Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095
Vishnu Varathan | Tan Boon Heng

19-Jun-2023

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 16 June 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
20 Jun	US	Building Permits	May	1428k	1417k
	US	Housing Starts	May	1379k	1401k
	EZ	**ECB Current Account SA**	**Apr**	**--**	**31.2b**
	JP	**Industrial Production YoY**	**Apr F**	**--**	**-0.3%**
	JP	Machine Tool Orders YoY	May F	--	-22.2%
21 Jun	US	Fed Chair Powell Testifies to House Financial Services Panel			
22 Jun	**US**	**Current Account Balance**	**1Q**	**-$218.0b**	**-$206.8b**
	US	Initial Jobless Claims		255k	262k
	US	Chicago Fed Nat Activity Index	May	-0.1	7.0%
	US	**Leading Index**	**May**	**-0.8%**	**-0.6%**
	US	Kansas City Fed Manf. Activity	Jun	-4.0	-1.0
	EZ	Consumer Confidence	Jun P	-17.0	-17.4
	US	Fed Chair Powell Testifies to Senate Banking Panel			
23 Jun	**EZ**	**Mfg/Services PMI**	**Jun P**	**44.8/54.4**	**44.8/55.1**
	JP	**Mfg/Services PMI**	**Jun P**	**--**	**50.6/55.9**
	JP	**Natl CPI/ Ex Fresh Food, Energy YoY**	**May**	**3.2%/4.2%**	**3.5%/4.1%**

Asia — Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
19-22 Jun	PH	BoP Overall	May	--	-$148m
20 Jun	CH	1 Year/5-Year Loan Prime Rate		3.65%/4.30%	3.65%/4.30%
	AU	RBA Minutes of June Policy Meeting			
	MY	Trade Balance MYR	May	13.40b	12.85b
	TA	**Export Orders YoY**	**May**	**-21.4%**	**-18.1%**
21 Jun	**KR**	**PPI YoY**	**May**	**--**	**1.6%**
22 Jun	**ID**	**Bank Indonesia 7D Reverse Repo**		**5.75%**	**5.75%**
	PH	**BSP Overnight Borrowing Rate**		**6.25%**	**6.25%**
23 Jun	**SG**	**CPI/Core YoY**	**May**	**5.3%/4.7%**	**5.7%/5.0%**
	AU	**Mfg/Svcs PMI**	**Jun P**	**--**	**48.4/52.1**
	MY	**CPI YoY**	**May**	**3.0%**	**3.3%**
	TH	Customs Trade Balance	May	-$390m	-$1470m

Week-in-brief: More Than Words

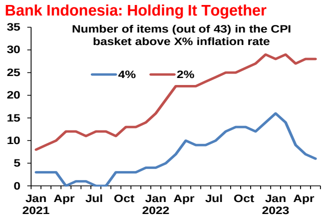
Saying "I love you" | Is not the words I want to hear from you
It's not that I want you | Not to say but if you only knew
How easy, it would be to show me how you feel
More than words is all you have to do to make it real
Then you wouldn't have to say that you love me
'Cause I'd already know – *"More than Words", Extreme*

