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MIZUHO

WEEK AHEAD

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26-Jun-2023

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Economic Calendar

•Survey results from Bloomberg, as of 23 June 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
26 Jun	**US**	**Dallas Fed Manf. Activity**	**Jun**	**-0.2**	**-29.1**
	GE	IFO Business Climate/Expectations	Jun	90.6/88.1	91.7/88.6
	EZ	ECB Forum Sintra (26-28 Dec)			
27 Jun	US	New Home Sales	May	675k	683k
	US	**Conf. Board Consumer Confidence**	**Jun**	**104.0**	**102.3**
	US	**Durable Goods Orders/Nondef Ex Air**	**May P**	**-1.9%/0.2%**	**1.1%/1.3%**
	US	Richmond Fed Manufact. Index	Jun	-12	-15
	JP	Coincident Index/Leading Index CI	Apr F	--	99.4/97.6
28 Jun	**US**	**Wholesale Inventories MoM**	**May P**	**-0.1%**	**-0.1%**
29 Jun	**US**	**Initial Jobless Claims**		**265k**	**264k**
	US	**GDP Annualized QoQ**	**1Q T**	**1.4%**	**1.3%**
	JP	**Retail Sales YoY**	**May**	**5.2%**	**5.1%**
30 Jun	US	U. of Mich. Sentiment	Jun F	63.9	63.9
	US	MNI Chicago PMI	Jun	44.0	40.4
	US	**PCE Deflator/Core YoY**	**May**	**3.8%/4.7%**	**4.7%/4.4%**
	EZ	**CPI/Core YoY**	**Jun**	**5.6%/5.5%**	**--/5.3%**
	EZ	Unemployment Rate	May	6.5%	6.5%
	JP	Industrial Production YoY	May P	4.3%	-0.7%
	JP	Jobless Rate/Job-To-Applicant Ratio	May	2.6%/1.32	2.6%/1.32

Asia

Date	Country	Event	Period	Survey*	Prior
26-30 Jun	**IN**	**BoP Current Account Balance**	**1Q**	**$3.0b**	**-$18.2b**
	KR	Retail Sales YoY	May	--	4.0%
26 Jun	SG	Industrial Production YoY	May	-7.1%	-6.9%
	TH	Mfg Production Index ISIC NSA YoY	May	-4.5%	-8.1%
	TW	Industrial Production YoY	May	-20.3%	-22.9%
27 Jun	**TW**	**Unemployment Rate**	**May**	**3.6%**	**3.6%**
28 Jun	**CH**	**Industrial Profits YTD YoY**	**May**	**--**	**-20.6%**
	AU	**CPI YoY**	**May**	**6.1%**	**6.8%**
29 Jun	AU	Retail Sales MoM	May	0.1%	0.0%
	KR	**Business Survey Non-Mfg/Mfg**	**Jun**	**--**	**78.0/73.0**
	VN	Trade Balance	Jun	$3114m	$2240m
	VN	Retail Sales YoY	Jun	--	11.5%
	VN	**GDP YoY**	**2Q**	**3.4%**	**3.3%**
	VN	**CPI YoY**	**Jun**	**2.2%**	**2.4%**
	VN	Industrial Production YoY	Jun	--	0.1%
30 Jun	**CH**	**Mfg/Non-manufacturing PMI**	**Jun**	**49.0/53.2**	**48.8/54.5**
	KR	Industrial Production YoY	May	-8.7%	-8.9%
	TH	**BoP Current Account Balance**	**May**	**-$270m**	**-$476m**

