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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 14 July 2023; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicates actual data

G3

Date	Country	Event	Period	Survey*	Prior
17 Jul	**US**	**Empire Manufacturing**	**Jul**	**-1.8**	**6.6**
18 Jul	**US**	**Retail Sales/Ex Auto & Gas MoM**	**Jun**	**0.5%/0.4%**	**0.3%/0.4%**
	US	Industrial Production MoM	Jun	0.0%	-0.2%
	JP	Tertiary Industry Index MoM	May	0.4%	1.2%
19 Jul	US	Housing Starts/Building Permits	Jun	1430k/1460k	1631k/1496k
	EZ	**CPI/Core YoY**	**Jun F**	**5.5%/5.4%**	**6.1%/5.4%**
20 Jul	**US**	**Initial Jobless Claims**	**Jul**	**241k**	**237k**
	US	Leading Index	Jun	-0.6%	-0.7%
	US	**Philadelphia Fed Business Outlook**	**Jul**	**-10.2**	**-13.7**
	JP	Machine Tool Orders YoY	Jun F	--	--
21 Jul	**JP**	**Natl CPI/Ex Fresh Food, Energy YoY**	**Jun**	**3.3%/4.2%**	**3.2%/4.3%**

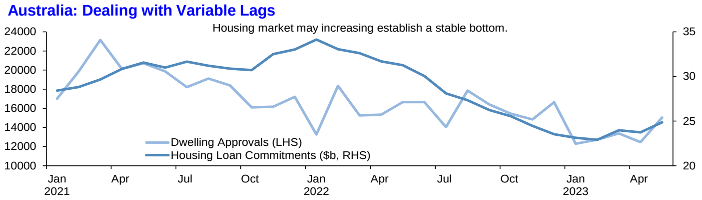
Asia

Date	Country	Event	Period	Survey*	Prior
14-18 Jul	**PH**	**Overseas Cash Remittances YoY**	**May**	**4.5%**	**3.7%**
17 Jul	CH	Retail Sales YoY	Jun	3.1%	12.7%
	CH	**GDP YoY/SA QoQ**	**2Q**	**7.0%/0.6%**	**4.5%/2.2%**
	CH	Fixed Assets Ex Rural YTD YoY	Jun	3.5%	4.0%
	CH	**Industrial Production YoY**	**Jun**	**2.5%**	**3.5%**
	CH	**1-Yr Medium-Term Lending Facility Rate**	**Jul**	**2.65%**	**2.65%**
	SG	Non-oil Domestic/Elect. Exports YoY	Jun	-15.5%/--	-14.7%/-27.2%
	ID	Trade Balance	Jun	$1481m	$440m
18 Jul	AU	RBA Minutes of July Policy Meeting		--	--
20 Jul	CH	1-Year/5-Year Loan Prime Rate	Jul	3.55%/4.20%	3.55%/4.20%
	AU	**Employment Change**	**Jun**	**15.0k**	**75.9k**
	AU	**Participation/Unemployment Rate**	**Jun**	**66.9%/3.6%**	**66.9%/3.6%**
	MY	Trade Balance MYR	Jun	18.8b	15.4b
	TW	Export Orders YoY	Jun	-19.5%	-17.6%
21-Jul	KR	PPI YoY	Jun	--	0.6%

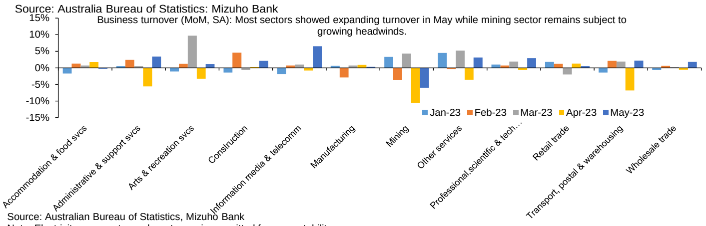
Week-in-brief: Goldilocks or Red Riding Hood?

