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MIZUHO

WEEK AHEAD

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28-Aug-2023

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Economic Calendar

•Survey results from Bloomberg, as of 25 August 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
28 Aug	**US**	**Dallas Fed Manf. Activity**	**Aug**	**-19.0**	**-20.0**
	JP	**Coincident Index/ Leading Index CI**	**Jun F**	**--/--**	**115.2/108.9**
29 Aug	US	JOLTS Job Openings	Jul	9450k	9582k
	US	Conf. Board Consumer Confidence	Aug	117.3	117.0
	JP	Job-To-Applicant Ratio/Jobless Rate	Jul	1.3/2.5%	1.3/2.5%
30 Aug	**US**	**ADP Employment Change**	**Aug**	**198k**	**324k**
	US	**GDP Annualized QoQ**	**2Q S**	**2.5%**	**2.4%**
31 Aug	US	Initial Jobless Claims		235k	230k
	US	MNI Chicago PMI	Aug	44.1	42.8
	US	**PCE/ Core Deflator YoY**	**Jul**	**3.3%/4.2%**	**3%/4.1%**
	EZ	Unemployment Rate	Jul	6.4%	6.4%
	EZ	**CPI/ Core YoY**	**Aug P**	**5.1%/5.3%**	**5.3%/5.5%**
	JP	Industrial Production YoY	Jul P	-1.4%	0.0%
01 Sep	**US**	**Change in Nonfarm Payrolls**	**Aug**	**168k**	**187k**
	US	ISM Manufacturing/Prices Paid	Aug	47.0/44.0	46.4/42.6
	US	**Unemployment Rate**	**Aug**	**3.5%**	**3.5%**
	JP	Capital Spending YoY	2Q	7.8%	11.0%

Asia Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
28 Aug	AU	Retail Sales MoM	Jul	0.2%	-0.8%
29-31 Aug	**VN**	**Trade Balance**	**Aug**	**$2800m**	**$2150m**
	VN	**Retail Sales YoY**	**Aug**	**--**	**7.1%**
	VN	**Industrial Production YoY**	**Aug**	**--**	**3.7%**
	VN	**CPI YoY**	**Aug**	**2.5%**	**2.1%**
30 Aug	**AU**	**CPI YoY**	**Jul**	**5.2%**	**5.4%**
	AU	Building Approvals MoM	Jul	-0.5%	-7.7%
31 Aug	CH	Mfg/Non-Mfg PMI	Aug	49.1/51.0	49.3/51.5
	IN	**GDP/GVA YoY**	**2Q**	**7.8%/7.8%**	**6.1%/6.5%**
	KR	**Industrial Production YoY**	**Jul**	**-5.0%**	**-5.6%**
	TH	**BoP Current Account Balance**	**Jul**	**--**	**$1449m**
01 Sep	CH	Caixin PMI Mfg	Aug	49.2	49.2
	ID	**CPI/Core YoY**	**Aug**	**3.3%/2.2%**	**3.1%/2.4%**
	KR	Trade Balance	Aug	-$1130m	$1652m

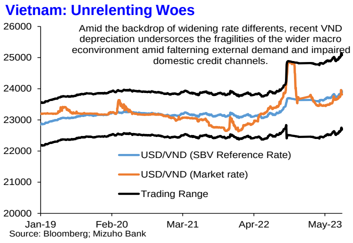
Week-in-brief: Significant, Not Sufficient

