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MIZUHO

WEEK AHEAD

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07-Aug-2023

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Economic Calendar

•Survey results from Bloomberg, as of 4 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
07 Aug	EZ	Sentix Investor Confidence	Aug	-24.5	-22.5
	JP	Leading/Coincident Index	Jun P	108.9/115.1	109.2/114.3
08 Aug	JP	BoP Current Account Balance	Jun	¥11500.0b	¥1862.4b
	JP	Eco Watchers Survey Current/Outlook SA	Jul	53.9/52.7	53.6/52.8
09 Aug	JP	Machine Tool Orders YoY	Jul P	--	-21.1%
10 Aug	US	Initial Jobless Claims	Aug	230k	270k
	US	CPI/Ex-Food & Energy YoY	Jul	3.3%/4.8%	3.0%/4.8%
	JP	PPI YoY	Jul	3.50%	4.1%
11 Aug	US	U. of Mich. Sentiment	Aug P	71.5	71.6
	US	U. of Mich. 1-Yr/5-10 Yr Inflation	Aug P	--	3.4%/3.0%
	US	PPI Final Demand/Ex Food and Energy YoY	Jul	0.7%/2.3%	0.1%/2.4%

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
07 Aug	ID	GDP YoY/QoQ	2Q	5.0%/3.7%	5.0%/-0.9%
	TH	CPI/Core YoY	Jul	0.6%/0.9%	0.23%/1.3%
08 Aug	CH	Trade Balance	Jul	$70.0b	$70.6b
	KR	BoP Current Account Balance	Jun	--	$1927.2m
	MY	Industrial Production YoY	Jun	-0.9%	4.7%
	PH	Trade Balance	Jun	-$4400m	-$4396m
	TW	Trade Balance	Jul	$5.65b	$5.96b
9-15 Aug	CH	Aggregate Financing/New Yuan Loans	Jul	1100b/780b	4224.1b/3049.5b
09 Aug	CH	CPI/PPI YoY	Jul	-0.4%/-4%	0.0%/-5.4%
	KR	Unemployment rate SA	Jul	2.7%	2.6%
	PH	Unemployment Rate	Jun	--	4.3%
	TW	CPI/Core YoY	Jul	1.9%/--	1.8%/2.6%
10 Aug	IN	RBI Repurchase Rate	Aug	6.50%	6.50%
	PH	GDP YoY/SA QoQ	2Q	6.0%/0.6%	6.4%/1.1%
11 Aug	IN	Industrial Production YoY	Jun	5.0%	5.2%
11-18 Aug	CH	FDI YTD YoY CNY	Jul	--	-2.7%

