Mizuho Daily

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MIZUHO

Three Take-Aways

1) Latest US inflation report provided a constructive backdrop, though Warsh played down the significance and pledged mission not accomplished yet amid ongoing tension in the Hormuz.

2) In addition to AI-related demand, China's June trade growth was exaggerated by the sharp gap between value and volume.

3) We expect the BoK to proceed with a 25bp rate hike at the upcoming meeting to arrest inflation and support the KRW.

MACRO THEME: Benign Inflation Backdrop

- US inflation data surprised materially to the downside. Headline CPI fell 0.4% MoM in June, the first decline in over six years. Excluding food and energy, core CPI was unchanged from May, defying market expectations of a 0.2% increase.

- The softer inflation print prompted markets to scale back expectations for a Fed rate hike in Q3. Fed funds futures now imply a 16.6% probability of a July hike, versus 43.3% previously, while a 25bp increase is not fully priced until December, versus September before.

- In response, UST yields dropped the most at the front end of the curve, and US stocks gained on a broad basis.

No Testimony Surprise

- Fed Chair Kevin Warsh's congressional testimony offered few surprises. Reiterating his recent messaging, Warsh stressed that the Fed has "no tolerance for persistently elevated inflation" and remains firmly committed to restoring price stability.

- Warsh also cautioned against drawing firm conclusions from a single data point. He played down the significance of the latest benign CPI report and made clear that, with inflation still above the Fed's target, the fight against inflation is not yet over.

Ongoing Hormuz Uncertainty

- Geopolitical risks remain an important counterweight to the constructive inflation backdrop.

- The outlook for de-escalation around the Strait of Hormuz remains highly uncertain after President Trump warned that the US would continue striking Iran and could target power plants and bridges next week unless Tehran returns to negotiations.

- For now, markets appear to be taking the latest escalation in stride, as US equity futures have remained broadly resilient.

***Yields** (2Y: -9.0bp; 10Y: -3.4bp; 30Y: +0.0bp)*

***Equities** (Nasdaq: +0.9%; S&P500: +0.4%; Dow: +0.0%)*

***FX** (DXY: -0.3%)*

China: Mind the Gap

- China's trade saw another month of solid performance, with **both June export and import growth exceeding market expectations**.

- Import growth was particularly strong, accelerating to 36% YoY, driven by higher commodity prices and robust high-tech demand. By category, in high-tech imports rose 58% in June, leading increases both mechanical and agricultural imports.

- **However, the sharp gap between value and volume growth suggests amplified headline figures by price effects.**

- For example, iron ore imports rose 18.3% YoY in value, compared with a 6.4% increase in volume. Similarly, imports of electronic integrated circuits surged 72.3% in value, while their volume growth was much more moderately, at 6.6%.

- **High-tech products also remained a key driver of export growth.** High-tech exports rose 52% YoY, the fastest pace since early 2021, supported by doubled shipments of electronic ICs and solid increase in exports of automatic data-processing machines.

- Meanwhile, **China-US trade flows showed further signs of stabilization, providing additional support for the renminbi**. Exports to the US recorded another month of double-digit growth, while imports from the US expanded at their fastest pace in five years.

BoK: Hike and See

- We **expect the BoK to proceed with a 25bp rate hike** at their upcoming meeting to arrest inflationary pressures as both consumer price growth and property price growth appear troubling.

- First, headline CPI edged higher to 3.2% in May while core inflation stayed sticky at 2.5%. More worryingly, **price pressures in the CPI basket appear to be broadening** despite the respite in energy prices in June. Wage price spiral risks remain closely watched especially amid the flow of record well publicised bonus payments backstopping wage negotiations and price setting behaviours.

- Second, these windfalls are likely to have been **propping up property prices** in Seoul with housing price growth momentum still averaging 0.2% week on week in recent months. Macroprudential stability concerns are certainly at the forefront especially amid volatile domestic equities.

- Third, a rate hike would also provide some **marginal backstop for the underperforming KRW** and alleviate imported inflation pressures. Even as a hike is a given for this meeting, it may be **premature to embark on speculation of a hiking cycle especially back to back hikes.**

- Specifically, the **BoK has traditionally preferred a more patient approach** to assess the impact of their policy move and would also be wary of downside risks from the AI-led semiconductor cycle especially with much of the external demand gains on the back of **price rather than volume effects**.

- To be clear, we still expect Korea's 2026 GDP growth to come in at 3.2% YoY which is above the BoK's current estimate of 2.6%, a reflection of the underlying strength of the electronics cycle and pipeline capex spending. Nonetheless, two-way volatility in equities and leverage concerns will temper hawks in the committee.

- All in, beyond this 25bp rate hike, communicating **openness to further hikes is a given** though this will likely fall short of any straightforward guidance which may restrain hopes of a bullish KRW recovery and front end yields may be weighed down.

