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

WEEK AHEAD

Subscribe to our YouTube Channel https://www.youtube.com/@MizuhoMacroViews

14-Nov-2023

One MIZUHO Building the future with you

Economic Calendar

•Survey results from Bloomberg, as of 10 Nov 2023; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

G3

Date	Country	Event	Period	Survey*	Prior
13 Nov	JP	PPI YoY	Oct	0.8%	2.2%
14 Nov	**US**	**CPI / Ex Food and Energy YoY**	**Oct**	**3.3%/4.1%**	**3.7%/4.1%**
	EZ	**GDP SA YoY**	**3Q P**	**0.1%**	**0.1%**
	GE	**ZEW Survey Expectations**	**Nov**	**5.0**	**-1.1**
15 Nov	US	PPI Final Demand/Ex Food and Energy YoY	Oct	1.9%/2.7%	2.2%/2.7%
	US	**Retail Sales/Ex Auto and Gas MoM**	**Oct**	**-0.3%/0.2%**	**0.7%/0.6%**
	US	**Empire Manufacturing**	**Nov**	**-3.0**	**-4.6**
	EZ	**Industrial Production WDA YoY**	**Sep**	**-6.3%**	**-5.1%**
	JP	**GDP SA QoQ**	**3Q P**	**-0.1%**	**1.2%**
	JP	**Industrial Production YoY**	**Sep F**	**--**	**-4.6%**
16 Nov	US	Initial Jobless / Continuing Claims		220k/1846k	217k/1834k
	US	**Industrial Production MoM**	**Oct**	**-0.4%**	**0.3%**
	US	**Philadelphia Fed Business Outlook**	**Nov**	**-8.3**	**-9.0**
	JP	Trade Balance	Oct	¥735.7b	¥72.1b
17 Nov	US	Building Permits / Housing Starts	Oct	1450k/1350k	1471k/1358k
	US	**Kansas City Fed Manf. Activity**	**Nov**	**--**	**-8.0**
	EZ	**CPI / Core YoY**	**Oct F**	**2.9%/4.2%**	**2.9%/4.2%**

Asia

Date	Country	Event	Period	Survey*	Prior
13 Nov	**IN**	**CPI YoY**	**Oct**	**4.9%**	**5.0%**
14 Nov	**IN**	**Wholesale Prices YoY**	**Oct**	**-0.4%**	**-0.3%**
15 Nov	CH	Retail Sales YoY	Oct	7.0%	5.5%
	CH	Fixed Assets Ex Rural YTD YoY	Oct	3.1%	3.1%
	CH	Industrial Production YoY	Oct	4.5%	4.5%
	CH	**1-Yr Medium-Term Lending Facility Rate**		**2.50%**	**2.50%**
	AU	**Wage Price Index YoY**	**3Q**	**3.9%**	**3.6%**
	ID	Exports / Imports YoY	Oct	-16.5%/-7.4%	-16.2%/-12.45%
	KR	Unemployment rate SA	Oct	2.7%	2.6%
	PH	Overseas Cash Remittances YoY	Sep	2.4%	2.7%
16 Nov	**AU**	**Employment Change/Unemployment Rate**	**Oct**	**24.0k/3.7%**	**6.7k/3.6%**
	PH	**BSP Overnight Borrowing Rate**		6.50%	6.50%
17 Nov	SG	Non-oil Domestic / Electronics Exports YoY	Oct	-6.0%/-	-13.2%/-11.6%
	MY	**BoP Current Account Balance MYR**	**3Q**	**--**	**9.1b**
	MY	**GDP YoY**	**3Q F**	**3.3%**	**3.3%**
11-15 Nov	IN	Exports / Imports YoY	Oct	-/-	-2.6%/-15.0%