Week-in-brief: Russian Roulette

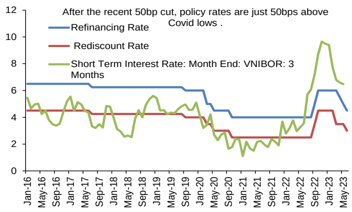
- The **armed uprising in Russia** and *just a couple of hundred kilometers from Moscow* **by Wagner** - the mercenary military force been backed and used by Russia covertly in the past and openly since the Ukraine war - *despite being aborted*, **lay bare risks of Russian instability** from within.
- **This putsch** or rash act of sedition (call it what you may) *that has revealed cracks and fragilities* that **now cannot be unseen**. And it undeniably **amplifies global Geo-political risks**; **with Europe in the epicenter of potential geopolitical blowout**; further complicating the existing war in Ukraine.
- The **involvement of Belarus**, which is reportedly housing Russian nuclear installations (as part of Russia's strategic positioning in the Ukraine war); **in brokering a de-escalation of the defacto mutiny** might have arguably averted direct conflict between Wagner and the Russian military; but **ironically the risks from military miscalculations** and geopolitical missteps.
- Intellectual curiosity arguably justifies the pursuit of unravelling this Russian political intrigue;
- specifically unpacking the **highly complex and opaque situation to assess whether Putin has the back of, or is bristling to get back at, Wagner boss Yevgeny Prigozhin**,
(who has been riling against the alleged apathy and incompetence of Russia's military elites).
- Whereas **for the pragmatic observer** (and arguably for the realists), the **game of Russian roulette in real time is far more discomforting than it is intriguing**.
- **Bond traders may not be in a state of heightened panic** given that Wagner has stood down; with Prigozhin and his men promised safe passage to Belarus and our of the Russian military sphere.
- **But perhaps there may still be some measure of haven play** that could well **send UST yields lower** (**than its European peers**); *given imaginably greater haven value.*
- **Yet, the Greenback may retain traction**, *if not even command incrementally more premium,* **in defiance of lower yields**; *thanks to Geo-political risks heating up on the other side of the Atlantic.*
- Although admittedly, more severe iterations of conflict risks may see Gold preferred. - **Risk assets may generally not fare so well**, especially if geopolitical risks re-emerge.
- But there are notable exceptions here; both opportunistic and alternative. **Even within the construct of more acute geopolitical risks**, the *defence-related stocks, energy and key commodities may get a tried and tested pick-up.*
- As for the alternatives, there is a **perverse case for pivot bets seizing geopolitical risks to give more legs to "risk on" bets**. Twisted, but not without precedent.
- Finally, **Asia may be trading more sideways than sliding precipitously**.
- While softer risk sentiments and prospects of energy disruption do pose threats, the fact is that **initial reactions may be** (*rightly or wrongly*) **muted by perceived geographic buffer**.
- **China though may remain more of a drag** factor than not.
- Partly due to **on-going disappointments in terms of Beijing's shortfall on stimulus hopes**.
- But the tail risk of **reported Taiwan airspace incursions** by Beijing could have the **makings of a geopolitical curveball that dislodges steadier sentiments within EM Asia**.
- In any case, **we prefer to retain caution**. After all, **in games of Russian roulette**, it is **not so much the partially loaded gun that is a the danger in and of itself**; for a statistician will rightly trell you that it is a risk that may be calculated.
- ***In sharp contrast***, it is **unpredictability of unhinged actors involved**, *converting unadulterated risk into unpalatable uncertainty,* **that pose the real danger**.
- In EM Asia, **Vietnam** is set to release **Q2 GDP** that is **expected to remain dismal amid a global manufacturing downturn** taking a toll on its industry; with its p*ower crunch exacerbated by the weather adding insult to injury*. Expect **dovish policy impetus and attendant VND slippage risks**.
- Down Under, the RBA Minutes and Australia's (sticky and elevated) inflation may provide some second wind to AUD upside; but on a very short leash. Whereas **vulnerabilities to the global downturn and China risks** are **likely to rain on the parade for remaining AUD bulls**.

China's Stimulus Stumbles

- **Market exuberance** on *stimulus bets,* extrapolated from **China's sputtering economy** is **not just perverse, but dangerously misguided**; a point validated by the recoil in risk appetite as last week's *10bp rate cut to 5Y LPR (to 4.20%) disappointed* expectations of a 15bps reduction.
- And not just because of tantrums that market may throw if their expectations of a sufficiently soothing quantum and form of policy fillip is not handed to them.
- For a start, **addiction to stimulus** to the point of **overlooking underlying structural economic malaise** *negligently celebrates short-lived relief over durable resilience.*
- Moreover, **markets** may be primed for even greater disappointment (of outcomes over response); **misjudging, more precisely overestimating, durable uplift from any stimulus** boost.
- **Crucially**, **sharpening policy trade-offs inevitably impose a cost** on, and beyond, the economy.
- Whereas, China's **three most daunting macro challenges** are posed by a confluence of pre-existing *structural impediments*, *self-inflicted socio-political pain* and *geo-economic headwinds*.
- Especially as these headwinds/threats interact and conspire to inadvertently **dampen and diminish growth-boosting impulse from stimulus** *as well as* **growth potential**.
- Upshot being, **failing the most desperate and potentially de-stabilizing pump-priming**, policy stimulus attempts will **at best cushion the bruises from a landing, not conjure a lift-off**.
- Most notably as the **three most daunting macro threats manifest as**;
- i) *binding credit constraints* (that impede provision of, and multiplier benefits from credit);
- ii) *confidence deficit,* significantly compromising growth multipliers amid uncertainty;
- iii) *pervasive property drag* adversely impacting balance sheet/wealth effects and;
- iv) *geo-political "premium"* robbing growth. That is, threat mitigation costs in various forms (security costs, barrier levy, acquisition premium, duplication overheads, etc.).