DATA/EVENTS

Overnight	Actual	Exp.	Prior
(US) CPI/Core YoY (Jun)	3.5%/2.6%	3.8%/2.8%	4.2%/2.9%
(JP) Industrial Production MoM (May F)		--	0.5%
(IN) Wholesale Prices YoY (Jun)		9.2%	9.7%
(CH) Exports/Imports YoY (Jun)	27.0%/36.0%	19.0%/26.1%	19.4%/27.4%
(SG) GDP YoY/SA QoQ (2Q A)	5.7%/1.1%	5.5%/1.3%	6.0%/1.0%
Today	**Actual**	**Exp.**	**Prior**
(US) Empire Manufacturing (Jul)		9.2	5.7
(US) PPI Final Demand/Ex Food and Energy YoY (Jun)		0.0%/0.3%	1.1%/0.4%
(EZ) Industrial Production WDA YoY (May)		-0.4%	0.3%
(JP) Core Machine Orders YoY (May)		12.3%	15.6%
(JP) Tertiary Industry Index MoM (May)		0.4%	1.3%
(US) Fed Releases Beige Book			
(CH) GDP YoY (2Q)		**4.5%**	**5.0%**
(CH) Industrial Production/Retail Sales YoY (Jun)		4.6%/-0.1%	4.5%/-0.6%
(CH) New/Used Home Prices MoM (Jun)		--	-0.2%/-0.26%
(CH) FAI/Property Investment YTD YoY (Jun)		-5.0%/-16.8%	-4.1%/-16.2%
(KR) Unemployment Rate SA (Jun)		2.8%	2.8%

FX OUTLOOK

FX	Close (NY)	Open*	Daily %Δ	Forecast		
USDJPY	162.25	162.19	▼0.11%	160.90	-	163.30
EURUSD	1.1420	1.1424	+0.34%	1.1300	-	1.1470
GBPUSD	1.3390	1.3396	+0.31%	1.3300	-	1.3490
AUDUSD	0.6975	0.6976	+0.82%	0.6890	-	0.6990
DXY	100.9	--	▼0.31%	100.3	-	101.5
USDCNY	6.7716	--	▼0.13%	6.7500	-	6.8200
USDCNH	6.7740	6.7729	▼0.16%	6.7500	-	6.8200
USDHKD	7.8377	7.8376	+0.00%	7.8200	-	7.8500
USDSGD	1.2912	1.2909	▼0.25%	1.2850	-	1.3000
USDKRW	1490	1487	+0.00%	1480	-	1520
USDTWD	32.19	--	▼0.02%	31.90		32.40
USDINR	96.20	--	+0.60%	94.70	-	95.90
USDIDR	18092	--	▼0.07%	17950	-	18200
USDMYR	4.078	4.074	+0.19%	4.050	-	4.100
USDPHP	61.72	--	+0.23%	61.20	-	62.20
USDTHB	33.52	33.47	+0.52%	33.2	-	33.6
USDVND	26261	26257	+0.02%	26100	-	26500

*Open is as at 8am HKT/SGT.

MARKET MOVES

Bond Yields	2Y Close	10Y Close	2Y Δ (bps)	10Y Δ (bps)
UST (US)	4.195	4.591	-9.0	-3.4
JGB (JP)	1.429	2.708	-1.0	-6.8
Bunds (GE)	2.749	3.112	3.0	0.5
Gilts (UK)	4.345	4.976	-0.1	0.7
AGB (AU)	4.521	4.910	4.4	5.1
SGS (SG)	1.648	2.205	5.1	6.8
CGB (CN)	1.263	1.732	2.0	-0.4
KGB (KR)	3.685	4.258	0.0	0.0
SDL (IN)	6.150	6.794	0.0	6.3

Cross FX	Close (NY)	Open*	Daily %Δ
EUR/JPY	185.28	185.28	+0.19%
GBP/JPY	217.267	217.263	+0.21%
JPY/SGD (100yen)	0.7958	0.7959	▼0.13%
JPY/HKD (100yen)	4.8303	4.8325	+0.12%
CNH/JPY	23.946	23.944	▼0.01%
CNH/HKD	1.1571	1.1571	+0.09%
EUR/GBP	0.85286	0.85279	+0.01%
AUD/NZD	1.1997	1.2002	▼0.28%
EUR/CNH	7.7356	7.7374	+0.16%
GBP/CNH	9.0712	9.073	+0.17%
CNY/HKD	1.1571	1.1571	+0.09%
EUR/HKD	8.9511	8.9537	+0.34%
SGD/HKD	6.0707	6.0714	+0.26%