- With all that **euphoria about emphatic US dis-inflation** *and* **economic resilience** last week, the consequent "risk on" wave unleashed major rallies in equities alongside a slump in yields and USD.
- **Optimists will argue 'Goldilocks' at work for the US economy**, with *brisker than expected dis-inflation fuelling hopes for a less hawkish Fed;* while economic resilience augurs well for averting a "landing" (much less a "hard landing"). And **what's not to like about such 'Goldilocks' outcomes?**
- **Except, it may be a case of mistaken identity with regards to Goldilocks**.
- Admittedly, **US CPI declining sharply to sub-3%** (in the second decimal**) reinforced further by softer than expected PPI**. So the *dis-inflation thesis is not without grounds. But* as we point out last week (recapped below), *US CPI remains uncomfortably sticky at the "inner-most" core.*
- And in that context, *lower than expected jobless claims* alongside a *dizzying jump in U. of Michigan confidence to the highest since Sep 2021* (incidentally when the Fed first flagged normalization), *which may be argued as Goldilocks, is equally liable to be a frustration for "peak Fed" bets.*
- More so with both 1Y and longer-term inflation expectations being nudged higher in the survey.
- And that means that the **Fed's sensitivity to dis-inflation is being exaggerated**.
- Crucially, this could imply that **"risk on" sentiments, riding high on bets that the Fed will be done with a final 25bp hike in July** before substantial cuts starting late-2023/early-2024 **might need** a revisit. Specifically, **some dial-back in optimism** on **risks of "live" September FOMC**.
- In particular, **assumptions about whether Fed peak** (and subsequent cuts) *pre-emptively fuel a slick turnaround* or *belatedly "push on a string" only after recession risks appear.*
- Simply put, the danger is that **Red Riding Hood is mistaken for Goldilocks, as markets mistakenly take comfort in risks cloaked as respite**; *just as Red Riding Hood was fooled by a wolf disguised as her grandmother.* Meanwhile, **dovish bets conceal hawkish risks in plain sight**.
- This week, **US retail sales** (Tue) **could add to the prevailing noise** in the data; as the *propensity for markets to switch between "half-full" and "half-empty" remains intact.*
- And while Japan's inflation will be watched closely, BoJ conclusions may not be drawn hastily.
- Especially as sharp JPY gains (vs. USD slump) alleviate some stress off the BoJ to address FX volatility with monetary policy settings; which ought to be deemed non-ideal.
- In Asia, **China's Q2 GDP** (Mon) is a **more obvious case of a head fake**. *7+% YoY print for Q2 GDP, accelerating from 4.5% in Q1* **masks decelerating activity beneath flattering base effects**.
- We think that markets' feverish bets (and reliance on) emphatic stimulus to lift China out of gloom may leave *markets vulnerable to swings between lofty stimulus hopes and shortfall disappointments*.
- Down Under, RBA Minutes and jobs data will instigate RBA assessments. But perhaps not unbridled AUD optimism as "morning after" from pivot bets, attendant USD sell-off, and China caution, conspire.
- **Both Goldilocks and Red Riding Hood were lost deep in the woods**, even as one was looking for sweet spots, as the other was mistaking danger (the wolf) for benign (her grandmother).
- And so, regardless of the applicable comparison, **caution will counsel that the pertinent take-away is that it is too premature to presume that the global economy is out of the woods**.

Australia: Dealing with Variable Lags



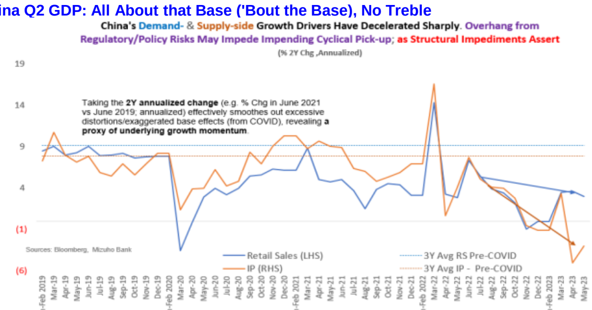
Source: Australia Bureau of Statistics: Mizuho Bank



Source: Australian Bureau of Statistics, Mizuho Bank
Note: Electricity, gas, water and waste services omitted for presentability.