Vietnam Q2 GDP: A Struggle

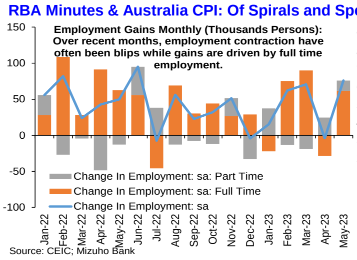
Source: CEIC Mizuho Bank



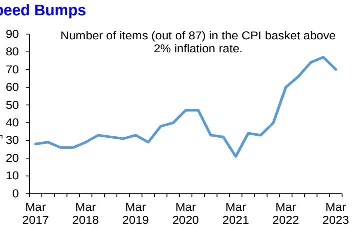
Source: CEIC; Mizuho Bank

- **Q2 GDP growth in Vietnam is likely to be another dismal print which may struggle to reach the 4% mark** and unable to shake off Q1's disappointing 3.3%.
- Apart **from inventory accumulation and slowing orders** which implies cautious production, the industrial bases were further beset with power crunches from insufficient water levels for hydropower generation and slowing credit flows. **Quantitatively**, industrial production was a **mere 0.1% YoY higher in May and 0.5% YoY higher in April.**
- These woes necessitated the SBV's move to cut both the refinancing and the rediscount rate by 50bp which was effective on 19 June.
- With tourist arrivals in April-May expanding 5.6% growth from Q1's average, the services sector will have to continue shouldering the growth burden.
- **Relief** from 11.6% YoY growth in retail sales **ought to be tempered** by considerations over the nominal boost from inflation and **domestic purchasing power concerns** as **industrial employment declined 4.8% YoY.**
- Looking ahead, the authorities will be increasingly look to **preserve labour market stability**, ensure domestic **industrial sustainability** and **prevent power issues from hindering FDI inflows**.

RBA Minutes & Australia CPI: Of Spirals and Speed Bumps



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- Despite the **monthly inflation series** being relatively new and represents a partial update of the CPI basket, it has **grown increasingly significant** in the RBA's policy calculus.
- This was reflected in the latest RBA minutes as **upside surprise in April's inflation print** was explicitly alluded to with specifics of **less than expected goods dis-inflation** and the **lack of signs of moderating services inflation being the major concerns.**
- Relative to May's meeting minutes, June's minutes had new concerns of wage and price indexation. Specifically, **implicit wage setting process** may become anchored on recent past inflation.
- In addition, **observations of price setting behaviours based** on **inflation heightened the RBA's wage price spiral fears.** These fears are certainly **not unfounded** given that strong **employment gains in May** driven by full time jobs.
- What's more, the **unemployment rate edged lower** despite increased labour force participation rates; suggesting fairly tight labour market conditions; at least for RBA policy considerations.
- That said, their allusion to **reconsidering** the case for **holding the cash rate unchanged** at **subsequent meetings tones down the hawkish slant** of these minutes.
- Turning to this week's release, while headline inflation in May is expected to decline from April's 6.8% print, moderation in services inflation may continue to be out of sight for now.
- Given **impending increases in electricity prices in July and the signs of escalating rentals**, the **inflation path might be bumpier than just a slow downward glide.**
- That said, **despite sticky/elevated inflation and hot job conditions suggesting more hawkish flex** from the RBA, **AUD is unlikely to exhibit a bullish breakout** given corresponding hawkish dial-up elsewhere in the G10 dampening the relative hawkish edge/advantage.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	143.7	1.880	1.33%	138.50	~	144.50
EUR/USD	1.0894	-0.0043	-0.39%	1.078	~	1.105
USD/SGD	1.3519	0.014	1.08%	1.3300	~	1.3550
USD/THB	35.220	0.550	1.59%	34.50	~	35.40
USD/MYR	4.6783	0.063	1.37%	4.628	~	4.700
USD/IDR	14994	59	0.40%	14,800	~	15,100
JPY/SGD	0.9411	-0.002	-0.17%	0.920	~	0.978
AUD/USD	0.668	-0.020	-2.84%	0.662	~	0.690
USD/INR	82.03	0.096	0.12%	81.0	~	82.8
USD/PHP	55.77	-0.095	-0.17%	55.3	~	56.4

^Weekly change.