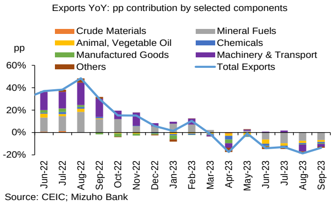
Week-in-brief: Careful, Not Certain

- That is what the Fed is. **Careful about implementing further rate hikes** (having come so far and fast). **But not certain it is done**.
- And so must markets be. Careful about peak Fed rallies (in USTs/bonds, equities and risk currencies alike). Not certain about "risk on" parties heading for a Santa rally.
- Ahead of US CPI data this week, whispers of some cooling in inflation colliding with the more complicated details about the **components that matter** (oil/energy vs. core, non-housing services) may make **it challenging to calibrate this delicate "careful, not certain" state in markets.**
- Likewise, any relief around Geo-political risk spill-over with oil prices being contained (Brent around 80 rather than 100) must be still be an exercise in caution, not cavalier certainty that accidents will be avoided.
- Meanwhile, **soft Chinese credit and exports** following **further slip into deflation** requires Beijing's careful coordination of stimulus.
- And markets will do well not only to be less certain about knee-jerk stimulus (such as ramped up liquidity injections and RRR cuts), but more importantly, be less certain that this will be the panacea (more below on China).
- In EM-Asia, the **BSP will be expected to stay careful** and **hold rates** after their earlier off cycle move in October as they continued to face a backdrop of wild inflation swings which clouds the certainty of the inflation trajectory.
- Meanwhile, a **plausible upward revision for Malaysia's GDP on Friday** is still likely to highlight a state of caution as **households look stretched and the strength of the external demand recovery appear far from certain**. Down under, Australia's report is also likely to reflect **cautious hiring as manufacturing weakness hold back full time hiring and the slowing retail services momentum may restrain demand for part timers.**
- **All in, this week is one for calibrating careful positions in a bid to obtain greater certainty.**

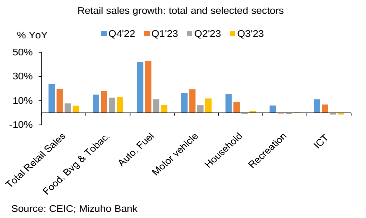
China: Deflation Woes

- 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.** 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. But the **inability to snap out of deflation, in sharp contrast to inflation that is more often than not 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 holding back invigoration in private sector demand.
- In all, the **deflation risk underscores 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.

Malaysia Q3 GDP: Up But Not Away



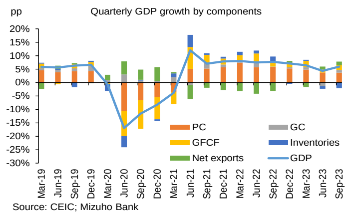
Source: CEIC; Mizuho Bank



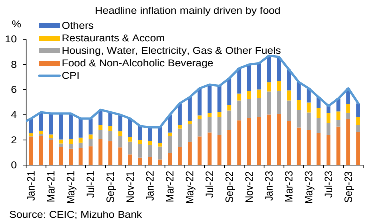
Source: CEIC; Mizuho Bank

- We **expect a slight upwards revision to Malaysia's first-ever Advance GDP Estimate of 3.3%** (released 20 Oct).
- Our upwards revision is mainly guided by Sep trade data indicating further improvement in the external sector. Sep trade data indicates a moderation in export contraction, as **contraction** in mineral fuels and machinery & transport (the two key drivers behind Malaysia's export contraction in recent months) **decelerated sharply**.
- In addition, **industrial production** for manufacturing **turned** to **expansionary** in **Sep on a year ago basis** while contraction in Electrical/Electronics IP moderated.
- We expect the improvement in manufacturing activity to offset the decreased activity in mining, given the higher weightage of the former.
- Growth in gross fixed capital formation should also be higher than in Q2'23 on large infrastructure projects as Q3 construction activity indicated a significant upturn in public corporation civil engineering work done (50.1% YoY vs -4.8% in Q2).
- The better export picture and GFCF in Sep should offset **some moderation in household consumption.** Households have appeared to be stretched as they prioritise spending on necessities. Notably, Q3 retail sales continued to trend downwards, with spending on discretionary items (e.g. recreation) performing much worse than necessities (e.g. food and fuel). Such trends were despite unemployment trending down and continued wage growth (in the manufacturing sector).
- All in, the Malaysia economy is expected to continue growing below-trend ('16-'19 average quarterly growth: 4.9%).

