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MIZUHO

WEEK AHEAD

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05-Jun-2023

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Economic Calendar

•Survey results from Bloomberg, as of 2 June 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
05 Jun	US	ISM Services Prices Paid/New Orders	May	--	59.6/56.1
	US	**ISM Services Index**	**May**	**52.4**	**51.9**
	US	**ISM Services Employment**	**May**	**--**	**50.8**
	US	**Durable Goods/ Nondef Ex Air Orders**	**Apr F**	**1.1%/--**	**1.1%/1.4%**
	EZ	Services PMI	May F	55.9	55.9
	EZ	**PPI YoY**	**Apr**	**1.5%**	**5.9%**
	EZ	Sentix Investor Confidence	Jun	-15.1	-13.1
	JP	PMI Services	May F	55.9	56.3
06 Jun	**EZ**	**Retail Sales YoY**	**Apr**	**-3.0%**	**-3.8%**
	JP	Labor/Real Cash Earnings YoY	Apr	1.8%/-2.0%	1.3%/-2.3%
07 Jun	**US**	**Trade Balance**	**Apr**	**-$75.0b**	**-$64.2b**
	JP	Leading Index CI/Coincident Index	Apr P	98.3/99.0	--
08 Jun	**US**	**Initial Jobless Claims**		**237k**	**232k**
	US	Wholesale Inventories MoM	Apr F	-0.2%	-0.2%
	EZ	**GDP SA YoY**	**1Q F**	**1.3%**	**1.3%**
	JP	**Trade Balance BoP Basis**	**Apr**	**-¥275.5b**	**-¥454.4b**
	JP	**BoP Current Account Balance**	**Apr**	**¥1650.0b**	**¥2278.1b**
	JP	Eco Watchers Survey Outlook/Current SA	May	56.2/55.0	55.7/54.6
	JP	**GDP Deflator YoY**	**1Q F**	**2.0%**	**2.0%**
	JP	**GDP Annualized SA QoQ**	**1Q F**	**1.9%**	**1.6%**

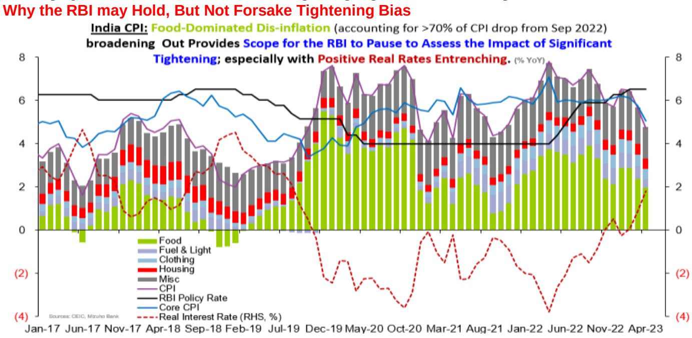
Asia Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
05 Jun	CH	Caixin China PMI Services	May	55.2	56.4
	SG	**Retail Sales/Ex Auto YoY**	**Apr**	**-1.9%/--**	**4.5%/4.1%**
	AU	PMI Services	May F	52.1	51.8
	ID	PMI Mfg	May	50.3	52.7
	ID	**CPI/Core YoY**	**May**	**4.2%/2.8%**	**4.3%/2.8%**
	IN	PMI Services	May	--	62.0
06 Jun	**AU**	**BoP Current Account Balance**	**1Q**	**A$15.0b**	**A$14.1b**
	AU	**RBA Cash Rate Target**		**3.85%**	**3.85%**
	TH	**CPI/Core YoY**	**May**	**1.6%/1.6%**	**2.7%/1.7%**
	PH	**CPI YoY 2018=100**	**May**	**6.1%**	**6.6%**
	TW	**CPI/ Core YoY**	**May**	**2.3%/--**	**2.4%/2.7%**
07 Jun	**CH**	**Trade Balance**	**May**	**$95.1b**	**$90.2b**
	AU	**GDP YoY**	**1Q**	**2.4%**	**2.7%**
	AU	RBA's Lowe-Speech			
	TW	**Trade Balance**	**May**	**$5.0b**	**$6.7b**
08 Jun	**AU**	**Trade Balance**	**Apr**	**A$13650m**	**A$15269m**
	IN	**RBI Repurchase Rate**		**6.50%**	**6.50%**
09 Jun	**CH**	**CPI/PPI YoY**	**May**	**0.2%/-4.4%**	**0.1%/-3.6%**
	KR	**BoP Current Account Balance**	**Apr**	**--**	**$267.9m**
	MY	**Industrial Production YoY**	**Apr**	**2.0%**	**3.1%**
	PH	**Trade Balance**	**Apr**	**-$4778m**	**-$4928m**
	PH	**Unemployment Rate**	**Apr**	**--**	**4.7%**