FX Outlook: Don't Diss Dollar

- Admittedly, the **impetus to sell off the Greenback is not entirely unimaginable** *amid hawkish (surprise) walk elsewhere in the G10* that was contrasted against the Fed's pause that was framed awkwardly as a nexus between slowing down speed and the need to keep at it.
- **Nonetheless, dissing the dollar is both myopic and hasty**.
- And *arguably even dangerous in a climate if heightened geopolitical risks*.
- First things first. **Even on perceived policy provocations** to cut down the dollar, **markets might have miscalculated**.
- For one, the **Fed's 'Dot Plot' is not inconsistent with the extent of rate hikes left in the bag for other major central banks** such as the ECB and BoE despite the greater upside surprise in inflation at the other side of the Atlantic.
-And so, **ironically, despite the hawkish reflex to inflation upside risks, the eventual outcome may be higher real rates in the US** that ought **to underpin, not undermine, the Greenback**.
- In particular , the "higher for longer" messaging squaring with keeping real rates at an appropriately elevated state to anchor inflation expectations could also provide some backstop to the USD.
- What's more, the **pick-up in geopolitical amid agitations within Russia** could **also augur more support for the USD**.
- Not just on **relative haven play** accentuated by more proximate spillover risks in Europe.
- But also as the **hard currency of choice amid geopolitical uncertainty**.
- Gold may of course retain the edge against the Greenback. But that does not distract from the Dollar's desirability under current conditions if risks mount.
- Finally, **while Asia may enjoy some degree of geographic insulation** from European geopolitical risk, **lingering China drag suggests that EM Asia FX will more likely than it deferential** to the USD after the initial reflex of gaining against the Greenback the closed coast week softer.
- All said, it appears ***cavalier to diss the (US) dollar on account of shallow policy divergence bets, or worse, misguided pivot wagers***.

USD/JPY: Talk

- With BoJ's summary of opinions setting continued dovish tones, the JPY may find it hard to recover ground as the USD/JPY closed above mid-143 last week,
- Oil price concerns on geo-political risks adds an additional upside diemension for this week.
- Meanwhile, Tokyo CPI is unlikely to move the policy needle but intervention risks may trigger caution for speculative rallies.
- On balance, the USD/JPY looks to remain buoyed above 139.

EUR: Lacking Bite

- Amid plunging PMIs, growth worries have set back the EUR as durable testing of 1.10 is likely to remain out of sight.
- For all the likely hawkish talk in ECB's forum in Sintra this week, **the bite might be lacking**.
- End of the week CPI release may invite talk of policy moves lacking bite with core inflation expected to edge higher and also trigger recession fears. Any downside inflation surprise dents ECB's hawkish tendencies.
- All in, EUR ought to trade sideways in the 1.075-1.105 range.

SGD: Rattled

- Russia's putsch might have quietened down, with conflict averted and Wagner boss Prigozhin noa having a negotiated back down (and ship out to Belarus).
- But the underlying state of heightened geo-political risks with attendant prefwerence to be long USD is clearly being felt by the USD/SGD; squeezed above 1.35.
- In particular as Russia's travails from the mutinut attempt also places China in an awkward position. More so with reports Chinese airforce incursions into Taiwan's airapace.
- While not confirmed, it nonethelss raises the risks asssociated with wider geo-political spill-over. And in the very near temr at least drag the CNH.
- Attendant headwinds to SGD arepar for this bumpy course.
- We expect USD/SGD to be traded wuityh slight upside bias in ranges stretching from just below mid-1.34 to high 1.35 for now.

