jobs **may be reasons to suspect that the footing of the US economy is less sure** (much less surer footing!).
- ***But*** **to conflate** that with **surer footing for Fed pivot bets** is **woefully misguided**. and dangerously cavalier. Fact is, **with wage gains still looking hot** (4.4% YoY/0.4% MoM), **Fed hawks are unlikely to be deterred**. And **the 'Dot Plot' guidance for another 50bp of hikes stays intact**.
- Which means is that despite the post-FOMC bravado, **USD bears may not be on surer footing**.
- US CPI in the spotlight mid-week. **Softer headline should not distract from sticky "inner core"** (services ex-rentals) while U.oM survey (Fri) will reveal confidence and inflation expectations.
- Elsewhere, the **BoK is expected to remain on hold**. And while global risk upheavals may make the case for more hikes, the **economy is not on sure-enough footing for tightening per se**. Instead, **sure-footedness of KRW and macro-stability** may be precisely what's needed for policy inflection.
- In **Singapore**, **prospects of the first post-GFC manufacturing-led technical recession** (with Q2 GDP data) **suggest that the global economy is far from being on surer footing**.
- Certainly, **continued softness in China data** issue **grim warnings that bears have the surer** (albeit slower) **footing** than *bulls that are fast-, rather than sure-footed.*

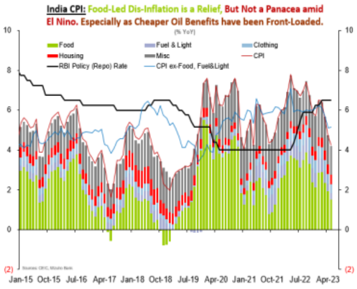
Three Things to Know About Singapore's Impending Technical Recession



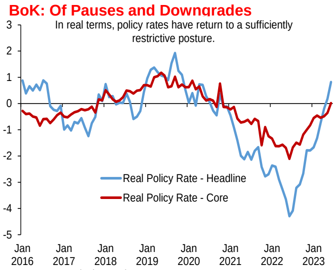
- The consensus is for Singapore's Q2 GDP to mark a technical recession; with a second consecutive sequential (QoQ) contraction.
- There are three things to note.
- First, it will be the **first manufacturing-led technical recession since the 2008 GFC**.
- Admittedly, there have been **quite a few manufacturing downturns** since; in 2012 (EZ crisis), 2015 (China crisis), and 2019 (US-China trade spat). *But none of these had resulted in a technical recession.*
- And the **COVID technical recession in H1 2020** was **driven by** *a deep* **services** *slump whereas manufacturing was afloat.*
- Second, the **depth and length of this manufacturing** downturn, essentially **recession**, is the **worst since the GFC**.
- What this means is that a fifth quarter of deepening manufacturing contraction, could undermine offset from post-COVID bounce in construction and services on the wane.
- Finally, given the threat of demand shocks from policy and geo-politics, averting a technical recession will be but cold comfort.
- In other words, *a technical recession will not be telling us anything we don't already know.*

India's Stretched Inflation Relief

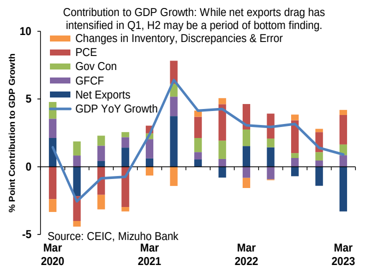
- To be fair, India's dis-inflation has legitimately provided the RBI with scope for serious policy re-evaluation; and arguably policy options (to pause).
- But the **critical nuance** here is that the **policy advantage from inflation is stretched**.
- Fact is, vegetable price resurgence threatens the durability of dis-inflation insofar that the sharp drop in inflation was largely derived from food.
- Crucially because **El Nino** risks mean **food cost-push re-emergence may not be fleeting**.
- What's more, India's **fuel dis-inflation could also be far more muted** given the front-loaded relief from Russian imports from the outset.
- The upshot being, anchoring inflation closer to 4% rather than 6% may be a challenge.
- In which case, the risks now tilt the other way.
- That's to say, *instead of creating timely policy space,* **inflation may,** *inconveniently,* **undermine justifiable policy inflection later.**



