MIZUHO

Vishnu Varathan | Tan Boon Heng

Mizuho Bank, Ltd. Asia and Oceania Treasury Department

Tel: 65-6805-2000 Fax: 65-6805-2095

WEEK AHEAD

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20-Nov-2023

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Economic Calendar

•Survey results from Bloomberg, as of 17 Nov 2023; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
20 Nov	**US**	**Leading Index**	**Oct**	**-0.7%**	**-0.7%**
21 Nov	**US**	**Chicago Fed Nat Activity Index**	**Oct**	**0.0**	**0.0**
	US	FOMC Meeting Minutes			
22 Nov	US	Initial Jobless / Continuing Claims		225k/1875k	231k/1865k
	US	**U. of Mich. Sentiment / Expectations**	**Nov F**	**61.0/--**	**60.4/56.9**
	US	**Durable Goods Orders/Nondef Ex Air**	**Oct P**	**-3.2%/0.2%**	**4.6%/0.5%**
	US	U. of Mich. 1/5-10 Yr Inflation	Nov F	--/--	4.4%/3.2%
	EZ	**Consumer Confidence**	**Nov P**	**-17.9**	**-17.9**
23 Nov	EZ	Mfg/Services PMI	Nov P	43.4/48.1	43.1/47.8
	EZ	ECB Account of Oct Policy Meeting			
24 Nov	JP	Coincident Index/Leading Index CI	Sep F	--/--	114.7/108.7
	JP	Mfg/Services PMI	Nov P	--	48.7/51.6
	JP	**Natl CPI/ Ex Fresh Food, Energy YoY**	**Oct**	**3.4%/4.1%**	**3.0%/4.2%**
	GE	IFO Business Climate / Expections	Nov	87.5/85.8	86.9/84.7

Asia

Yellow highlight indicate actual data

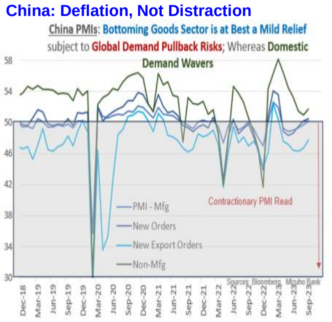
Date	Country	Event	Period	Survey*	Prior
20 Nov	**CH**	**1/5-Year Loan Prime Rate**		**3.45%/4.20%**	**3.45%/4.20%**
	SG	**GDP YoY**	**3Q F**	**0.8%**	**0.7%**
	MY	Exports/Imports YoY	Oct	-5.0%/-9.3%	-13.7%/-11.1%
	TH	**GDP YoY**	**3Q**	**2.2%**	**1.8%**
	PH	BoP Overall	Oct	--	-$414m
	TW	BoP Current Account Balance	3Q	--	$22243m
21 Nov	ID	BoP Current Account Balance	3Q	-$921m	-$1900m
	KR	PPI YoY	Oct	--	1.3%
	AU	RBA Minutes of Nov. Policy Meeting			
22 Nov	**TW**	**Unemployment Rate**	**Oct**	**3.4%**	**3.4%**
23 Nov	**SG**	**CPI/Core YoY**	**Oct**	**4.5%/3.1%**	**4.1%/3.0%**
	TH	Customs Exports/Imports YoY	Oct	9.0%/6.0%	2.1%/-8.3%
	AU	Mfg/Services PMI	Nov P	--/--	48.2/47.9
	ID	**Bank Indonesia 7D Reverse Repo**		**6.00%**	**6.00%**
	TW	**Industrial Production YoY**	**Oct**	**-6.6%**	**-6.7%**
24 Nov	**SG**	**Industrial Production YoY**	**Oct**	**-1.8%**	**-2.1%**
	MY	**CPI YoY**	**Oct**	**1.9%**	**1.9%**

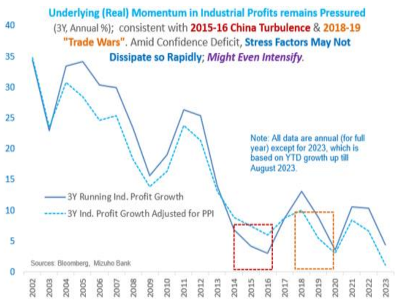
Week-in-brief: Re-discovering Nirvana

"There is an affliction worse than blindness. And that is seeing something that isn't there" - Thomas Hardy