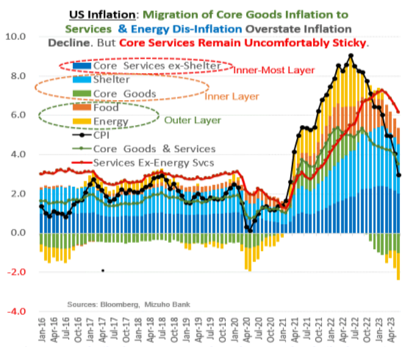
- The focus on the **RBA's minutes and the jobs report** reflects policy concerns on ***how best to time and optimize the RBA's late-cycle calibrations amid transmission policy lags***.
- On the latter, it is notable that there is room for interpretation on the RBA's assertion that the decision to hold rates steady provides the Board with "**more time to assess the state of the economy and economic outlook and associated risks**".
- Admittedly, the need for more time (and data) aligns with the RBA's subsequent decision to **reduce their frequency of meeting from the current 11 meetings a year to 8 starting 2024.**
- The **challenge** though is that **not only does monetary policy operate with variable lags**, *but* that **while "transmission" is effected as continuous strains**, the **resulting shocks may be abrupt**.
- **Turning to the more immediate concerns, the need for more time not only pertains to the inflation trajectory but also labour market outturns. The latter is afterall a lagging indicator.**
- As such, one **should not expect labour market indicators to falter before output related signals** such as retail sales and business turnover.
- With retail sales looking resilient and services PMI staying in expansionary territory, employment ought to have held up in June. That said, **further strong job gains is increasingly dependent and restrain by labour force participation rates** which has already reached all time highs.
- While **housing markets show budding signs of stability** with higher dwelling approvals and rising new loan commitments, the **burden of higher mortgage cost continues to weigh on household sentiments** as plan for major durable goods remain subdued relative to a year ago.
- And so the **RBA's conundrum** is that an **ostensibly strong job market** (low unemployment and rising labour force participation) may be **overstating resilience of households**; that are, in reality, grappling with a double whammy of stretched household finances and cost-of-living stress.
- Against this, the **variable lags in policy transmission up the odds of a policy mistake**.

China Q2 GDP: All About that Base ('Bout the Base), No Treble



- The bottom-line is that **China's Q2 GDP upturn is all about the** (low) **base** (effects); **whereas** there **continues to be a troubling lack of clarity** (**no treble**).
- For the record, the **headline acceleration in China's Q2 GDP is primed to look stellar**.
- Markets are expecting *a print that is over 7%YoY, surging from 4.5% YoY in Q1.*
- This is however **due to an exceptionally flattering base** of just 0.4% YoY GDP growth in Q2 2022 (Q1 2022: 4.8%); **essentially giving Q2 GDP 4.3-4.4%-pt of additional boost vis-a-vis Q1**.
- So, **to be clear**, and *in sharp contrast to headline YoY GDP,* **growth momentum has de-accelerated**. **Once normalized for base effects, Q2 GDP** in fact **suggests a marked slowdown to ~3.0-3.5%**; consistent with softer QoQ growth expectations (of 0.8%).
- In which case, there are three things about China's economy and economic assessment that are pertinent. First, once base effect distortions are backed out,, **China's economy remains dismal**.
- *Especially with industrial activity and investments particularly downbeat,* if not outright fragile.
- By extension, that also means that **any comfort about China being on course to attain** the "*around 5%*" **growth target should be tempered for the base effect boost** that is evident.
- Second, **with underlying growth momentum in bad shape** (as cyclical manufacturing soft spots collide with structural/geo-political headwinds), there is a **growing hopes for "big bang" stimulus to fire up China's growth**. And so, **China's economic prospects are acutely tied to stimulus**.
- Finally, and the trouble is, *structural, geopolitical and socio-political aspects of a nagging confidence deficit hobbling the economy* (amid a crippling property slump) *requires unusually powerful stimulus.*
- And even then, **tensions between political and economic objectives** alongside **associated CNH stability risks** render a durable and sizable economic boost exceptionally challenging.
- Upshot is *that Q2 GDP may be too much noise from the base and no clarity associated with treble*.