BSP: A Test of Patience



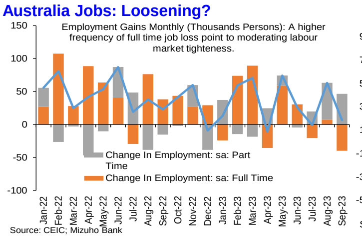
Source: CEIC; Mizuho Bank



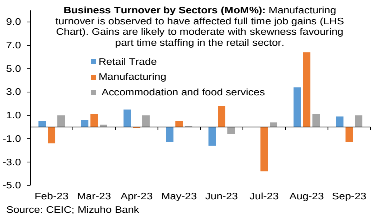
Source: CEIC; Mizuho Bank

- The **upcoming policy meeting (16 Nov) would reveal BSP's tolerance towards price pressures as still-elevated inflation continues to test BSP's patience. Inflation in Philippines remains the highest in the region**, even after the sharp moderation to 4.9% YoY in October (vs 6.1% in September).
- The question is whether **BSP is willing to wait for the next data point before acting, or would they hike rates to pre-empt any further rise in inflation expectations.**
- Afterall, monetary transmission takes time to pass through and BSP's off-cycle move was initiated prior to the Oct CPI print.
- **We think that the BSP is likely be patient for the upcoming policy meeting, but do not preclude the possibility of another off-cycle hike** before the next official meeting (likely in Feb'24). In its Oct off-cycle move, BSP's stated that it would keep monetary policy settings "tighter for longer until inflationary expectations are better anchored and sustained downtrend in inflation becomes evident". While a sustained downtrend in inflation is yet to be evident, the sharp inflation moderation in Oct has arguably bought the BSP some policy room.
- Notably, the wild swings in inflation in recent months has been concentrated in a small group of items with spillovers remaining contained. The sharp moderation in Oct was driven by a fall in rice inflation (13.2% YoY, vs 17.9% in Sep) and tubers/bananas inflation (11.9% YoY, vs 29.6% YoY), each of which contributed ~0.4pct to the drop in inflation print from September's number. The number of line items in the CPI basket with inflation >4% has also been edging downwards, suggesting that inflationary pressures has become less pervasive.
- Encouragingly, the worst of food-driven inflationary pressures may have past the peak. Rice prices moderated in Oct even as price caps were removed in early October. Harvest of potatoes and other crops should also recover as the typhoon season comes to an end.
- In addition, growth concerns linger despite Q3'23 GDP upside surprise, which was driven by strong GFCF from construction activities and higher-than-expected government consumption as the Build-Better-More Infrastructure Program rolls out. Philippines growth may still fall shy of the 6% growth target for 2023.
- Risks of further hikes at subsequent meetings is however still on the table on El-Nino-induced inflation fears.

Australia Jobs: Loosening?