- **"Risk on" markets** point to **rediscovering "Nirvana"**. The **danger is that this proves to be no more than misguided** *mass euphoria* **premised on the** *mirage of "soft landing";* especially as a conspiracy of lagged policy tightening and geo-political uncertainty
- But for the time being, **markets appear to be enamoured with the so-called** state of **Nirvana**, otherwise *also referred to as the "immaculate dis-inflation"*, whereby **global central banks manage to tame inflation without trampling on growth** (and employment).
- The **high priests of "Nirvana" have the latest US inflation print**, with by faster and broader than expected softening, **as the centre-piece on the altar** to **proselytize Fed pivot and an assumed soft-landing** that follows. This has sharply *eroded UST yields, dragged USD aned buoyed equities.*
- For all purposes, **FOMC Minutes** (for Nov) **may be framed as a "Fed pivot"** thereby *underscoring "risk on" rallies favouring softer UST yields and USD* alongside buying in risk assets.
- ***But*** *any FOMC Minutes boost from dampened tightening bias* must be **appreciated in the context of acute (>50bp) surge in long-end (10Y) UST yields** towards 5.0% since the Sep FOMC.
- But since then, this has more than unwound, with 10Y yields now at the lowest since Sep; which means FOMC Minutes overstate "pivot" inclinations. Point being, **FOMC members conveying** views about **sufficiency of hikes** or **caution about over-tightening in the Minutes** must be *adjusted for;* i) *contingencies* of *where yields are,* and; ii) *conditionalities* involving *yields remaining elevated.*
- The upshot is that **FOMC Minutes may overstate incremental dovish shifts** and likelihood of the Fed's intended pivot signals. Nonetheless, markets may need convenient excuses rather than compelling evidence. So a continuation of "pivot" rallies is not quite off the table.
- Although the accompanying warning is that **markets need to be prepared for more forceful pushback from Fed speakers**, justifiably tempering the perceived dial-back (of policy restriction intent) in FOMC Minutes. If so, self-regulating moderation in UST yield and USD may emerge.
- Although, **"Fed pivot" cheer is accentuated by diminished geo-political risks** (and attendant oil price pullback); as the *Gaza conflict has continued to avert a wider Middle East flare-up.*
- **But** this is **merely opportunistic relief** that does not permanently lift the geo-political fog.
- In which case, **aggressive USD pullback may be overdone as are wider "risk rallies"**.
- Claims of **rediscovering a myth, makes it not a fact.** *Your scribe fears Nirvana will elude.*
- *But while it lasts, "Nirvana" driven USD pullback and softer UST yields* may provide the **requisite breathing space for Bank Indonesia to hold without detriment to the rupiah**. In fact, rupiah could be buoyed if USD slippage continues alongside softening yields.

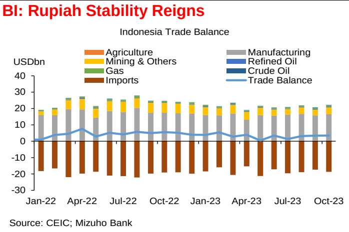
China: Deflation, Not Distraction

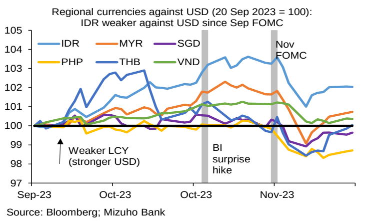




- If there was **one headline number to focus on**, ***if not worry about,*** for China, it would be **inflation**.
- Or rather the *sore lack of.* Arguably, this is **not merely a distraction**. Admittedly, the slew of weaker than expected total credit growth and soft exports are legitimate concerns about deficiencies in the underlying momentum despite the likelihood of surpassing 5% growth for 2024.
- Equally, the unexpectedly better uptick in industrial output and retail sales are indeed signs of "green shoots", arguably a nascnet response to Beijing's stimulus efforts; albeit from downtrodden levels.
- But the **inability to snap out of deflation**, in sharp contrast to inflation that is broadly inconveniently too elevated (albeit well below peaks), **identifies a stifling confidence deficit** in the economy.
- Specifically; i) **flagging consumer optimism** that has now thrown cold water of earlier hopes of "revenge spending"; ii) **slump in industrial profits** that will drag businesses, and; iii) **dampened investment sentiments** stifling invigoration in private sector demand.
- And the **on-going slump in the property markets** and **property investments** underscores this.
- In all, the **deflation risk is a dire warning of suppressed growth multipliers** that threaten to cast a long shadow on growth potential.
- Which is **why we gauge sub-4% to 4.5% as growth potential for the coming 3-5 years** as China's binding challenge **whereas cheer about 5% this year being a red herring**.
- The **silver lining is that Beijing is acutely aware of the risks associated with adverse confidence-deflation loops**, and *will likely roll out more stimulus and work on "traction".*
- **But the bar is high**. Far higher than simply cutting RRR rates (we expect by 25-50bp between now and Jan 2024), providing more liquidity to address credit shortfall.
- So yes, we expect **stimulus** and attendant **relief**. But **no decisive panacea** as *deflationary woes indicative of a confidence defcit remain a dominant threat, and not just a distraction.*