BoK: Of Pauses and Downgrades

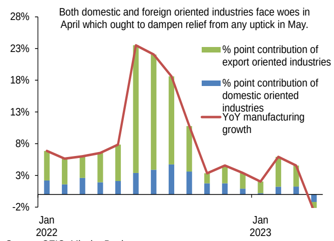


Source: CEIC, Mizuho Bank

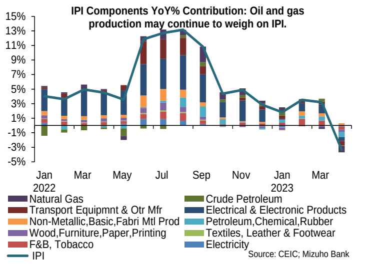


- While our base case is for the BoK to **hold rates (3.50%) in July** (Thu), an **examination of the rationale behind their continued hold** since the start of 2023 ought to shed light on the **various signposts to watch for which could trigger another 25 step up in H2 or the need for cuts.**
- First, **declining headline inflation** from 5.2% YoY in Jan 2023 to 2.7% YoY in June 2023 and an albeit **smaller drop of core inflation** from 4.1% in Jan to 3.5% in June imply that **real rates have returned to sufficiently restrictive territory** which **raises the bar for further hikes**. Cuts remain off the table this year given sticky core inflationary pressures.
- Second, **growth trajectory remains clouded** with uncertainly over whether manufacturing production's 3.2% MoM SA increase in May (off 0.6% MoM SA contraction in April) represent a durable turnaround. What's more, **the services industry contracted** in both April and May.
- The **elevated inventory levels** in the manufacturing sector adds significant **downward pressure** on **firms necessity to raise production levels** in the coming months.
- Parsing the above points via the Taylor rule, the **case for a pause in July is clear**.
- **Looking ahead**, through the risk angle, the **drop in housing prices have slowed substantial** to a **rather steady rate** around 0.1% week on week. This **risk reduction provides a backdrop but not catalyst for hikes. Nonetheless, risk could emerge from their reverse Jeonse crisis.**
- **Fiscal stimulus announced in early July** could contain **potential to generate impulse for both growth and prices**. Admittedly, a slew of measures such as grants and tax incentives remain catered to enhance longer term potential growth and reduce supply chain vulnerabilities.
- Various consumption boosting measures (foreign and domestic tourism promotion, major sales campaigns) alongside infrastructure projects (high speed commuter rail) could have near term implications to price and growth and represent **a tail risk** surrounding a further hike.
- **For now, BoK will stand pat** as growth worries remain skewed to the downside with the MoF downgrading their 2023 growth forecast to 1.4% which is still a notch above ours (1.1%).

Malaysia Industrial Production: Pressured



Source: CEIC; Mizuho Bank



- While Malaysia's industrial production for May (releasing on 12 Jul) **may see a small uptick**, the **manufacturing sector is likely to remain pressured** and the **mining sector may also experience contraction** signalled by energy price woes.
- **Manufacturing PMIs entrenching in contractionary territory** underscores the rough road to recovery. Reflecting so, export demand remains weak experiencing 0.7% YoY contraction in May.
- Consequently, the **external sector woes** seen in April whereby export oriented industries suffered a sharp 13.5% contraction in April are **unlikely to have faded**.
- Furthermore, **domestic oriented sectors** are also pressured led by lower auto manufactures and food and beverage products. Amid elevated household debt levels, **higher servicing costs inevitably poses a drag on consumption.**
- Nonetheless, **leading trade indicators point to possible reversals for some areas such as oil and gas production as well as electrical products.**
- **On balance, while stability in production is welcomed, the industrial outlook remains cloudy.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	142.21	-2.100	-1.46%	141.80	~	145.30
EUR/USD	1.0967	0.0058	0.53%	1.084	~	1.108
USD/SGD	1.3468	-0.006	-0.41%	1.3390	~	1.3580
USD/THB	35.130	-0.325	-0.92%	34.85	~	35.50
USD/MYR	4.6665	0.000	0.00%	4.628	~	4.700
USD/IDR	15143	150	1.00%	14,950	~	15,280
JPY/SGD	0.9475	0.011	1.12%	0.922	~	0.958
AUD/USD	0.669	0.003	0.39%	0.658	~	0.684
USD/INR	82.74	0.703	0.86%	82.0	~	82.8
USD/PHP	55.625	0.419	0.76%	55.2	~	56.0

^Weekly change.