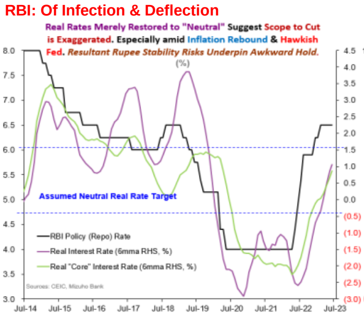
Week-in-brief: Cut

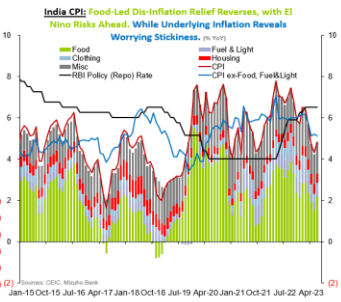
- **In what must be a cruel joke**, **markets** that had been **agitating for 'Fed pivot' finally got a cut**.
- ***But* not the one hoped for**. *Instead of the Fed, it was Fitch.* Specifically, it was a **credit rating, rather than (Fed Fund) rate cut**; which triggered the diametric opposite of "pivot bets". To be precise, the ratings cut (in contrast to rate cut bets) resulted *in surging UST yields and USD* alongside *swooning equities.*
- Markets struggled to revive risk appetite and or "pivot" bets although a second NFP shortfall of sturdier ADP headline jobs (creation) numbers triggered a pullback (albeit incomplete) in USD and UST yields.
- Admittedly, **softer NFP** with decelerating jobs creation at 187K that falls short of 324K ADP, 200K expectations accompanied by -49K revisions over the last two months, **dampen rate hike odds**.
- **But** unemployment rate slipping further to 3.5% (vs. 3.6%) and robust wage gains (0.4%MoM/4.4%YoY) , suggest the Fed's **next move is not necessarily a pause**. *And* a **cut is certainly not in the horizon**.
- In fact, **crude output cut by the OPEC+ warn of sticky inflation remaining a bug bear**.
- Notably, *Russia's 300KBpD voluntary cut* (set for September) m*eeting Saudi's extension of its voluntary 1MBpD output cut* probably speaks of a desire to keep Brent buoyed on the stronger side of $80-$90/bbl range, if not higher. What this means is that energy dis-inflation is set to broadly dissipate quickly.
- With that in mind, **US CPI data** (Wed) for July will **probably be the biggest data release on watch** this week; *given* that the July *post-FOMC press briefing expressly alluded to a "couple more" inflation and jobs data as determinants of* the outcome of a *"live" September FOMC.*
- As we have flagged, and as validated after the *post-NFP cut down in UST yields and USD,* **market sensitivity to US inflation and jobs data are likely to be elevated**.
- Apart from CPI, consumer sentiments and inflation expectations from **U. of Michigan survey** (Fri) **could also feature prominently** as markets leave little unturned *in projecting beyond a Fed pause to time a cut.*
- In Asia, the **RBI** (Thu) **is now in the spotlight**. **Where emphatic dis-inflation earlier** (late-Q1 till June, with CPI pulling back 220bp from 6.5% to 4.3%) **had excited chatter of rate cuts later in 2023**, **inflation re-acceleration** to 4.8% in July has hijacked such premature bets; especially in the context of upside risks from energy and food (amid El Nino). Crucially rupee instability risks from a hawkish Fed is a bug bear.
- Elsewhere, Indonesia (Mon) and Philippines (Thu) are set to release Q2 GDP.
- For **Indonesia**, the **cut-back in commodities tailwind** will probably begin to show as some deceleration in the growth momentum. Maintaining momentum above 5% could be challenging; and at least partly subject to the success of Beijing's ability to revive demand-driven growth in China.
- As for the **Philippines**, ***deceleration*** to 6.0% (from Q1's 6.4%) **is more pertinent than the headlines that is at least partly flattered by base effects**. In any case, acute imported inflation risks amid El Nino and high energy imposing possible rate hike necessities, underscore daunting economic challenges.
- The thing is cuts abound. But amid heightened uncertainty not all make the cut.

Why China Stimulus Remains Convincing

- We remain **unconvinced that Beijing's stimulus efforts will achieve intended "lift-off"** for the still struggling economy. To be sure, the *drip-feed of stimulus, has grown more emphatic.*
- And the **accompanying policy signals are more unequivocal** about turning the economy around.
- But it is a long way from a convincing and coordinated set of measures o pull all stops and revive animal spirits; which, we believe is the much higher bar to revive self-sustaining momentum.
- Crucially, our **circumspection about Beijing's ability to fire up the economy** is **not due to worries about** the (lack of) **availability and/or efficacy, of economic stimulus levers**. *Rather,* it is **due to the irreconcilable conflicts between economic and socio-political objectives**.
- And so, *only when there compelling evidence* that *Beijing is willing to assume necessary trade-offs* (entailing sacrifice of socio-economic control) **to unequivocally prioritize the economy** *will we turn unflinchingly positive on China's economic prospects.* Till then, **doubt restraints stimulus hopes**.