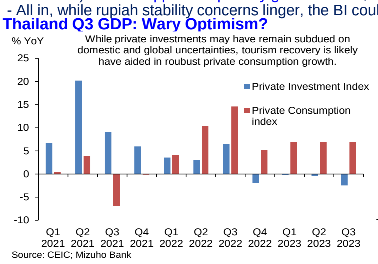
BI: Rupiah Stability Reigns

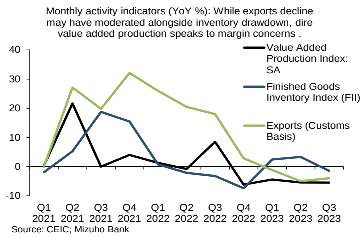




- We expect **BI to stand pat at 6.00% at the upcoming policy meeting** (23 Nov).
- To be sure, **rupiah stability objectives and concerns are not negated**. Especially as IDR underperformance has not been significantly mitigated, despite being partially alleviated. Which in turn suggests that more policy action may be needed depending on the degree USD headwinds.
- Tellingly, BI Govenor Warjiyo on 3 Nov again reiterated that monetary policy will be "pro-stability".
- However, **the case for rupiah stability, while still present, is arguably not as pressing as in October** as recent developments has likely bought BI some breathing space.
- With sufficiently benign US inflation and still contained geopolitical conflicts, odds of another Fed hike have been dialled back and **USD strength has moderated.**
- In any case, even if risks re-emerge, BI has another window to act (21 Dec) after the 12 Dec FOMC.
- Hence, **Bank Indonesia is unlikely to jump the gun at this juncture**.
- What's more, BI is set to launch two new FX-denominated instruments (on 21 Nov) that could alleviate acute FX IDR selling; as the short-term (<1Y) bills, SVBI) and SUVBI provide investors access to FX-denominated tradable instruments **circumventing FX spot market**.
- It is likely BI would need some time to assess the efficacy of the new tools in stabilising the IDR.
- **Domestic economic fundamentals also broadly support a pause.**
- Inflation is expected to be manageable within BI"s 2-4% target range through 2024.
- While Indonesia has reverted back to a "twin deficit" status in Q2 2023 with Q3 also being a likely projected deficit, initial signs point to the likelihood of a smaller deficit in Q4.
- A stable trade balance with nascent signs of moderating export contraction (in relation to total exports, but also for manufacturing and mining sectors) could support the current account balance.
- With improved fiscal revenue and Jan-Sep cumulative fiscal balance still in surplus, fiscal deficit is likely to be safely within 3% GDP ceiling even as expenditures ramp up heading into elections.
- While elections spending and increased household expenditure (election periods typically see an uptick in retail sales) should support temporarily growth ahead, the external demand is still fragile.
- All in, while rupiah stability concerns linger, the BI could all afford to take a pause for now.

Thailand Q3 GDP: Wary Optimism?





- With the sight of tourism inflows and goods exports recovery which aided strong of current account surplus, one might be tempted to be outrightly optimistic about the Q3 GDP growth print.
- To be upfront, our examination of underlying data details **cautious optimism.**
- **We expect Q3 GDP growth to improve from Q2's 1.8% YoY print** to post a tad above 2%.
- Notably, considering the high base effects from a year ago, this **already represents** a **robust sequential QoQ expansion** of about 1% by our own estimates.
- On the underlying growth drivers, **private consumption is likely to remain strong** as the **impulse from tourism activity recovery feeds through domestic employment and activitiy.**
- Moderation of the decline in exports revenue is also a relief. Nonetheless, the industrial base still appears to be **wary** and **strained**. First, **business sentiments have slipped in Q3** and was **also reflected in the 2.4% contraction of private investments compared to Q3 2022.**
- Furthermore, the **recovery in exports demand may also have been met by an inventory drawdown rather than more optimistic ramp up in production.**
- This point is also underscored by a **muted recovery in value added production may also hint at rising input costs chipping away margins. As such, the manufacturing base remains pressured.**
- Meanwhile, aside from the tourism-related food and accommodation services being supportive, the financial sector's value added is likely to have continued improving amid strong net interest income growth.
- All in, while an expansion from the dismal 0.2% QoQ growth in Q2 is on the cards, **Q3 GDP growth has perhaps been a steady drive at in traffic speeds** rather than unrestrained acceleration.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	149.63	-1.890	-1.25%	148.00	~	152.00
EUR/USD	1.0915	0.0229	2.14%	1.070	~	1.095
USD/SGD	1.3435	-0.017	-1.25%	1.3400	~	1.3700
USD/THB	35.095	-0.793	-2.21%	34.90	~	35.80
USD/MYR	4.681	-0.028	-0.59%	4.670	~	4.710
USD/IDR	15493	-202	-1.29%	15,400	~	15,800
JPY/SGD	0.8979	0.000	0.00%	0.882	~	0.926
AUD/USD	0.6515	0.015	2.42%	0.635	~	0.655
USD/INR	83.27	-0.074	-0.09%	82.8	~	83.6
USD/PHP	55.67	-27.674	-33.20%	55.4	~	56.8