Week-in-brief: Crisis Averted, but Crunch Awaited

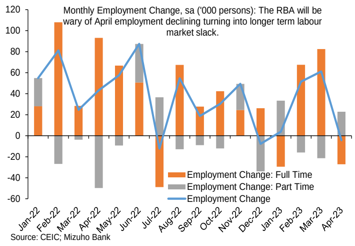
- Admittedly, with President Biden's signing off legislation that suspends the Federal debt ceiling has triggered a **huge relief rally in markets** (S&P500 surging 2.5% in the last two sessions). And justifiably so as a an impending **crisis** was **averted** before inadvertently triggering pandemonium.
- Nonetheless, **a crisis averted does not mean blue skies for bulls to exploit**. In fact, quite categorically, **markets ought to brace** for a **potential liquidity crunch** that is **awaited**.
- Fact is, the **US Treasury's cash has all but dried up** even sooner than the ink on the debt deal has (dried). And as your scribe pens this, the US Treasury **is getting ready to embark on significant T-bill issues to replenish woefully depleted cash**. Having run-down to less than $30bn, restoring comfortable cash balance of $500-600bn, requires issuances north of $600-800bn.
- In fact, **a wall of $1trln of issuances** in the **pipeline appears to be the consensus**.
- **As we have warned**, the **resulting intensity of liquidity suction** threatens to have *adverse effects on USD funding,* and quite inevitably on *liquidity-driven asset markets.* Point being, the **heft of the US Treasury as a voracious competitor for USD funding** means that **something will have to give**.
- And this "something" will most likely be **much more expensive USD funding for banks** as well as **non-bank FIs** that inevitably disadvantages smaller/regional banks.
- And so, if wrong-footed, this could inadvertently exacerbate any incidence of banking turbulence.
- In addition, **asset markets** that have been beneficiary of (relatively) cheap, excess liquidity, could also be **subject to payback**; *dented by depletion of liquidity* as **Treasury bills deprive equity bulls**.
- Speaking of what we have warned about, **Saudi's unilateral output cut (of 1MBpD)** was a worry we flagged in last week's edition of this report as well as on Thursday. In fact, we had expressly said that "*Saudi could subsequently blind-side markets with a unilateral, inter-meeting cut*".
- **Brent prices jumped** to test $78 on Saudi cut; **but** is **losing traction as markets digest the non-alignment of the rest of the OPEC+**; notably *including Russia, which is incentivised to pump more.*
- In terms of data, it is fairly quieter on the G3 front after last week's solid 339K NFP that ought to have bumped up rate hike bets was checked by slower wage gains (amid higher unemployment).
- ISM Services in focus to get a broader sense of cooling activity; reinforcing a June FOMC pause.
- In our neck of the woods, the **RBI is set to pause** (with policy space enhanced, not determined, by a FOMC pause). Meanwhile, the **RBA** has a fair case to pause, but may **narrowly decide on a hike instead**. Especially as *hot inflation* and *inward migration* underpin the hawkish bias. In which case, **slowing Q1 GDP will be a backward-looking risk gauge**, **not a convincing restraint on the RBA**.

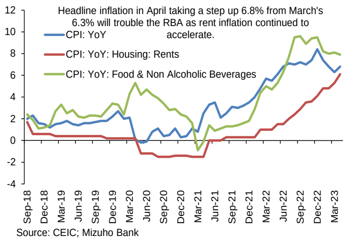
Why the RBI may Hold, But Not Forsake Tightening Bias