- **As excitable as bulls are**, grasping at anything from "AI" to stimulus hopes, to pivot bets further out, it appears that **markets may require "more than words"** to maintain exuberance.
- And in different ways, the *Fed and Beijing's policy-makers reflect this.*
- For the Fed, that it **took the Fed's hawkish June 'Dot Plot'**, and *not just hawkish rhetoric,* last week **to finally wean markets off H2 cut bets** was a case in point.
- Elsewhere, ***despite PBoC rate cuts,*** Beijing's **conspicuous absence of "*more than* (generic) *words*"** on further stimulus, **in particular devoid of specifics on an identifiable plan**, could fall short of market speculation (and attendant) cheer that had gotten ahead late last week.
- To be sure, reference to this song ("*More than Words*") and the band (*Extreme*) is not just because it's an immortalized love ballad, but rather that it is **uncannily, and *yet oddly,* apt**.
- **Odd** *because in the year (1991) the song was released, the Fed was on an aggressive rate cutting cycle,* from 7.00% (Fed Funds rate) in January to end-1991 4.00%.
- *Whereas* at the point of writing, and *referencing the song,* the *Fed is emphatically hawkish;*
- **having delivered 500bp of unrelenting hikes since March 2022**, and qualifying its first pause with a 'dot Plot' that suggests **at least two more (25bp) rate hikes in store for 2023**.
- Nonetheless, **uncanny** as "*More than Words*" by the band *Extreme* **resonate at so many levels**.
- For a start, expect that **markets will cling on to (*more than*) every *word*** from Fed Powell during his post-FOMC testimony to the Congress middle of this week (Wed and Thu).
- In fact, **any intonation** (real or perceived) from Fed Chair will be dissected in the context of more hawkish Fed talk, taking some relief out of softer U.of Michigan inflation expectations
- Equally, **pressures must be mounting alongside hopes** that **Beijing will have to deliver "*more than (just) words*" on its widely telegraphed intent for stimulus**.
- Specifically, the gap between intent for "more forceful measures" and conviction about efficacy must be bridged with details on the modalities of getting "effective stimulus" through key, targeted sectors.
- The State Council stated *financial support for "technology-based enterprises .. as top priority"*. The **intended credit channelling is hardly surprising, but not wholly convincing without details**.
- In addition, further support to revive the beleaguered property sector is the elephant in the room that is not explicitly mentioned, and is at odds with the "property is for living, not speculation" slogan.
- Finally, on public infrastructure, there needs to be "more than words" that just urging construction of wider tech support eco-system; as local government budget constraints are the elephant in the room.
- To that end, **special bonds from the Federal government may be the proverbial** *affirmation of putting money where the mouth is;* consistent **with a justifiably higher bar of "more than words"**.
- And all, **market reactions can be *extreme***, be it with regards to the Fed or Beijing's pipeline stimulus; **given that expectations** (for China stimulus) **and the expectations gap** (between market expectations and Fed pronouncements) **are stretched**.
- In the region both the **BSP** and **Bank Indonesia** will announce policy (on Thu). And **both are expected to stay on hold**; albeit with *varying degrees of comfort and differing caveats.*
- For BI, a sweet spot of IDR stability and inflation containment provide policy space. *But* renewed Fed and ECB hawkish cues may demand ***more than*** (the usual***) words*** on concluded tightening.
- **BSP's pause** will be **more distinctly hawkish**, backed by projections for inflation descent to 2-4%.
- RBA June Minutes (Tue) are *unlikely to inspire emphatic AUD strength* **despite a hawkish slant** as it may take **more than words to charge up AUD bulls that have already charged last week**.
- From here, it appears that policy-makers will have to "*make it real*". And the most effective policy signal is one that policy makers "*wouldn't have to say*" ... *'cause (markets would) ... already know*".

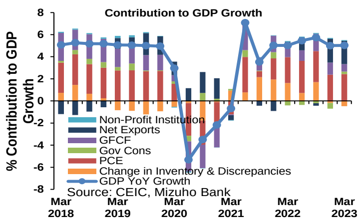
State Bank of Vietnam: Unleashes Another Round of Easing with a 50bp Cut

- The SBV announced on 16 June that **both the refinancing rate and the rediscount rate will be cut by 50bp** from 5.0% to 4.5% and from 3.5% to 3.0% respectively, effective today
- For context: the SBV began cutting rates on **15 March with a 100 bps cut to the rediscount** rate which pertains to improving access for **front end (short term) credit and may be aimed at alleviates stresses in the troubled property sector.**
- Q1 GDP growth outturn released on 29 March was at **a disappointing 3.3% YoY** as manufacturing output contracted. This was followed suit by a **50bp cut on 3 April** to **the refinancing rate** to **ease access to liquidity and credit further out the curve with longer tenors.**
- **Credit indicators displayed impaired access across sectors including external facing trade sectors as inventory build-up and slowing orders weighed.**
- Meanwhile**, power crunch from high temperatures and low reservoir water levels have** not only curtailed "non-essentials" (e.g. advertising billboards) **but impacted MNC industrial parks too**.
- Amid credit crunch and power crunch exacerbating risks of higher prices and lower output, the SBV carried out another **50bps cut to the refinancing rate effective on 25 May.**
- In the current context, the policy easing move are aimed at alleviating stresses in industrial bases.
- While thorny hydroelectric power issues are outside of monetary policy ambit, lowering the cost of credit alleviates at the margin; and could help mitigate damage to industrial/FDI sentiments.
- At this rate, **Q2 GDP growth outturns are likely to be dismal**; risking falling short of official target.