- That was the **main message from Fed Chair Powell** at Jackson Hole, suggesting there was "*a long way to go*" both with regards to both;
i) **dis-inflation** as "*inflation remains too high*";
ii) **labour market re-balancing**, where "*rebalancing ... remains incomplete*";
iii) **policy restriction**, involving duration, perhaps even degree (i.e "*higher for longer*").
- Specifically, **that significant tightening** thus far **may not quite be sufficient as yet**.
- To be sure, **Powell has qualified on measured moves ahead**, saying "*given how far* (tightening) *... to proceed carefully*" as "*incoming data and the evolving outlook and risks*" **are assessed**.
- Nonetheless, the Fed Chair did not equivocate on lingering hawkish bias, asserting "*it is the Fed's job to bring inflation down*" and it is "*prepared to raise rates further if appropriate, and ... hold policy at restrictive level until .. confident that inflation is moving sustainably down toward ... objective*".
- What's more, there was **no mistaking Fed Chair's view that inflation remains** "*too high*" **despite significant dis-inflation**; especially headline CPI. The key point is that **in the underlying inflation measures that matter** - non-housing core services in particular - terms of an established trend.
- The **upshot** is that **policy bias remains tilted to more hikes** (if the data require) and **at the very least maintaining restrictive rates for a while yet; *despite fully recognizing that significant rate hikes*** have lifted rates to restrictive settings and ***now introduce the risks of over-tightening***.
- All said, it was **hard to miss that Powell signed off with Volcker-esque swagger to** "*keep at it untile the job is done*", **despite tempering absolute hawkish bias on emerging two-way risks**.
- Likewise, the **ECB also appears to have retained full policy optionality**.
- Perhaps more specifically, the **option to hike later even September is skipped**; in the wake of dismal economic activity, with services PMIs suggesting growing recession risks.
- To be sure, **ECB President Lagarde appears to have signalled** that the European Central Bank may be **close to peak rates** (not unlike the Fed).
- Arguably, she **has stressed on a far greater degree of policy uncertainty more emphatically**, albeit also alluded to by Powell (rather poetically) as "*navigating by the stars under cloudy skies*".
- Compounding the policy challenge is the potential for not just greater inflation persistence; but also a shift in inflation regime from a conspiracy of supply-chain shifts, geopolitics and green transition.
- Clearly, the message is that **despite significant policy response, there are doubts over *whether policy action will prove sufficient***.
- This is **clearly a question that also haunts policy-makers in Beijing**, *albeit under rather different, if not diametrically opposed, circumstances;* as China **grapples with deflationary dynamics** amid **financial stability risks** as ripples from the property sector slump and after-shocks threatening shadow banking and local government debt loom ominously.
- **Significant policy backstop announcements by PBoC** and the financial regulators **may still be rendered insufficient** amid ***risks being too little too late***.
- Especially **as a solvency crisis is already underway in some parts of the economy**; *rendering liquidity fixes, no matter how significant, insufficient.*
- By extension, the **PBoC's forceful signalling on CNY stability** (via fixing) **may fall short of convincing markets that CNY downside is arrested** and capital bleed has been staunched; **adding to nerves** about further global tightening accentuating risks of a financial shock rippling across.
- Notably, **with global central banks not relinquishing hawkish options** despite *admitting to impaired visibility and heightened uncertainty,* **EM central bankers may be caught short** as well; **especially if shallower rate hikes appear insufficient** as inflation re-emerges.
- On that note, **Vietnam's major economic releases may accentuate policy dilemma** as tensions mount between weak activity feeding into/off banking/property and risks macro-stability.
- Elsewhere, significant acceleration in India's GDP may be less thrilling in the details, underlying momentum, and above all, unclear outlook clouded by inflation resurgence and demand headwinds.

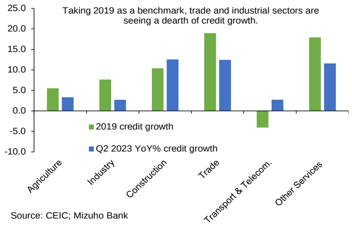
Five Take-Aways from Jackson Hole

- First things first. The Fed's **default bias is hawkish**. Crucially, a **dovish pivot is some way off**.
- Fact is, **while Powell admits to significant tightening**, and encouraging dis-inflation, the takeaway is that the **Fed is inclined to carefully calibrate, not definitively dismiss, further hikes**; if the data so require and crucially, if the evolving risk outlook allows for .
- Second, that **underlying inflation is unacceptably too high**.
- In particular, not only is **headline dis-inflation overstatement is justifiably dismissed** (amid food and energy volatility) but **COVID distortions on core goods (deflation) is discounted**.
- Furthermore, dis-inflation in slow-moving housing services exaggerated by high base requires de-emphasizing, to **focus on non-housing core services that remains far more sticky and elevated**.
- Third, he stressed that **rates will have to remain high for a prolonged period** to convincingly lower inflation expectations; *deferring timing of, and dampening the scope for, rate cuts further out.*
- Fourth, **implicitly admitting to greater uncertainties** (and potential for shifts) around neutral rates, **but decidedly refraining from premature \conclusions** one way or another.
- Pointedly, **the 2% inflation target was overtly retained** as the Fed's target suggesting that the Fed in the near-term **won't waver on maintaining restrictive settings until** inflation's decline towards the 2% target is deemed to be sustained and convincing.
- Finally, Powell **alluded to the highly unusual circumstances** of a **strong labour market despite the transmission of such forceful tightening**.
- Subtle as it may be, the **highly variable Phillips Curve relationship appears to be appreciated**, even as below-trend growth and some job market slack is desired. Overall, this may, to some degree, induce the Fed to exercise **more caution about over-tightening on low unemployment**.