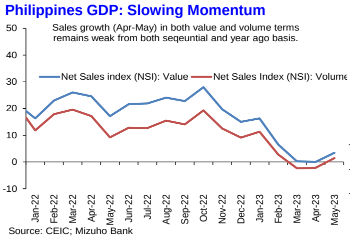
RBI: Of Infection & Deflection

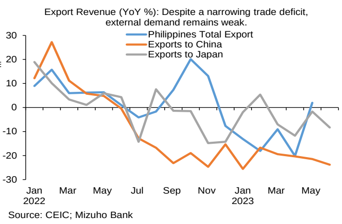




- *Between inflation and inflection,* the **RBI appears set for a loaded** (albeit widely expected) hold; and arguably with a tinge of hawkish after-taste from inconvenient food inflation.
- The **agitating elephant in the room is resurgent inflation**.
- As a consequence of which, the build up of **expectations for inflection have been deflected**.
- To be sure, there is an **argument to be made** that insofar the **rebound in inflation is almost entirely food-driven**, it **should not have a material impact on the policy calculus**.
- *But* that **textbook argument does not translate very well** on the ground for three key reasons.
- First, *in the context of rapid US dis-inflation,* an about turn that starts to reverse **India's dis-inflation may instigate rupee instability**; *as relative real return spreads increasingly disadvantage rupee.*
- Arguably as indiscriminate as it is inadvertent. But that debate is of no consolation for the real economic damage from rupee pressures. More so as the inflation concerns expressed as rupee pressures eventually turn self-fulfilling via imported inflation channels.
- Second, there are also **legitimate doubts about whether India's earlier dis-inflation** prior to this episode of food price shocks could have endured in any case. And with upswings in global energy prices alongside broad-based global food inflation risks from El Nino, this doubt is not unjustified.
- Finally, and perhaps debunking **flawed arguments that food inflation may be ignored in India's context** is the fact that food constitutes some 45% of the consumption basket.
- By virtue of which, it must have influence on inflation expectations; and by extension, policy calculus.
- The upshot is that w**hile the RBI may desire an end to the hiking cycle**, with a view of easing soon, **it cannot as yet reflect any distinctly dovish shift in stance**. So, an *awkward hold with a grudging retention of hawkish shades* may be *optimal policy given the non-ideal realities.*

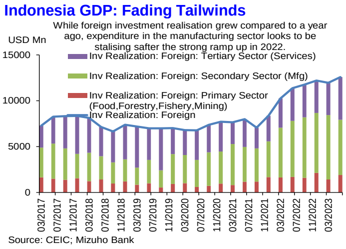
Philippines GDP: Slowing Momentum

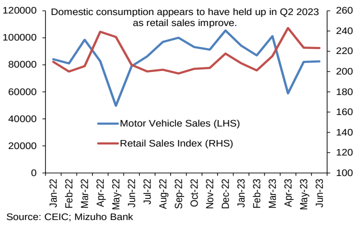




- While Philippines Q2 GDP growth is expected to **post above 6% YoY**, these estimates still represent a **slowing sequential quarterly momentum from Q1.**
- Subdued sales growth in April and May portend weakening manufacturing GDP.
- While **private consumption** is expected to remain **resilient** as **lower unemployment rate** buoys purchasing power, **softer remittances** and still pessimistic consumer **sentiments** imply less room for significant outperformance.
- Furthermore, monetary policy **transmission from earlier BSP hikes** is also a dampener on household budgets and consequent expenditures. On the fiscal front, **Q2 government spending up 2.4% YoY** would help backstop domestic demand.
- While export revenue managed to eke out a 1.9% YoY recovery in May and help to narrow the trade deficit, latest indicators for June on **external demand from major trading partners remains lacklustre** with Q2 exports to China and Japan down 21.9% and 7.2% from a year ago.
- While growth remains relatively stable at this juncture, the **risks are tilted to the downside** with possible agricultural and energy price shocks denting consumer pockets and sentiments.

Indonesia GDP: Fading Tailwinds





- Similarly, Indonesia's rather resilient GDP growth thus far also faces the threat of eroding tailwinds and as such **Q2 GDP growth is likely to slow from Q1's 5.0% YoY.**
- First, fading commodity tailwinds is evident **as both trade surplus and export revenue has contracted** relative to the previous quarter as well as compared to a year ago.
- Nonetheless, **commodity allure** continues to drive **strong foreign investment realisation growth** in Q2. That said, investment realisation into the basic metal **processing** industries appears to **be stabilising after the initial ramp-up** in 2022 following their nickel ore export ban.
- On the domestic front, **retail sales picked up** in Q2 as motor vehicle sales remain steady. **Tourism activity continues to be bolstered** by continued improvement in visitor arrivals with **June's arrivals reaching 74% of pre-Covid 2019 June levels.**
- All in, the focus remains to **anchor IDR and domestic stability** by bracing for external headwinds through recent schemes of export revenue repatriation and lowering RRR cuts to **deepen growth multipliers** from still evident commodity demand.