Bank Indonesia: Holding It Together



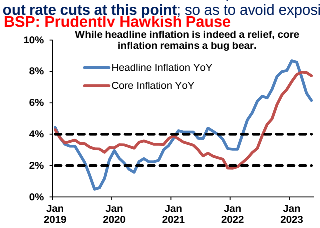
Source: CEIC; Mizuho



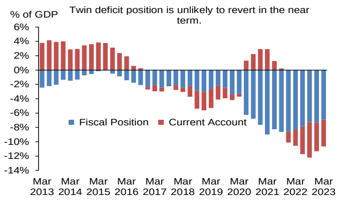
Source: CEIC, Mizuho Bank

- Bank Indonesia will keep **policy rates on hold** at their meeting on 22 June.
- Unlike many regional peers, headline inflation in May of 4.0% YoY is now **resting within BI's target range** (1-4%) **and core inflation presents an even more comfortable scene** at 2.7%.
- For now, **tightening bias has admittedly subsided** amid **mixed signals** on economic activity.
- Amid BI's dropping of upward bias in their growth outlook at the previous meeting, the **broad conjuncture depicts possible resilience attempting to hold up growth amid a slew of emerging soft spots**. While retail sales posted subdued growth of 0.8% YoY in April-May and car sales in April fell 28% YoY, **consumer confidence bucked the pessimism to continue improving**.
- Visitor arrivals (at around 860k/month) are steadying at about 65% of pre-Covid levels awaiting stronger inflows from ASEAN and China **underscores on-going services recovery which lean against the risks of manufacturing PMI** buckling from their current expansionary territory.
- While **surplus position on trade balances will endure** for the next few months, 29% YoY and 22% plunge in exports and imports respectively incite worries on both external and domestic demand.
- As for **the IDR, it has critically remained stable** to chalk up mild gains since the last meeting amid a confluence of trade, foreign fund inflows and policy (operation twist and export term deposits).
- All said, Bank Indonesia's attempt to maintain this balancing act of (Inflation-growth-IDR) stability **rules out rate cuts at this point**; so as to avoid exposing vulnerabilities to capital flight.

BSP: Prudently Hawkish Pause



Source: CEIC, Mizuho Bank

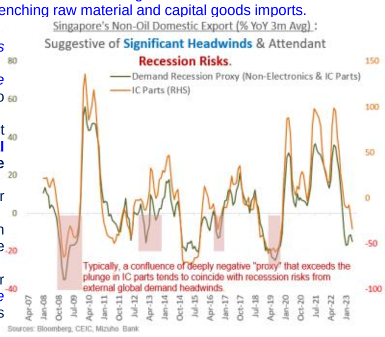


Source: CEIC; Mizuho Bank

- While the BSP is also likely to stand pat on monetary on the same day (22 June), this will be a **prudently hawkish pause.** By the BSP's own admission at their previous meeting in May, there was scope for a **prudent pause while keeping a tightening bias.** In the same vein, **scope for a continued pause** persist on **slowdown in headline inflation** from 6.6% in April to 6.1% in May.
- That said, hawkish tendencies will continue to be transmitted from Governor Medalla despite his clearly communication projection **for headline inflation to land within 2-4% target by end-23.**
- With core inflation extremely **elevated at a 7.7%** and as the only country in the region where **core inflation has accelerated** in 2023, **dropping hawkish tendencies may not be prudent.**
- While improved import flows indeed provide restrains on food inflation, a tight labour market amid firm growth ought to underpin inflationary pressures while El Nino risks trigger bouts of price volatility.
- Hence, **visibility is diminished** given the **starkly divergent headline and core inflation.**
- What's more, twin deficits worries underpin PHP weakness arising from Marharlika fund concerns and associated manadated infrastructure needs entrenching raw material and capital goods imports.