Vietnam: Unrelenting Woes



Source: Bloomberg; Mizuho Bank

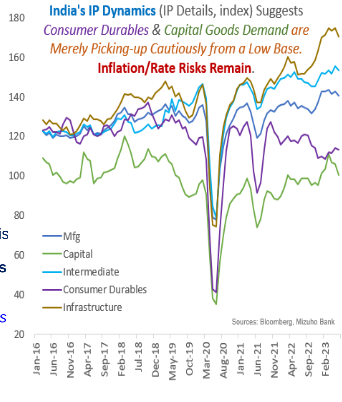


Source: CEIC; Mizuho Bank

- Upcoming slew of economic data release in Vietnam will **be unlikely to shake off the economic gloom given unrelenting woes.**
- First, aside from flattering price effects, headline retail sales growth enjoying **a decent underlying boost from tourism recovery** may mask the true state of domestic consumers.
- Second, **industrial production may be lacklustre** as external demand for discretionary items such as footwear and apparel are likely to remain weak. Consequently, **trade balances might falter** as flat export revenues meet rising imported energy expenditures amid higher global oil prices.
- Accordingly, gasoline prices which have been revised upwards, is likely to **bump headline inflation higher from July's 2.1%.** What's more, increase in rice export prices after india's export bans are also likely to **pressure domestic food prices in Vietnam**.
- A increase in frequency of electricity tariffs adjustments from 6 months to 3 months is also telling of the **cost pressures facing the state utility EVN**.
- In the face of these challenges, PM Pham Minh Chinh's **decision to keep growth target unchanged at 6.5%** which necessitate his aim for **9% growth in H2** is an **ambitious one.**
- Admittedly, moral suasion efforts to improve credit access via lower lending rates are sound to address borrowers' needs.
- Nonetheless, amid rising NPLs, the **willingness on the part of financial institutions may in fact be reasonably lacking** given the uncertainty surrounding the property market recovery timelines, and balance sheet and **cash flows worries amid persistent substantial corporate bond restructuring**. Furthermore, the broader and fundamental issue appears to be a lack of confidence among households demanding less property loans. For now, the challenge is more of addressing underlying sources of instability rather than building on shaky ground to reach loft heights.

India GDP: Between Bumpy & Buoyant

- India's **Q2 GDP**, at least in the headlines, is set to show an **exhilarating acceleration in growth *from ~6% (in Q1) to over 7% in Q2***.
- And to be fair, this does *correlate with buoyant industrial output activity.*
- But the **pertinent risk to take note of is one of fading pick-up** in activity momentum.
- Especially amid *headwinds from higher rates,* a *resurgence in inflation* and *weak global manufacturing* being *compounded by fresh buckles in European services demand.* And in turn, this weighs on demand for capital goods/durables.
- With **elevated energy prices** and resurgent food inflation, the risk is that underlying growth momentum is **at best bumpy, not buoyant**.
- Meanwhile, the **RBI's dilemma grows** as **inflation is set to once again breach the 6% upper bound of target; even as soft spots emerge**.
- **Rupee risks get tilted to the downside** as *real rates turn less supportive of rupee,* whilst *potential for (offsetting) economic out-performance is deferred.* **More so** *as global central banks maintain "higher for longer"* policy inclinations.