US CPI: Finer Points & Devillish Details of Dis-inflation



- Admittedly, there is **nothing to refute about US inflation decelerating faster than expected**; both in the headlines and the core.
- At 3.0%, the **headline is down more than 1%-pt** from 4.0% in May, 3.4%-pts from 6.4% in January this year and 6.1%-pts from the 9.1% peak a year ago.
- **Core at 4.8% is correspondingly down 0.5%-pt** (from May's 5.3%), 0.8%-pt (from 5.6% in Jan) and 1.1%-pts from a year ago; although down 1.7%-pts from 6.5% peak in March 2022.
- The aggressive pivot bets will argue that while **inflation's deceleration is exaggerated in the headline** compared to the core, that is **not unusual**.
- But here are **three finer points** that ought to be understood **to temper premature highs of pivot bets**.
- First, **core inflation at 4.8% *despite* goods deflation of 1.0%-pt must temper optimism about softer core inflation dynamics**. Especially as *overstated post-COVID goods deflation is expected to fade;* thereby *depriving inflation of a 1%-pt reduction.*
- Second, core services inflation declining 0.4% is helped by a 0.2%-pt reduction in shelter (rentals). And **with the Fed expecting declining shelter deflation to feature** in H2, **dis-inflation from the dynamic in rentals is less likely to trigger an emphatic dovish inflection**.
- Finally, the **decline in core services ex-rentals**, which is alluded to by the Fed as the *"inner-most core"* **is far more modest**. At less than 0.2%-pt reduction from a month ago and just 0.4%-pts lower than January; whereas it is 0.2%-pts *higher* than a year ago.
- And **insofar as the "inner most core" is the so-called final mile for policy**, a good look-under the hood reveals that **underlying inflation/expectations risks are too sticky and elevated for the Fed to abandon prevailing hawkish stance imminently**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	138.8	-3.410	-2.40%	136.60	~	141.50
EUR/USD	1.1228	0.0261	2.38%	1.103	~	1.135
USD/SGD	1.3215	-0.025	-1.88%	1.3100	~	1.3350
USD/THB	34.625	-0.573	-1.63%	34.35	~	35.20
USD/MYR	4.5267	-0.140	-3.00%	4.520	~	4.620
USD/IDR	14958	-177	-1.17%	14,800	~	15,100
JPY/SGD	0.952	0.004	0.47%	0.926	~	0.977
AUD/USD	0.6838	0.015	2.21%	0.668	~	0.694
USD/INR	82.17	-0.573	-0.69%	81.6	~	82.6
USD/PHP	54.41	-1.215	-2.18%	54.0	~	55.2

^Weekly change.

FX Outlook: Arrested USD Bears?

- The **question for those who witnessed a devastating 3.3% drop in the USD since NFP shortfall** (of ADP) **collided with sharp dis-inflation triggers** (CPI followed by PPI), is **whether USD bears have been arrested** with nascent signs of traction (a 0.4% recovery) **on solid consumer sentiments**.
- Perhaps not. Not due to fundamentals involved that will surely challenge overly-optimistic assumptions on a Fed peak/pivot. But more due to market momentum and proclivity.
- And so, **USD vulnerabilities may remain intact on account of higher or stickier inflation elsewhere in the G10**; *which markets may simplistically (and perhaps quite erroneously) associate this with policy divergence against the favour of the USD*.
- Whereas, the underlying fundamentals may be less unequivocal about building up on short USD bets for a multitude of reasons.
- For one, the **Fed may also continue to stress on more tightening, catching markets on too dovish a footing**; thereby prompting some short-covering in line with policy re-calibrations.
- Second, assumptions that real rate differentials wilkl work against USD remain flimsy given policy inclinations and inflation differentials. Point being, **real US rates may continue to erode returns elsewhere**. And *if so,* **USD could quickly find itself oversold** in such a scenario.
- Finally, **if China's GDP proves worrying soft beneath the hood**, and **any accompanying stimulus announcements disappoint**, **drag on risk sentiments may lift the Greenback**.
- All said, *while* **we admit that the momentum makes short USD bets fashionable**, the **underlying risks could point to arrested bearish waves in the USD as caution takes over**.

Bond Yield (%)

14-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.766	-18.0	3.832	-23.0	Flattening
GER	3.185	-5.5	2.507	-12.5	Flattening
JPY	-0.048	0.8	0.467	5.3	Steepening
SGD	3.410	-13.7	3.022	-13.0	Steepening
AUD	3.961	-34.1	3.993	0.1	Steepening
GBP	5.166	-19.7	4.436	-20.7	Flattening

Stock Market

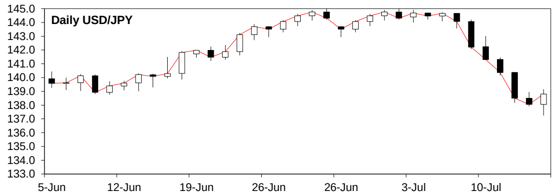
	Close	% Chg
S&P 500 (US)	4,505.42	2.42
Nikkei (JP)	32,391.26	0.01
EuroStoxx (EU)	4,400.11	3.86
FTSE STI (SG)	3,248.63	3.48
JKSE (ID)	6,869.57	2.28
PSEI (PH)	6,624.79	3.85
KLCI (MY)	1,412.09	2.50
SET (TH)	1,517.92	1.84
SENSEX (IN)	66,060.90	1.20
ASX (AU)	7,303.08	3.70