Singapore: Trading Risks

- Being a small and open economy, *Singapore is acutely sensitive to global headwinds.*
- By the same token, it plays the *role of the proverbial canary* (in the coal mine) if one is so inclined to look at the right places.
- On that note, in-coming trade data, led by select **NODX details, warn of approaching global demand storms**; **consistent with severe contractions, *if not recessions*.**
- To be sure, *Singapore's manufacturing* sector has *already* been *in a recesssion* for a while.
- Questions is, will this broaden rather than turnaround in the near-term; not only dragging the wider economy, but also the region.
- The prognosis is uncertain. But even for optimists it would be *cavalier to ignore more intense headwinds around the corner;* with odds that things get worse before better.



Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	141.82	2.420	1.74%	138.50	~	142.50
EUR/USD	1.0937	0.0188	1.75%	1.078	~	1.105
USD/SGD	1.3375	-0.006	-0.44%	1.3300	~	1.3520
USD/THB	34.670	0.052	0.15%	34.30	~	34.90
USD/MYR	4.615	0.001	0.02%	4.560	~	4.660
USD/IDR	14935	95	0.64%	14,800	~	15,100
JPY/SGD	0.9427	-0.021	-2.21%	0.933	~	0.976
AUD/USD	0.6875	0.013	1.97%	0.675	~	0.700
USD/INR	81.94	-0.528	-0.64%	81.0	~	82.8
USD/PHP	55.865	-0.175	-0.31%	55.3	~	56.4

^Weekly change.

FX Outlook: Pause to Ponder

- Admittedly, the **Greenback has not regained ground after the post-ECB slide**, well below end-May levels.
- But the USD remains well above late-April/early-May lows.
- What's more, **despite the glaring disparity between the ECB's hike and the Fed's pause**, any further inspection reveals similar outcomes between the two central banks.
- Specifically, **another 25-50bp hikes being considered by the ECB and Fed alike**.
- In which case, the difference in talk may dissipate as markets appreciate the similar "walk". This **could kick the tyres on USD sell-off**.
- *In fact,* **US dis-inflation further out could be a little steadier**;
- **thereby propping up a beaten down USD rather than hammering it down**.
- At the very least, this could at the very least hamper unbridled EUR gains; and as a result check broad-based USD sell-off bets.
- Meanwhile, for E**M Asia FX gains leveraging on USD declines**, further souped up by "risk on" remain **contingent on China stimulus bets being delivered**.
- So for now, extending long AXJ bets will probably be reined in as details from Beijing are awaited.
- Especially as *Fed Chair Powell's testimony to the Congress could stress on further tightening, catching aggressive USD shorts wrong-footed.*
- **Pausing to re-evaluate both direction and momentum of short USD bets would return the courtesy of a hawkish Fed pause**.

Bond Yield (%)

16-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.714	11.8	3.761	2.2	Flattening
GER	3.097	19.9	2.470	9.8	Flattening
JPY	-0.074	-0.3	0.396	-1.9	Flattening
SGD	3.374	3.1	2.968	1.2	Flattening
AUD	4.187	19.4	4.023	0.1	Flattening
GBP	4.915	40.3	4.403	17.1	Flattening

Stock Market

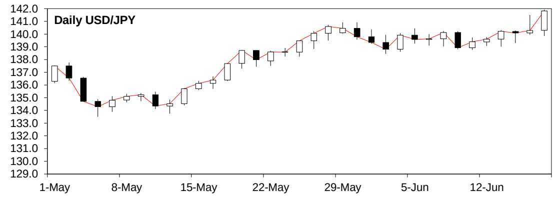
	Close	% Chg
S&P 500 (US)	4,409.59	2.58
Nikkei (JP)	33,706.08	4.47
EuroStoxx (EU)	4,394.82	2.45
FTSE STI (SG)	3,260.03	2.29
JKSE (ID)	6,698.55	0.07
PSEI (PH)	6,508.34	0.02
KLCI (MY)	1,388.61	0.91
SET (TH)	1,559.39	0.28
SENSEX (IN)	63,384.58	1.21
ASX (AU)	7,251.25	1.81