Thailand: Currents

- Thailand's **current account surplus for July is expected to narrow** from July's respectable US$1.4bn. While we project the **services balance to have improved** in July given **strong tourist inflows and lower freight costs**, trade balance surplus is expected to be diminished at the margin.
- This is on account of a likely increase in import expenditures amid **sharply higher energy prices**.
- Furthermore, if a trade surplus were to result from the continued decline in imports of capital goods, the outlook is hardly optimistic.
- Meanwhile political currents may be calmer but the peacefulness may be fragile.
- On the back of their 11-party coalition, which included **two military link parties** United Thai Nation and Palang Pracharath, **Pheu Thai's Mr Srettha will be the next Prime Minister** as he was royally endorsed after securing the required votes in Parliament with a **majority of senators backing him**.
- Looking ahead, **fiscal worries** such as digital wallet transfer plans which could cost 3% of GDP add to concerns on coalition stability.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	146.44	1.050	0.72%	144.00	~	148.00
EUR/USD	1.0796	-0.0077	-0.71%	1.075	~	1.100
USD/SGD	1.3561	-0.001	-0.08%	1.3500	~	1.3650
USD/THB	35.100	-0.273	-0.77%	34.80	~	35.60
USD/MYR	4.6407	-0.008	-0.17%	4.610	~	4.680
USD/IDR	15295	10	0.07%	15,200	~	15,350
JPY/SGD	0.9259	-0.008	-0.80%	0.912	~	0.948
AUD/USD	0.6404	0.000	-0.03%	0.635	~	0.650
USD/INR	82.66	-0.451	-0.54%	82.1	~	83.8
USD/PHP	56.58	0.410	0.73%	55.8	~	57.0

^Weekly change.

FX Outlook: "Stars Under Cloudy Skies"

- To be sure, that phrase was used by Powell to impress upon markets an appreciation that the Fed was confronted with a far **greater degree of uncertainty around policy-making** that "*complicate ... balancing the risk of tightening ... too much against ... tightening too little*".
- Be that as it may, the **USD may** (still) **continue to be a relatively brighter star in cloudy skies**.
- For one, **Powell's opening remarks** leave little doubt around the inclination to do more, if not at least hold the ground, despite increasing two-way uncertainty. And just to be sure, his **conclusion** to "*keep at it untile the job is done*". **No equivocation on (tightening) bias** or burden (of lowering inflation further).
- To be fair, Lagarde's take on inflation risk is not markedly more benign with.
- Especially in the context of her allusions to more **"persistent" inflation shocks** in a world with "*profound changes in the labour markets and nature of work*", "*energy transition*" and "*deepening geo-political divide*" flanked by attendant "fragmenting" of the global economy.
- But **a confluence of two broad take-aways** may **continue to favour USD**; or at the very least resist one-way shorts in the Greenback (involving corresponding EUR rallies).
- First, on policy rate hikes, the **ECB is now no longer assessed to do (further tighten) more than the Fed**. In fact, a Sep hike by the Fed may be more likely than one by the ECB.
- Second, **dis-inflation in the US may continue to be more entrenched compared to the Euro-area**, giving rise to **real spared advantages for the USD** rather than the EUR.
- The BoJ is also assessed to be far less hawkish (if at all) than the ECB and the Fed. Which means that JPY downside risks will persist in the post-Jackson Hole markets; keeping intervention risks alive enroute to 148 (well ahead of the 150 psychological level).
- **CNH may continue to be backstopped** as given what we know about the PBoC's play book in shoring up sentiments and attempting to staunch capital outflows. But this is a **forced hand (to not bet against the PBoC)**, and *opportunistic selling CNH cannot be ruled out as confidence remains in deficit.*
- As such, **follow-through AUD traction may be limited** even if there is buying interest on sub-0.64 dips.
- And more widely EM Asia FX could be on the back foot without a broad-based USD sell-off and/or sustained "risk on" rallies outside of narrow Wall St gains.

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Bond Yield (%)

25-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	5.078	13.5	4.235	-2.0	Flattening
GER	3.019	0.2	2.556	-6.0	Flattening
JPY	-0.003	-1.6	0.647	2.5	Steepening
SGD	3.612	7.2	3.262	10.6	Steepening
AUD	3.874	-4.0	4.158	0.1	Steepening
GBP	4.984	-16.1	4.436	-23.2	Flattening

Stock Market

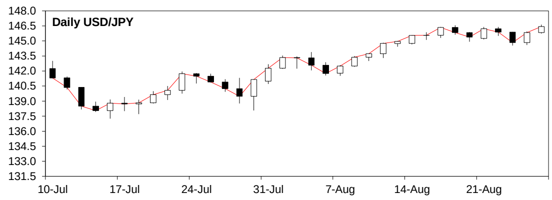
	Close	% Chg
S&P 500 (US)	4,405.71	-1.31
Nikkei (JP)	31,624.28	-2.62
EuroStoxx (EU)	4,236.25	-1.97
FTSE STI (SG)	3,189.88	-3.17
JKSE (ID)	6,895.44	0.22
PSEI (PH)	6,160.61	-3.83
KLCI (MY)	1,444.41	-0.87
SET (TH)	1,560.20	1.63
SENSEX (IN)	64,886.51	-0.67
ASX (AU)	7,115.18	-3.06

US Treasuries: Hold or Hole?