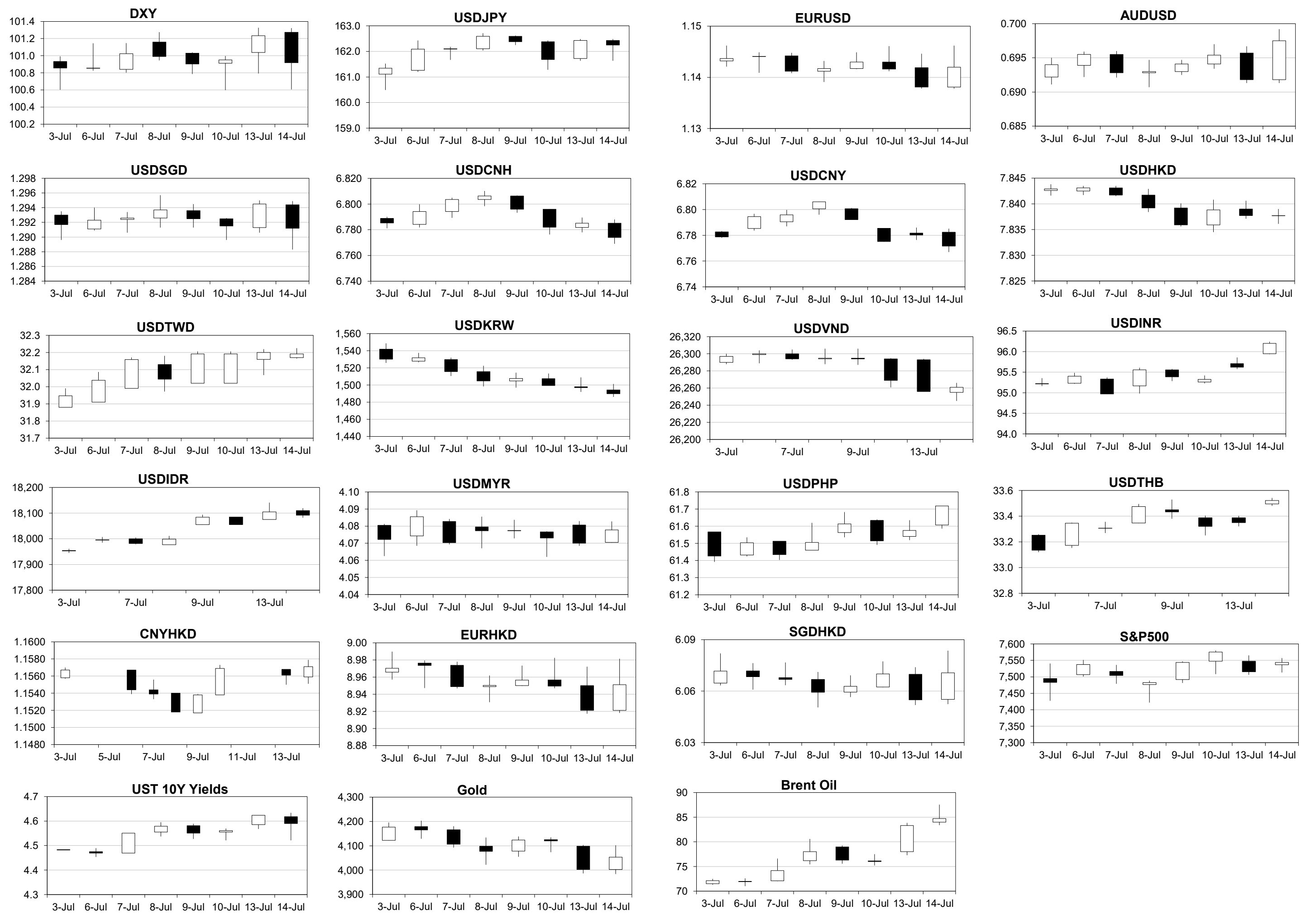
*Open is as at 8am HKT/SGT.

G3 Equities	Close	Net Chg	Daily %Δ
S&P500 (US)	7543.59	28.25	+0.38%
Nasdaq (US)	26107.01	233.83	+0.90%
DJIA (US)	52508.27	9.63	+0.02%
N225 (JP)	67743.5	500.77	+0.74%
STOXX50 (EU)	6280.19	9.17	+0.15%

Asia Equities	Close	Net Chg	Daily %Δ
ASX (AU)	5661.11	15.06	+0.27%
STI (SG)	5495.61	25.27	+0.46%
SHCOMP (CN)	3967.126	53.33	+1.36%
SZCOMP (CN)	2626.153	58.06	+2.26%
HSI (HK)	24340.73	127.01	+0.52%
SENSEX (IN)	77054.94	-561.46	▼0.72%
JSE (ID)	6039.521	1.68	+0.03%
KLSE (MY)	1719.94	21.50	+1.27%
PSE (PH)	6256.02	-9.70	▼0.15%
SET (TH)	1626.03	-1.87	▼0.11%
VNINDEX (VN)	1806.63	0.00	+0.34%

Commodity	Close	Net Chg	Daily %Δ
COPPER (LME)	13,595.75	107.89	+0.80%
IRON ORE (CN)	99.40	1.36	+0.98%
GOLD	4,052.85	50.46	+1.26%
SILVER	58.70	0.01	+0.24%
OIL (BRENT)	84.73	1.43	+1.72%
OIL (WTI)	79.34	1.20	+1.54%
NATURAL GAS	2.90	1.05	+1.81%

CHARTS



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