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- Undeniably, heading into Australia's jobs report on 16 November, the RBA's dovish 25bp hike will still be top of mind. To recap, "some further tightening of monetary policy may be required" was tweaked to "whether further tightening of monetary policy is required" and in turn dampened AUD bulls' pent up hope for further tightening.
- **Rather than move the policy needle, this jobs report will be one of the many indicators signaling whether the economy can head for a soft landing.**
- For one, while the labour market has indeed remain tight, the **higher frequency of full time job loss amid poor manufacturing activity** point to **likely weakness in full time job gains in October** given **still subdued PMIs and contracting job advertisements** in October highlighting the more subdued demand.
- Turning to services, while retail sales was buoyed in September, **part time employment still contain potential for moderation given the ramp up in hiring in the prior two months of September and August.** Notably, given that the retail sales bump up was more of goods rather than labour intensive services, the ensuing impact on headcount needs is likely tempered.
- All in, **this report is likely to point to looser labour market conditions despite ongoing structural issues such as labour skills mismatch**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	151.52	2.130	1.43%	148.00	~	152.00
EUR/USD	1.0686	-0.0045	-0.42%	1.062	~	1.076
USD/SGD	1.3605	0.006	0.46%	1.3500	~	1.3700
USD/THB	35.888	0.178	0.50%	35.60	~	36.00
USD/MYR	4.7087	-0.018	-0.39%	4.715	~	4.800
USD/IDR	15695	-33	-0.21%	15,650	~	15,900
JPY/SGD	0.8979	-0.009	-0.98%	0.888	~	0.926
AUD/USD	0.6361	-0.015	-2.33%	0.625	~	0.649
USD/INR	83.34	0.059	0.07%	82.8	~	83.6
USD/PHP	83.3438	27.234	48.54%	55.8	~	56.8

^Weekly change.

FX Outlook: Of Growth

- Inevitably, **markets have seemingly grown de-sensitise to war headlines**.
- Gold fell below $1950 (more than a 2% decline) while Oil fell under $83/bbl (~3% decline) amid signs of weakening global demand, even as the war in the Middle East intensified.
- This week, FX should be more attuned to data on both US inflation and the strength of US consumers this week.
- That said, hawkish Fed speak last week has already served to enable USD recovery.
- **Whether the alignment of US data is supportive of the view of faster or even quicker rate cuts would likely determine whether Fed's rhetoric would grow on markets** and be the main driver of USD strength.
- In particular, EUR and JPY should have some weakening bias as **JP and EZ growth data should point to continued weak demand** as concerns of a global concern intensify. Heightened intervention risks for the JPY should restrain bears nonetheless.
- Meanwhile, **CNH weakness would grow from persistent signs of a weak Chinese economy**. Notably, low base effects from October 2022 due to Covid-related lockdowns imply that headline outperformance is unlikely to provide much cheer.
- Down under, the jobs report remains a **mild backstop for the AUD especially amid likely loosening in labour market conditions as hiring is likely to slow which may in turn validate RBA doves and dent AUD bulls.**
- Over in EM-Asia, an expected hold by BSP should not see excessive weakness of the PHP after the upside surprise to Philippines 3Q GDP growth last week, while a material reaction to **MYR** on Malaysia's GDP growth is unlikely as a significant revision is not expected.

Bond Yield (%)

11-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.062	22.3	4.652	8.0	Flattening
GER	3.050	10.1	2.714	7.2	Flattening
JPY	0.098	-3.9	0.840	-7.3	Flattening
SGD	3.411	-7.7	3.065	-11.4	Flattening
AUD	4.288	-4.8	4.617	0.1	Steepening
GBP	4.628	-0.9	4.328	4.6	Steepening

Stock Market

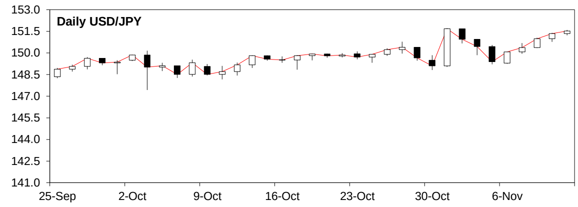
	Close	% Chg
S&P 500 (US)	4,415.24	4.52
Nikkei (JP)	32,568.11	4.19
EuroStoxx (EU)	4,197.36	4.29
FTSE STI (SG)	3,106.68	0.97
JKSE (ID)	6,809.26	-0.58
PSEI (PH)	6,161.89	0.31
KLCI (MY)	1,445.18	0.29
SET (TH)	1,389.57	-0.70
SENSEX (IN)	64,933.80	-0.71
ASX (AU)	6,976.49	1.10