- UST bulls (on the shorter end) were again battered in the lead up to and in the immediate aftermath of Jackson hole. The thing is **this hole may be tough for UST bulls to climb out of this week and may in fact be a prolonged one.**
- First, the inversion deepening of the 10Y-2Y was another reminder of recession risks. Admittedly, which caution inducing a **rate hold, rather than further hikes, ought to restrain upside for UST yields**.
- That said, with inflation expectations print last Friday edging higher may continue to filter through for early parts of this week to buoy UST yields.
- While **recession fears** from any jobs disappointment may indeed send a rush to safe havens and lend a hand to UST bulls, enlarged supply issuances is a **structural shift** that is much less variable and way more certain than neutral rates or monetary policy lags.
- All in, 2Y yields will attempt to hold and consolidate above 5% this week and trade in the 5%-5.15% range. Similarly, we expect 10Y yields to retain buoyancy above 4.15%.

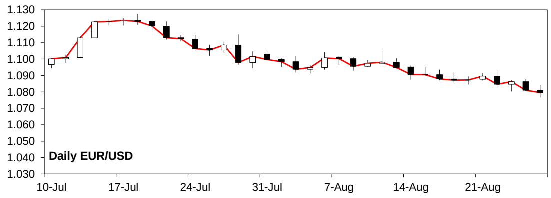
JPY: Restraining Bears

- With slowing Tokyo inflation aiding the backdrop of surging UST yields, the USD/JPY ascended towards mid-146. That said it remains to be seen if such loft heights can be sustained especially after a couple of failed attempts two weeks.
- For one, the stalled rally in commodity prices provide partial relief for JPY bulls while bears remain while aware of intervention risks at these levels.
- Clearly, BoJ Governor Ueda's speech backs JPY bears.
- All in, buoyancy is entrenched for the USD/JPY to trade in the mid-144-148 range.



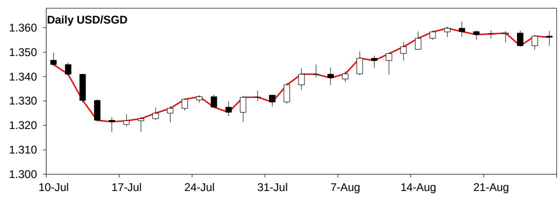
EUR: Holding Lower

- With disappointing PMIs across Europe and poor business climate in Germany, EUR performance may remain lacklustre this week even if ECB hawks gets backing from release of EZ CPI.
- What's more, CNH woes are in fact perversely increasing amid attempts to reveal drips and raps of stimulus measures which do not turn the tide.
- This week, we expect a range of 1.07 to 1.10 to contain EUR trades as the risks skew to the downside.



SGD: Fraught Consolidation

- Admittedly, **SGD bears have been set back** by the series of record high (relative to last close) fixing by the PBoC; as CNH traction from the PBoC's warnings shots have rubbed off via trade basket impact on the S$NEER.
- And with signifiacnt CNY trade weights the impact on USD/SGD ghas not gone unnoticed as USD/SGD consolidates mid-1.35; well off 1.36 tests,
- But this is a fraught consolidation in defiance iof USD bulls as PBoC asserts CNH traction.
- Whereas renewed exports pain (in NODX data) alongside global headwinds and a hawkish Fed suggest that underlying SGD downside risks have not been properly put to bed.
- Fresh JPY slippage also warns of not dismissing scope for bearish SGD jolts.
- For now though we expect USD/SGD to consolidate around mid-1.35 within a wider sub-1.34 to 1.36 range.



AUD: Low Conviction Traction

- AUD traction to thwart sub-0.64 dips lack conviction for follow-through traction; much less rallies.
- Admittedly a much stringer CNH (after PBoC warnings shots via fixing) alongside a slew of stimulus measures could bode well for hard commodities;
- But that is a "could" with a capital 'C".
- Nothing is cast in stone as confidence in China remains in short supply, with organic demand for real estate at best unclear, if not flagging outright.
- Add to that a still hawkish Fed, and AUD upside is likely to remain compromised for now.
- The weekend's stimulus efforts by Beijing are admittedly revealing some urgency.
- But for now have staopped far short of a convincing turnaround for the economy.
- Near-term AUD trades are expected to be in the mid-0.6 to low-0.65 range.