AUD: Hampered Bulls & Hackled Hawks

- Admittedly, AUD bulls have gained the upper hand on the perfect comobination of Fed pause, China stimulus hopes and Aussie data underpinning a hawkish RBA.
- The Minutes though may have a higher bar to instigate fresh bullishness in the AUD given that a lot of the RBA boost has already been baked in.
- What's more, China stimulus have also been factored in to some extent;
- and so barring a fresh boost to sentiments from identifiable stimulus measures that markets can digest, further AUD upside may be at best measured.
- Fed Chair Powell's testimony could also check the extent of USD weakness, and as corollary, unhamepered AUD ascendancy.
- So yes, AUD will probably consolidate higher from high-0.67 to 0.69-ish levels.
- But 70 cents and beyond might have to await emphatoc bullish cues.

Bond Yield (%)

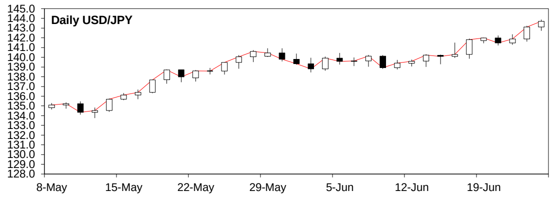
23-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.741	2.7	3.735	-2.6	Flattening
GER	3.092	-0.5	2.351	-11.9	Flattening
JPY	-0.084	-1.0	0.353	-4.3	Flattening
SGD	3.385	1.1	2.979	1.1	Steepening
AUD	4.188	0.1	3.986	0.1	Steepening
GBP	5.140	22.5	4.311	-9.2	Flattening

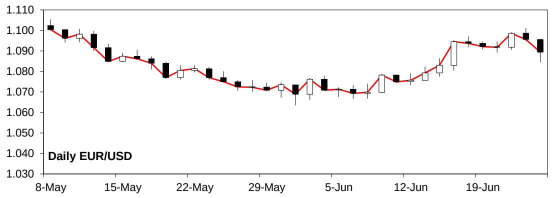
Stock Market

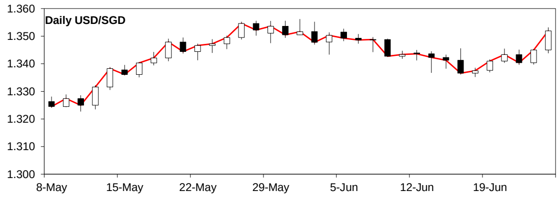
	Close	% Chg
S&P 500 (US)	4,348.33	-1.39
Nikkei (JP)	32,781.54	-2.74
EuroStoxx (EU)	4,271.61	-2.80
FTSE STI (SG)	3,191.60	-2.10
JKSE (ID)	6,639.73	-0.88
PSEI (PH)	6,393.55	-1.76
KLCI (MY)	1,390.89	0.16
SET (TH)	1,505.52	-3.45
SENSEX (IN)	62,979.37	-0.64
ASX (AU)	7,099.23	-2.10

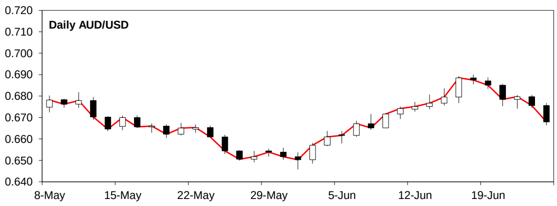
US Treasuries: Geopolitical Anchor, Not Policy Relief

- No surprise that a **rash of hawkish assertions and surprises from both sides of the Atlantic amid upside inflation surprises have driven global yields higher**.
- Crucially, the doubling down on bets has it just been around deferred rate cuts, but rather the prospects of more rate hikes left in the bag for Q3, if not through H2.
- And as such the **driver of deepening yield curve inversion** remain in play.
- With the 2Y UST yields already at 4.75% (rising more sharply by 25bps in 2 week) than a more measured lift in 10Y yields to 3.74%, the **10-2 inversion is now in the ballpark of 100bp**, and could imaginable probe 120-140bp in coming weeks.
- But for now, *heightens geopolitical risks could temper, if not blunt the upside impetus in UST yields;* interrupting potential for the front end to test 5% (even if only momentarily so).
- The **10Y could also be blown off 3.8% target higher as haven demand boosts long-end demand** to lower yields below the 3.4-3.5% mark for now.
- All said though, **geopolitics is more of a reason to opportunistically buy back USTs from a sold down position as clarity is sought**;
- **Rather than irrevocably change the fundamental policy impetus for higher yields** in the run-up to the July FOMC. For now, 3.63-3.85% intact for 10Y.









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