US Treasuries: Inflation and Expectations

- As headline inflation sank towards the 3% mark, UST yields plunged last week.
- That said, end of the week Uni of Michigan survey weighed in to remind us that the **buoyant sentiments is also likely to trigger higher inflation expectations.**
- In a rather data light week, **retail sales provide the marginal moves to signal the state of US households.**
- Given the headline dis-inflation, 2Y yields will struggle to regain 4.95% this week.
- Nonetheless, further slips below 4.6% may also be off the mark as the Fed continues to communicate the need for elevated rates amid elevated services inflation.
- Meanwhile, 10Y yields may face more downside risk as oil prices slip amid a likely re-calibration of buoyant moods. Trading may occur in the 3.7-3.9% range.

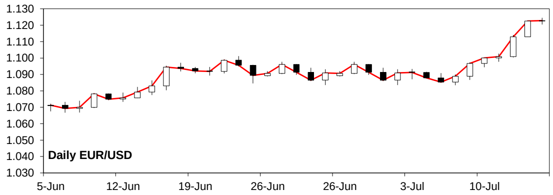
USD/JPY: Speculation and Realities

- Amid speculation of BoJ pivots, the sharp plunge towards 138 alongside lower UST yields will need to face the realities of a BoJ which may not be incited enough by their end of the week CPI print.
- Risk moods also may not favour the JPY as haven needs dial back.
- All in, amid the likelihood of slipping oil prices, the pair looks to consolidate below 140 as the base case this week.



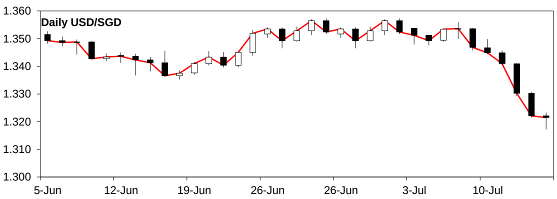
EUR: 50 Backstops

- With the account of meeting displaying consideration of 50bp at their previous meeting, the EUR may have been provided a timely backstop in a period of USD weakness.
- That said, rallies beyond 1.13 remains suspect especially as geo-political risks in Russia provides background fears alongside property market concerns in the Eurozone.
- Furthermore, framentation risks may come into play at these levels and reveal EZ vulnerabilities.



SGD: Sharp Surge Begs Consolidation

- Admittedly, the sharp surge in the SGD was mainly driven by broad-based sell-off in the USD. Nontheless, with a rich S$NEER, excessive SGD strength is surely a concern.
- But more than that, with unresolved CNH vulnerabilities looming, overdone SGD strength (vs. USD) sits awkwardly with the current market sentiments.
- More so as China's GDP and (thus far) underwhelming stimulus plans suggest that downside risks in the CNH, and athe attendant scope for a bout of SGD downside, remain firmly intact.
- To be sure, we don't think that last week's SGD surge will be fully reversed this week.
- Instead SGD could retain a good deal of the traction on either side of 1.32.
- But that said, continued SGD surge trying to probe below 1.31 on to 1.30 may be a risky proposition, building up to downside (SGD) volatility in coming weeks.



AUD: RBA & China

- A re-assessment of RBA risks are ripe with a new governor in tow and in the context of Fed expectations shift. And to be sure, markets may still be anticipating greater patience, but not an imminent piviot. In other words, a tightening bias being retained.
- Nonetheless, this is not likely to be associated with unbridled AUD bullishness.
- For one, a more unfiltered pass-through of China's industrial/invetment shortfall alongside stimulus disappointments through the commodities amplification channel will likely subdue AUD upside. This seen dampening fresh 0.69-0.70 forays.
- What's more, the RBA's more apparent restraint could also factor in.
- All said, we expect AUD to consolidate (mostly) above 0.68 with shallow 0.69+ bounces.
- But breaching 0.70 towards 0.71 with confidence may require another bearish USD wave and/or China optimism.