FX Outlook: Selling (Softer) Facts or the (Hawkish) Fed?

- After an out-of-the-park ADP (near 500K) data out-run, **USD slumped as markets primed for a sizzling NFP print met with a fizzle**. (at 209K). To be fair, 200+K NFP jobs is not an outright weak number. But there was no distracting from the near 60% shortfall of the ADP tease.
- The **USD's reaction** is clear. *Classic "selling the fact"*, arguably exacerbated by the jobs data fizzle, after having bought the far more upbeat rumours.
- Whereas the **underlying motivation of FX markets is less clear**. Specifically, whether and to what extent markets were **"selling the fact** (of softer NFP)" *as opposed to* **selling the (hawkish) Fed**.
- Same difference, you say? Well, not quite. The argument being around policy sensitivity to data.
- Point being, while *US jobs data* have softened, they are *nowhere near the vicinity of a relenting Fed*.
- For one, these numbers in no way deter a 25bp July hike. Crucially, a 200+K jobs print with still solid (if not brisk) wage growth (4.4% YoY/0.4%MoM) **fall far short of deterring hawkish inclination**.
- In other words, not only is the Fed set for an unwavering July hike, but could continue to unflinchingly signal a "live" September FOMC; in line with 'Dot Plot' guidance for another 50bp hike in H2.
- In which case, "**selling the Fed**" may prove frustratingly premature as a thematic bet. Instead, **two-way, tactical, responsive, "selling the fact"** around global **data undulatoins will likely dominate**.
- For this week though, **JPY bears fended off by BoJ rumblings alongside MoF intervention threats** could **conspire with any post-Yellen backstop in the CNH** to keep a come-back USD squeeze in check. Although that is a tentative argument for subdued trades.
- Nevertheless, **cautious consolidation may be the theme for global FX** markets as a mixed set of data are digested along overstated geo-political relief.
- The warning being, **the familiarity of "selling the fact"** *should not be allowed to be hijacked by overconfidence about* "**selling the Fed**".

Bond Yield (%)

7-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.946	5.1	4.062	22.5	Steepening
GER	3.240	6.1	2.632	24.4	Steepening
JPY	-0.056	2.2	0.414	2.8	Steepening
SGD	3.547	-0.2	3.152	10.9	Steepening
AUD	4.303	9.3	4.255	0.1	Flattening
GBP	5.363	13.0	4.643	26.5	Steepening

Stock Market

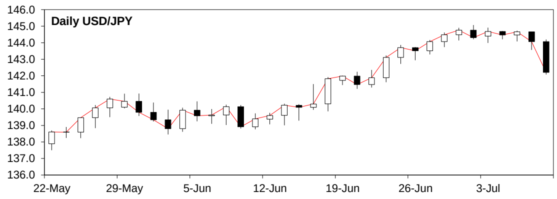
	Close	% Chg
S&P 500 (US)	4,398.95	-1.16
Nikkei (JP)	32,388.42	-2.41
EuroStoxx (EU)	4,236.60	-3.69
FTSE STI (SG)	3,139.47	-2.07
JKSE (ID)	6,716.46	0.82
PSEI (PH)	6,379.03	-1.38
KLCI (MY)	1,377.67	0.07
SET (TH)	1,490.51	-0.84
SENSEX (IN)	65,280.45	0.87
ASX (AU)	7,042.27	-2.24

US Treasuries: Convenient, Not Considered

- The **post-FOMC steepening of the UST yield curve** (with front-end yields slipping while long-end yields rise) admittedly **alleviated some of the yield curve inversion** from (from over 100bp) to around 90bp.
- This is however **a tactical and piecemeal reaction** to the *disappointing shortfall in NFP impacting the front-end (2Y)* to a much greater extent, while *higher oil prices transmitted to the long-end, lifting yields* at the margin.
- What **it is not**, is **a thematic and coherent reassessment concluding a meaningfully dovish/less hawkish shift** by the Fed *on account of NFP data.*
- In other words, **convenient bond market reactions that are tactical**, if not noisy; and **not a considered and resounding epiphany about tidal shifts**.
- Above all, it is certainly not that start of an imminent and enduring reversion to a normal-sloping yield curve that conveys diminishing risks of a recession.
- *Dissonant and distorted data driving a wedge between markets and a hawkish Fed alongside elevated risks of policy miscalculations, meanwhile remain a bugbear.*
- For now, 2Y yields could still have legs left to re-test above 5% (albeit on a short leash) while 10Y yields consolidate sub-4% to 4.2%.