^Weekly change.

FX Outlook: Beware EUR Mojo

- Speaking of mirages of rediscovery (Nirvana for markets), your scribe is by extension **wary about the circumstances around the reclamation of EUR mojo**.
- Specifically, the *almost 2% surge in EUR from sub-1.07 to 1.09* has been over a matter of days; and *propelled by soft USD/UST yield momentum following softer-than-expected US CPI.*
- In other words, **EUR bulls are to a large extent likely to have been emboldened by a resurgence of Fed pivot bets** that have been based off quicker than expected deceleration in US CPI.
- What's more, this **EUR outburst** has been further **accentuated by a discernible pullback in energy prices** alongside diminished perceptions of geo-political risks.
- Whereas, economic conditions for the Euro-zone remain fairly fragile, despite declarations of being able to avert a recession. And crucially, **ECB's policy dilemma and associated economic trade-off could be far more acute than the Fed's**.
- Therefore, there is every risk that the **EUR bulls have gotten ahead of the economic and policy realities**; and the related real rate advantages that are still bestowed in favour of the Greenback.
- In which case, a **fizzle in further EUR rallies may not be very far off**.
- By extension, this could also suggest that *USD sell-off may be starting to get stretched.*
- What's more, **insofar that FOMC Minutes trigger overdone knee-jerk Fed pivot bets***, pressures for some degree of correction (USD buyback) may also trigger a shift to more cautious trades.
- Elsewhere, Bank Indonesia's hold will be cause for a re-examination of hawkish options not yet exhausted in the region (these notably reside with BI, BSP and the RBA). Especially if a Fed hold back (on further hikes) is expected to influence sympathetic restraint (amongst EM Asia CBs) as well.
- The upshot is that *with USD already beaten down the extent of further short USD momentum needs checking;* especially as FOMC Minutes is recognized to be overstating the current state of Fed restraint (on tightening)/pivot bias. And this will be ***reflected in EUR exhausting new-found mojo***.

*FOMC Minutes may overstate dial back in tightening bias insofar that it was conveyed on the back of an acute surge in UST yields (whcih have since been more than reversed).

Bond Yield (%)

17-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.886	-17.6	4.435	-21.7	Flattening
GER	2.952	-9.8	2.585	-12.9	Flattening
JPY	0.034	-6.4	0.747	-9.3	Flattening
SGD	3.284	-12.7	2.927	-13.8	Flattening
AUD	4.147	-14.1	4.464	0.1	Steepening
GBP	4.514	-11.4	4.098	-23.0	Flattening

Stock Market

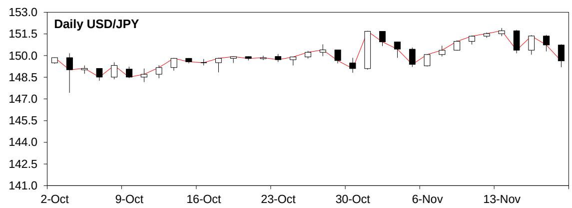
	Close	% Chg
S&P 500 (US)	4,514.02	2.24
Nikkei (JP)	33,585.20	3.12
EuroStoxx (EU)	4,340.77	3.42
FTSE STI (SG)	3,124.67	0.58
JKSE (ID)	6,977.67	2.47
PSEI (PH)	6,211.89	0.81
KLCI (MY)	1,460.67	1.07
SET (TH)	1,415.78	1.89
SENSEX (IN)	65,794.73	1.33
ASX (AU)	7,049.39	1.04