- The **RBI is likely to exploit the sustained pullback in inflation in the context of significant hikes** since last year **to pause** at the meeting this week (8th June, Thu).
- Specifically, on account of the **compelling optics of sub-5% inflation** as April's CPI **decelerated sharply** to 4.7% (from 5.7% in March), down more than 3%-pts from 7.8% in April 2022.
- Especially **taken alongside the emphatic tightening** course, with *250bp of hikes (to 6.50%)* under its belt since May last year. The upshot is that **a pause at this meeting is arguably** due; and could perhaps be **strengthened by notions of a corresponding Fed pause at the June FOMC**.
- And to be sure, the **out-run in Q1 GDP** (at 6.1%) is **not an unequivocal trigger to keep at hikes**.
- In particular **insofar that growth was overstated in the headlines**, mixed in the details, and most importantly not without fragilities ahead amid gathering global headwinds.
- Nonetheless, and all said, the **decision for the June meeting for the RBI is between a measured 25bp hike (20% odds) and a pause (80% odds)**; *rather than a sharp pivot to cuts.*
- And to be sure, **a decision in favour of a pause does not negate further tightening just yet**.
- Notably as a conspiracy of pipeline inflation risks (El Nino for one) and lingering rupee/macro-stability concerns underpin the tilt of policy cost-benefits slightly in favour of more tightening; even if that is a high-cost hike that trades off growth in return for stability.
- All said, the **coincidence of sustained softening in inflation** and **runway of hikes** allow for **a pause in June**; ***but*** this is still **far from an unequivocal pivot to easing**.

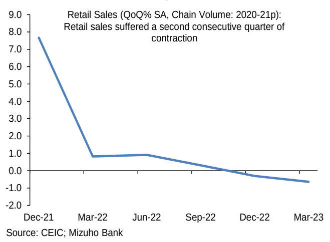
RBA: Narrow Hike?

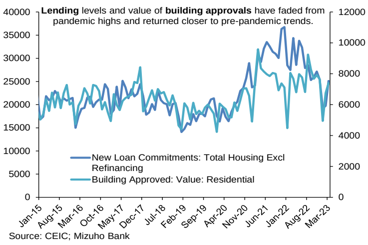




- While the mild April employment contraction may incite some RBA caution, **April's inflation print rising to 6.8% from March's 6.3%** will be the **more troubling data** point to ponder over.
- **Admittedly**, one might be tempted to discount the increase as it is driven in large part due to **base effects from fuel excise tax cut a year ago.** Excluding volatile items (fruit and vegetables. fuel and holiday travel and accomodation), inflation is down to 6.5% in April from 6.9% in March.
- Nonetheless, **fuel prices are still up 2.9% MoM to absolve some blame from base effects**.
- **Slow moderation of food and non-alcoholic beverage inflation** from 8.1% in March to 7.9% in April is **also little comfort for the RBA**. Incessant rise in rental inflation add to the RBA's woes given that **low vacancy rates is set to collide with impending increasing immigration inflows.**
- While **growth is expected to slow** on weaker consumption spending, it ought to hold closer to pre-pandemic rates rather than head for a straight up collapse. (**See more below**)
- Given this inflation backdrop and the **RBA's desire to traverse the narrow path**;
- which involves bringing inflation path to target while preserving employment gains, the **case for a narrower 15bps hike continue to hold relevance.**
- **That said, the tendency to continue in 25bps hikes of normal central bank orthodoxy will nonetheless be a strong one.**

Australia GDP: Holding the Line





- Down Under, **Q1 GDP print is expected to slow further** from Q4's 2.7% YoY growth.
- Specifically, the signs point to **sequential expansion below the previous pace** of 0.5% QoQ.
- While private consumption might show headline strength, it is more likely that the consequent impact on overall economic activity is more subdued given that some of it ought to experience substraction as it accrues to import spending from substantial outbound abroad.
- A **second consecutive quarter of retail sales contraction** also speaks to **erosion of household budgets from persistently negative real wage growth.**
- **Meanwhile, new loan commitments to housing plunging 29% from a year ago while building approvals in April slipped 2.6% YoY.**
- An this points to the likelihood of **construction activity that ought to remain lacklustre with attendant spillovers onto the real estate services and banking sector.**
- The latter though ought to have still benefitted from higher net interest margins in Q1.
- Nonetheless, given signs of household stresses, uptick in NPLs may be on the cards.
- All in, amid resilient labour markets, we expect Q1 growth to hold up near pre-pandemic trends (2013-2019 average: 2.4%) with the balance of growth risks ahead tilted to the downside.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	139.92	-0.680	-0.48%	136.00	~	142.00
EUR/USD	1.0708	-0.0015	-0.14%	1.060	~	1.088
USD/SGD	1.3503	-0.002	-0.14%	1.3400	~	1.3620
USD/THB	34.540	-0.137	-0.40%	34.30	~	34.90
USD/MYR	4.5765	-0.024	-0.52%	4.540	~	4.660
USD/IDR	14993	38	0.25%	14,850	~	15,100
JPY/SGD	0.9645	0.003	0.32%	0.944	~	1.001
AUD/USD	0.661	0.009	1.43%	0.648	~	0.675
USD/INR	82.30	-0.270	-0.33%	82.0	~	83.0
USD/PHP	55.904	0.121	0.22%	55.5	~	56.4