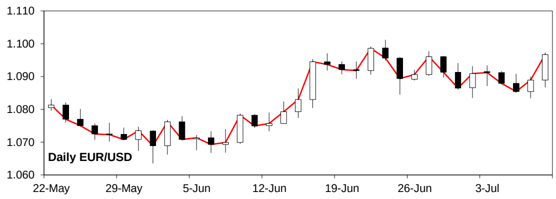
USD/JPY: Jawboned

- An appropriately jaw-boned FX market have returned some traction back to the JPY; with USD/JPY plunging to test below mid-142. follow-through sellers though are not forthcoming as the there are no compelling reasoins to discard the policy wedge trades.
- For now though the persistence of intervention risks introduced by a varierty of speakers into Fx markets mean that any breakthrough past 145 and upwards will have to wait or be driven by fiercely hawkish Fed/G10 surprises.
- Meanwhile USD/JPY consolidation in the sub-142 to mid-144 range oughtto capture most of the range for the week; with some give skewed to the uspde.



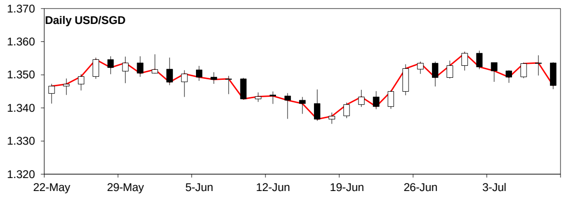
EUR: Anti-USD Boost

- Leveraging on the NFP miss to blast past 1.09 hardly makes for a compelling case to break 1.10 and target 1.11 thereafter. simply put, looking past "Anti-USD" bets buoying the EUR, the case for sustained bullish EUR momentum may be stretched.
- Admittedly, a more hawkish sounding ECB alongside further us CPI dis-inflation could set the stage for simplistic normial rate differential boost for the EUR.
- But increasingly, the real rates elephant in the room alongside binding risks of Europe being vulnerable to a sharper and deeper downturn if global headwinds turn more aggressive means that the allure of the EUR is not unequivocal. Possibly even suspect.
- For now, mid-1.08 to sub-1.11 trades are likely to exhaust trigger; especially bullish EUR impuldes to the upside.



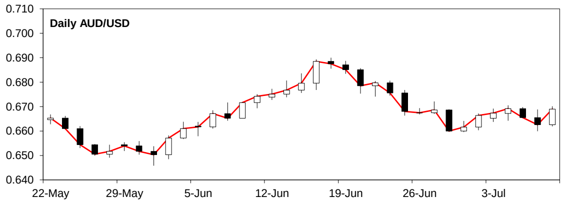
SGD: Technical Recession!

- Two-way inpulses in the USD/SGD are likely this week.
- While the week appears to have started in favour of long USD amis sharp USD sell-off and a firmer CNH after Yellen's fairly constructive talks in Beijing, Singapore's technical recession risks and a re-assessment of global economic and geo-politics may imede SGD bulls.
- Fact is, a technical recession confirmed by Q2 GDP will not simply reflect manufacturing downturn, but perhaps convey a binding drag from global demand headwinds.
- The first manufacturing-led technical recession since GFC could in turn also prompt policy expectations that temper SGD alongside a softer CNH if Yellen's visit is properly assessed by levels heads as phone-line (keeping engagement) rathe rthan a life-line.
- For now, expect USD/SGD in the sub-1.34 to high-1.35.



AUD: Doubts

- Doubts about the global recovery may continue hinder AUD aspirations past 0.67to 0.68.
- While higher global oil prices ought to backstop AUD, the Antipodean is tellingly hesitant to extend traction beyond 0.67 for the time being.
- Perhaps the RBA's hold last week may be counselling caution for wannabe AUD bulls.
- In addition, the more seasoned China watchers may not necessarily be rejoicing any China positives. That is, despite Yellen's "surer footing" comments, AUD may not benefit from that (surer footing).
- What's more, a continuation of aoft Chinese data may arguably also be dampening upside in the AUD, which has not leveraged on a weaker USD as much as other G10 FX.
- Amid doubts, low-0.66 to 0.68 may be a reasonbale range to spot AUD that is sporting doubt.



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