US Treasuries: Re-Calibration

- Post US CPI print sent UST yields plunging last week as Fed pivot bets gain momentum. Nonetheless, substantial re-calibration along the week allowed 2Y yields to close above 4.85% last week.
- There is **really more to think about for UST bulls than hoping for dovish tendencies in FOMC minutes this week.**
- While the minutes is likely to feature the run-up in yields prior to the November meeting, the **caution from FOMC members and consequent expectations of paring back in UST yields** should be viewed in this context of **sharp decline of UST yields post Novemeber FOMC.**
- **As such, 2Y yields are expected to trade in the 4.8%-5.0% range.**
- **At the longer end, aversion of shutdown woes are not the panacea for longer term bugetary needs. Similarly 10Y yields to remain buoyed above 4.35%.**

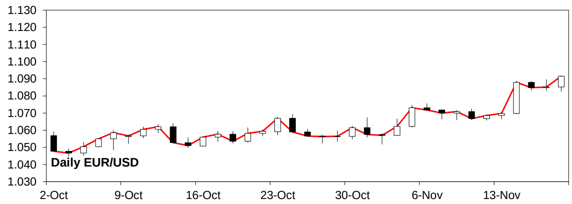
JPY: Slippery and Sticky

- **The JPY gains on plunging UST yields is** by no means surprising as the USD/JPY slipped below 150.
- That said, at these levels, **JPY bears look to stick around longer** as **last week's GDP contraction backs up BoJ's gradualism in dealing with inflationary pressures.**
- On that note, the end of the week inflation print may end up **being more of evaluating how sticky core inflationary pressures are** rather than the more widely expected bump up in headline inflation on fuel prices. As such, mild slippages below 149 is difficult to ruled out.



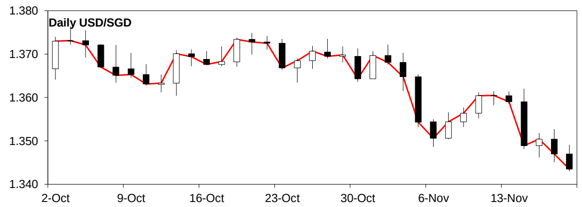
EUR: Fizzle, Not Sizzle

- While a pullback in energy prices is relief in the EZ, EUR bulls may have overplayed as the EUR soared above 1.09.
- Afterall, EZ growth has not exactly been sizzling and as such EUR rallies may be expected to fizzle. If energy prices indeed provide backing for ECB doves, then mis-guided bets of rate cuts should be instead be more exciting in the EZ.
- All in, we all not getting carried away on both ends, the EUR ought to face restrains and trade in the 1.07-1.095 range.



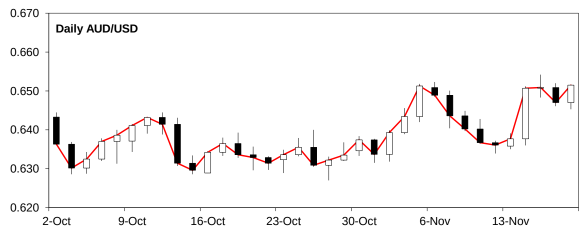
SGD: Plausible Reversion

- **Some reversion to SGD rally could be expected**, especially if second-tier US data (e.g. durable goods orders) alleviates growth concerns and dial back expectations of an earlier Fed rate cut.
- **Worse-than-expected EZ data could add to weakening pressure** on the SGD, but the **absence of any news of a worsening Chinese economy could provide some alleviation** and keep USD/SGD below mid-1.35 levels.
- Meanwhile, **final SG GDP print should confirm continued signs of improvement**. Goods exports growth would duly be looked out for signs of an improving trade sector, as services exports (e.g. tourism) would support overall numbers in a still-bifurcated recovery.



AUD - Arrested Ascendancy?

- After the enthused rallies last week, AUD bulls might find ascendancy being arrested. Three reasons why.
- First, overdone USD sell-off means that further USD downside may not only be limited, but may be reversed on more level-headed dial-back of overly dovish interpretations of the Minutes.
- Second, while the RBA maintains the option to hike, and this is likely to be conveyed in its Minutes (Tue), the contingency rather than certainty around further tightening may remain.
- Taken alongside uneven economic momentum globally and across Australia's various sectors colliding with early signs of consumer stress, RBA's hawkish intent may be dialled back.
- Accordingly, bets on AUD rallies driven by RBA-Fed divergence (on assumption of Fed hold from here) will need to be tempered.
- Finally, despite spots of pick-up in China's IP and retail sales, the deep slump in FAI/property does not bode well for spill-over AUD surge either.
- For now, expect AUD to be in the low-0.64 to mid-/high-0.65 range.



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