^Weekly change.

FX Outlook: Tap, Not Tip

- At the risk of being repetitive, the **USD is likely to retain its tone** contrary to expectations of debt ceiling resolution relief driving USD declines (in line with the experience of left-half 'USD Smile)'.
- Point being, **rather than boost from ebullient risk sentiments**, the **overriding USD theme may be determined anticipated USD liquidity reduction**.
- In other words, determined by the crunch of liquidity squeeze of **US Treasury tap** on market liquidity not relief rallies on a hat tip to a debt crisis averted.
- What's more, apart from an **acute squeeze of USD funding** set to **drive up cost/price of the Greenback**, **lingering caution about US-China** in the post Shangri-la Dialogue (replete with South China Sea tensions mounting rather than alleviating) could also **harangue and hamper CNY bulls**.
- Consequently, **slippage risks in the CNH might give an additional cause for restraint in AXJ**;
- **if not outright succumbing to further retreats** against the Greenback.
- Admittedly, large China exposures via the Commodity complex ought to spell down draft for the AUD. But if we are right about a 25bp hike by the RBA to underline its hawkish inclination, then AUD could get a measured lift in the context of materially diminished FOMC rate hike bets.
- Meanwhile sympathetic **IDR impact from CNH wobbles** could be something to watch for as KRW downside risks are mitigated by the seductive AI-driven chip recovery story.
- All said, our sense is that the now accomplished **resolution of the debt ceiling risks is set to bid up the USD** on US confidence crisis averted, further *accentuated by the sharp strains of USD liquidity drainage anticipated* from the US Treasury.
- Relief is for the USD, not for EM Asia FX; and "twin deficit" risks could come home to roost if the USD funding tightness persists for longer than anticipated.

Bond Yield (%)

2-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.497	-6.5	3.691	-10.7	Flattening
GER	2.789	-13.2	2.310	-22.5	Flattening
JPY	-0.077	-0.1	0.401	-0.6	Flattening
SGD	3.267	-3.1	2.869	-10.1	Flattening
AUD	3.640	5.3	3.640	0.1	Flattening
GBP	4.333	-12.7	4.147	-17.9	Flattening

Stock Market

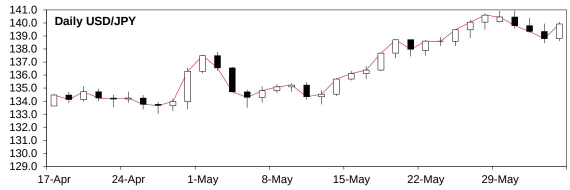
	Close	% Chg
S&P 500 (US)	4,282.37	1.83
Nikkei (JP)	31,524.22	1.97
EuroStoxx (EU)	4,323.52	-0.32
FTSE STI (SG)	3,166.30	-1.28
JKSE (ID)	6,633.26	-0.80
PSEI (PH)	6,512.01	-0.28
KLCI (MY)	1,381.26	-1.55
SET (TH)	1,531.20	0.02
SENSEX (IN)	62,547.11	0.07
ASX (AU)	7,145.14	-0.13

US Treasuries: Facing Walls and Backstops

- Unsurprisingly, UST volatility remain in abundance even as UST yields edged lower last week with 2Y yields heading down 6.5bp and 10Y yields dropping 10.7bp.
- Broadly, given the long end action, safety remains in vogue in an implicit fashion.
- This week, UST bulls may go into hiding as they **head into a wall amounting to US$1 trillion of issuance.** Afterall, greater supply and ensuing lower prices and higher yields is par for the course.
- What's more the OPEC+ cut while not an outright case for high price surges, the **clear Saudi backstop for slipping oil prices bolsters the Fed's case to hold higher for longer,** even if 'Skipping' June remains the buzz word.
- All in, UST 2Y and 10Y UST yields are projected to stay buoyed above 4.4% and 3.6% respectively as reactions ahead of issuances are watch for testing 4.6% and 3.8% respectively.