US Treasuries: Deepening Woes

- As expected, UST yields jumped despite the Fed's widely expected pause.
- **The yield curve inversion on the 10Y-2Y also deepened as 2Y yields rose 11.8bp while 10Y yields edged up 2.2bp.** The Fed's near term forward spread (18m-3m) has been **inverted since November 2022.**
- This week's attention falls onto Fed Chair Powell's testimony. While he may be **inclined** to **cite progress on inflation, any market attempted leap of faith towards dovishness may instead be a risky proposition.**
- Furthermore, with jobs claims staying near recent highs, one should brace for potential higher than usual two-way volatility.
- All in, 2Y yields are projected to trade in the 4.6-4.8% range with potential for downside bias as risk aversion grows. UST 10 yields may soften as inflation expectations last week impart restrain.

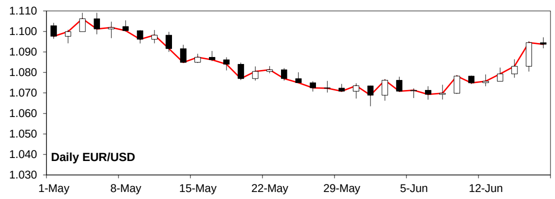
USD/JPY: Room and Impetuous

- With the BoJ affirming their accommodative policy status conspiring with a hawkish Dot Plot from the Fed last week, the USD/JPY **was given room and impetuous** to soar towards 142.
- At such levels, **more jawboning** will be expected on excessive JPY volatility. The **risks of intervention may rise** if end of the week CPI invite further speculative bets for JPY bears.
- Near term buoyancy above 139 remains intact while challenges towards 143 is still a bold move.



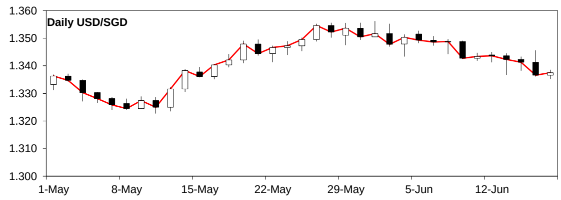
EUR: Now and later

- With the ECB taking their policy rate 25bp higher and signaling for further hikes while the Fed held held rates, the EUR gained traction last week to recover above 1.09.
- That said, in terms of rate divergence, the ECB is very much playing catch-up at this juncture and as such, testing 1.10 is likely but with appropriate restrains as bugging fragmentation issues re-surface later.
- In addition, ECB President Largarde has signaled that beyond July the ECB remains data dependent.
- On balance the EUR is is expected to trade in the 1.085-1.105 range with upside bias.



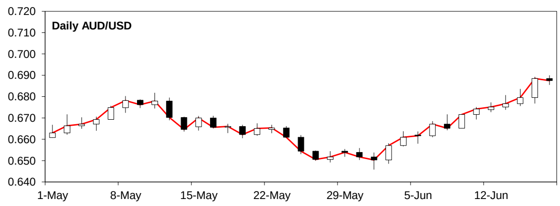
SGD: Between Relief & Rallies

- While the Fed's pause alongside the ECB's hike may have given rise to knee-jerk USD pullback that has knocked back USD/SGD to test sub-1.34, this should not be taken as a pre-set course for the pair to test lower at 1.33.
- For one, the Fed could come back swinging hawkish with Fed Chair Powell's testimony to the Congress likely to stress on the fact that the job on tightening is not yet done.
- Second, softer-than-expectec NODX numbers underpin risks of a recession amid external global demand drag; and this should take some edge off the SGD.
- Finally, and critically, without an emphatic boost to CNH, likely from Beijing's stimulus plans for the Chinese economy being fleshed out, SGD bulls will struggle for follow-through rallies.
- For now, sub-1.34 is a relief from USD bulls, not the start of unhampered rallies.
- Near-term range of 1.33 to mid-1.34 likely.



AUD: Higher, but Not Unhampered

- 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, unhampered 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.



MIZUHO