OPEC+: Keeping Supply Tight & Prices Taut

- At the Joint Ministerial Monitoring Committee (JMMC) on 4th Aug, there was **no mistaking that the OPEC+ was determined to keep supply tight**. Most prominently, *Saudi extended its "additional voluntary" cut of 1MBpD* through Sep; thereby holding its production at lows of 9MBpD.
- *Russia too tightened the screws on supply* with a *planned 300KBpD cut* planned for Sep.
- In addition, **allusions to** "*overall conformity*" (to supply quotas) for OPEC+ members was **a thinly veiled reminder** to members **of** the now tightened **monitoring and compliance for OPEC+.**
- What's more, "*willingness ... to take address market developments and stand ready to take additional measures at any time, building on the strong cohesion of OPEC(+)*" **warns of latent supply tightening bias** that will kick in should markets create too much downside price volatility.
- **Admittedly**, the **statement of action is technically neutral**; open to action on either side of price dynamics. But in the **context of China (demand shortfall) risks** and recent **agitation on price declines below $75/bbl** for Brent crude leaves ***little doubt about the bias for a price floor.***
- Furthermore, Saudi Aramco upping 'Arab Light ' premiums for Asia (+$0.30 to $3.50 over Oman-Dubai) and Europe (+$2.00 to $5.80 over Brent) ***reinforces taut prices from tight supply***.
- With North American premiums left intact, this underpins our view of stickier energy inflation risks, but differentiated with US continuing to have brisker dis-inflation than Europe.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	141.76	0.600	0.43%	140.00	~	144.00
EUR/USD	1.1006	-0.0010	-0.09%	1.090	~	1.115
USD/SGD	1.3395	0.008	0.59%	1.3300	~	1.3480
USD/THB	34.645	0.562	1.65%	34.00	~	35.10
USD/MYR	4.554	-0.001	-0.02%	4.520	~	4.600
USD/IDR	15170	75	0.50%	15,000	~	15,250
JPY/SGD	0.9447	0.002	0.17%	0.924	~	0.963
AUD/USD	0.657	-0.008	-1.20%	0.648	~	0.672
USD/INR	82.84	0.585	0.71%	82.1	~	83.2
USD/PHP	55.75	0.850	1.55%	54.8	~	56.2

^Weekly change.

FX Outlook: Inflated Binary Risks

- UST yields receding once again amid s**oft spots in NFP data has knocked back the USD**.
- **But this is merely a data response** amid heightened post-FOMC sensitivity (to jobs and inflation releases) in the context of positioning ripe for unwind (after a sharp USD squeeze most of last week).
- And **not a re-established bearish USD trend to pursue recklessly**. Especially given **inflated binary risks** ahead of US CPI and sentiments data.
- Admittedly, **US inflation** data might continue to underpin the broader dis-inflationary trend, and could have **sufficient headline sway to dampen the USD**.
- But the **devil** (as always) resides **in the details**.
- First, **not unlike the details of softer jobs** headline that revealed harder wage pressures amid low unemployment, **CPI could also present stickier "inner most core"** of non-accommodation services.
- Thereby setting reflex USD sell-off post-CPI for reversals on USD buyback. Especially as OPEC production curbs and El Nino force a rethink of inconvenient stickiness to overall inflation.
- Second, (and accordingly) Fed speak continues to align with the position of a default hike unless proven otherwise. And the bar for this is ostensibly higher.
- Finally, perceptions of diminished appetite for ECB to materially ramp up on tightening will further diminish the allure of bearish USD bets;
- simply because the most prominent "anti-USD" (the EUR) may not be getting much love.
- Meanwhile, **China stimulus hopes continue to loiter, checking CNH downside.**
- **But lack of conviction means that CNH and AXJ more broadly are not necessarily poised to stage rallies.**

Bond Yield (%)

4-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.764	-11.0	4.034	8.3	Steepening
GER	3.001	-3.6	2.556	6.7	Steepening
JPY	0.014	5.0	0.635	9.2	Steepening
SGD	3.374	-5.9	3.038	4.1	Steepening
AUD	3.915	-2.1	4.191	0.1	Steepening
GBP	4.848	-7.0	4.372	5.6	Steepening

Stock Market

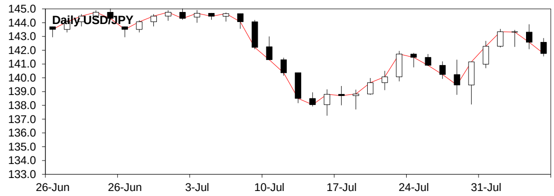
	Close	% Chg
S&P 500 (US)	4,478.03	-2.27
Nikkei (JP)	32,192.75	-1.73
EuroStoxx (EU)	4,332.91	-2.99
FTSE STI (SG)	3,292.39	-2.34
JKSE (ID)	6,852.84	-0.69
PSEI (PH)	6,450.84	-2.63
KLCI (MY)	1,445.21	-0.35
SET (TH)	1,530.46	-0.83
SENSEX (IN)	65,721.25	-0.66
ASX (AU)	7,325.34	-1.06