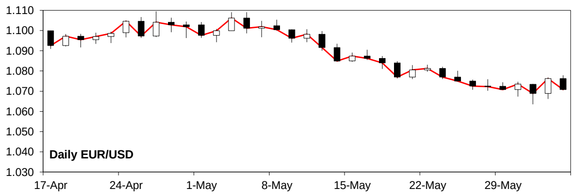
USD/JPY: No Respite

- While USD/JPY did edge lower for last week to close below 140, the JPY unfortunately is not enjoying much respite having to face the double whammy of NFP upside last Friday and start of the week's OPEC+ cut.
- Admittedly, while we warn off intervention risks, the recalibration of the oil outlook may alter the trajectory of BoJ intervention prospects.
- Meanwhile, weaker China data adds to JPY woes on top of incessant geo-political rebuttals.
- This week, the pair looks to stay buoyed above 139 with testing 142 a possibility.



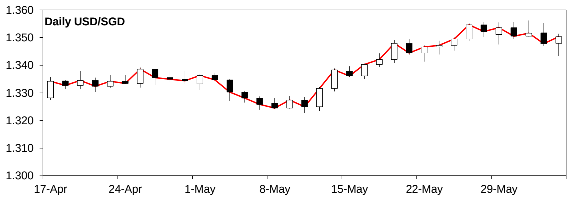
EUR: Lethargic

- The EUR's inability to latch onto hawkish ECB commentary on further hikes remains utterly telling of their underlying economic worries ahead.
- Amid the realities of weakening China growth, rising energy prices from OPEC+ action re-ignites headline inflation concerns adding to growth headwinds.
- EUR is expected to continue trading sideways in the mid-1.06-mid-1.07 range.



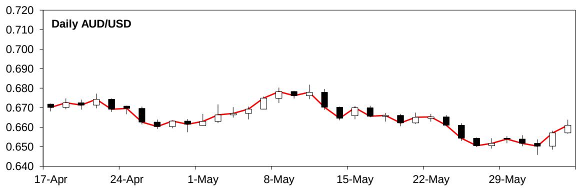
SGD: Not so Shangri-la

- A rather terse Shangri-la dialogue (SLD) that took place over the weekend in Singapore is the backdrop for a struggling CNH slipping back (above 7.10); thereby underscoring attendant down-draft on other EM Asia currencies.
- This weakness in the CNH underscores the struggles of the SGD to go sub-1.35 (on to mid-1.34) convincingly despite a rich S$NEER.
- As we have explained before, this partly derives from the fact that CNH is a relatively hefty component of the S$NEER basket and hence, weaknessin the CNH tends to rub-off.
- With both economic and geo-political shadows weighing on the CNH, the SGD by extension is unlikely to stage any rallies in the post-SLD envioronment where US-China risks are accentuated rather than alleviated. More so as tight USD funding ahead is braced for.
- We expect consolidation amid 1.34 to 1.36 with a bias to the upper half.



AUD: RBA Relief?

- With the Greenback poised to oppose any challenge on its dominance, the case for string and sustained AUD rallies is not one that we are inclined to make.
- Especially as nagging China risks - both in terms of disappointment s to earlier drummed up demand recovery as well as geo-political risks getting no respite - that reverberate via commodity channels warns of lingering pressures on the Antipodean.
- Nonetheless, a hawkish RBA could provide some relief to AUD;
- especially if the RBA delivers a 25bp hike, demonstrably exhibiting a more confident outlook in the context of immigration, in contrast to markets converge on a June FOMC pause.
- This would however be a position adjustment after a bearish run in the AUD rather than the case for an enduring bull run into tighter USD funding.
- And so we expect AUD to be boundy on sub-0.65 pullback ahead of 0.64, while RBA inspired bounce above 0.66 towards 0.67 are not outlandish (although bordering on overrdone).



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