US Treasuries: Sticking Around

- The **yield curve inversion is looking to stick around for longer**. Last week, hawkish Fed speak from Fed Chair Powell pared back expectations of substantial rate cuts in late 2024 and **sent 2Y yields soaring back** above the 5% mark.
- The **room for further upside in front end yields is consequently more constrained this week.** Tail risk of significant surges in 2Y yields testing 5.2% will need to hinge on both headline and core inflation prints.
- **Barring this outcome, front end yields ought to remain buoyed above 4.9% as core inflation remains likely sticky.**
- On the longer end, while the initial reactions to Moody's placing US debt on negative outlook is muted, we remain watchful for **delayed, albeit fading shocks** to stem from shutdown and downgrade risks.
- 10Y yields to trade in the 4.55-4.80% range this week.

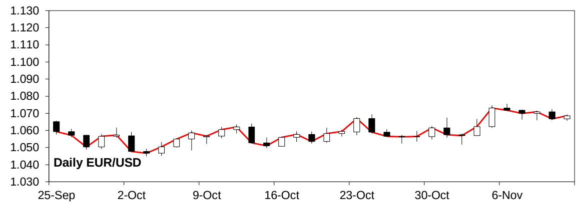
JPY: Shaky Legs and Weakened Grip

- An ascendency on the back of rising UST yields for the USD/JPY to buoy above 151 is yet again inviting intervention risks from the MoF.
- Consequently, it is inevitable that **JPY bears may feel shaky legs at these lofty heights.**
- **As** such, the **climb** above 152 is **increasingly laboured**. That said, given the accentuated UST-JGB spreads, the bounce off 148-149 remains well supported in the event of slippages.
- Should **GDP growth contract** in Q3, the **grip** on further **policy tweaks by the BoJ** will be **weakened** and invite JPY bears to test 152.



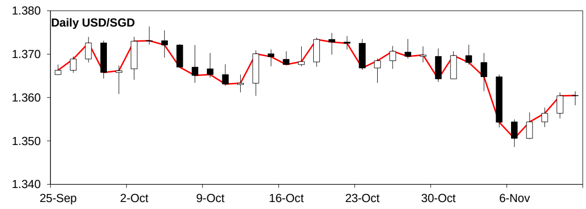
EUR: Consolidation Case?

- There is perhaps a case to be made for consolidation around mid-1.06-mid-1.07 this week.
- First, a dose of **german sentiment recovery** and confirmation of earlier advance EZ growth estimates signalling **bottoming growth** may help the consolidation case.
- **Second, an incipient pushback** on current rates being **terminal** by ECB hawks **may not able to trigger rallies but could assist consolidation.**
- Third, a softer headline US CPI could prove helpful for this case as well.



SGD: Data Dependent

- Softer US data would be the main driver of SGD strength as markets search for further signs of validation of a less hawkish Fed even after Powell's warning last week.
- Strong US data could however, see USD/SGD buoy above mid-1.36 levels.
- EZ and CH would provide little support to the SGD as weakness persist. EZ data continues to point to soft economy, while China data is unlikely to surprise on the upside with manufacturing PMI contracting and exports falling more than expected.
- Meanwhile, SG exports data should see signs of improvement alongside regional peers, but the impact on SGD should be limited.



AUD: Expectations Gap

- As we had alluded to, the **significant build-up in anticipation of RBA hawkish tendencies** as they resume hiking meant that their **dovish tweak to the monetary statement overwhelm their hike of 25bp**. The AUD slipped below 64 cents.
- Given the substantial disappointment, this **week's labour report even with a confluence of oil price recovery will be unable to set much impetuous towards 65 cents.**
- Instead, the AUD is likely to remain pressured below 64 cents more often than not should slower hiring validate the RBA's careful communications.