US Treasuries: The Uneven Short and Long Story

- Shorter end **2Y UST yields plummeted** at the end of last week as **weaker than expected NFP print** dialed back the odds for a September rate hike.
- Meanwhile **longer end UST 10Y yields** were **bolstered** by **ramp up in debt issuances by the US Treasury with the Fitch Ratings Cut playing the marginal role.**
- Furthermore, buoyant oil prices incite fears of higher inflation expectations to backstop longer end yields. As such, 10Y yields may attempt to consolidate around both sides of the 4% mark this week.
- Meanwhile, 2 Y yields will remain fixated with the US CPI print.
- On that, the **assymetry remains that OPEC+ action erodes the energy dis-inflation ahead and takes the shine off UST bulls. Consequently,** 2Y yields are projected to stay buoyed above 4.70%.

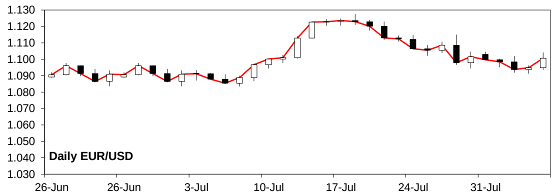
JPY: Sticky

- While we flagged the BoJ's preference to retain dovish options hinders sustained JPY gains, OPEC+ actions to keep supplies tight and backstop **Brent crude prices imparts further buoyancy to the USD/JPY.**
- This week, JPY movement inevitably remains subject to the volatility of front end UST yields with gains checked while facing prospects of outsized losses on **sticky US CPI**.
- As such the enlarged range of 140-144 may be the preference this week as the USD/JPY retains buoyancy.



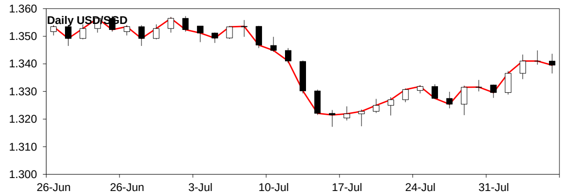
EUR: Not too High, Not Too Low

- ECB Chief Economist Philip Lane esposed that the ECB should not accept inflation that remains too high or too low amid the ECB's publication emphasis on **peaking underlying inflation.**
- Nonetheless, given geo-political grain and oil price shocks, smaller humps of inflation is par for the course
- As for the EUR, the ability to rally may very well have peaked.
- This week, rallies above mid-1.11 remains suspect which buonces off 1.09 can be retain on inflation troubles.



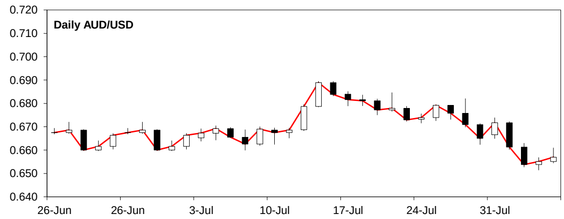
SGD: Flirting, not Forging

- The backdrop of broad-based and sharp USD pull-back after softer than expected NFP headlines (and downward revisions to past data) prompted sub-1.34 dips.
- But this is a cautious move backed by an abundance of USD decline, not one premised on SGD-driven strength (projected from CNH, EUR or JPY).
- So necessarily, the SGD is merely flirting with cautious upside corresponding, and deferent, to USD dynamics;
- and not forging a bullish trend based on conviction about economic optimism.
- Especially given that real rate differentials continue to favour USD and China stimulus drip-feed still lacks breadth and cohesion.
- For now, we expect that USD/SGD will be traded low-1.33 to sub-1.35 amid potentially heightened volatility into US CPI data.



AUD: No Love

- The Antipodean continues to struggle immensely, unable to regain traction above 0.66 since the post-RBA slide kicked off.
- At the risk of over-simplifying, it appears that the AUD is getting no love ....
- No love from the RBA, whose hold (and change of chief) has markets speculating that the RBA is done at 4.10%.
- No love from China. And this is despite reports of relaxation of earlier grain exports tariffs.
- To some extent, the daunting property market slump in China and unconvincing plans for local governments to boost spending has left hard commodities unloved;
- and by extension the AUD is also swooning and sliding.
- Finally, upswings in UST yields amid JPY/JGB volatility is not doing AUD carry any favours.
- For now we expect AUD to consolidate heart-broken in the 0.65 to low-0.66 range; dips below 65 cents not ruled out if US inflation flares.



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