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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 26 May 2023; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
29 May	JP	Coincident/Leading Index	Mar F	--	98.8/97.7
30 May	**US**	**Conf. Board Consumer Confidence**	**May**	**99.0**	**101.3**
	US	**Dallas Fed Manf. Activity**	**May**	**-18.0**	**-23.4**
	EZ	Consumer Confidence	May F	--	-17.4
	JP	**Job-To-Applicant Ratio/Jobless Rate**	**Apr**	**1.32/2.7%**	**1.32/2.8%**
31 May	**US**	**JOLTS Job Openings**	**Apr**	**9439k**	**9590k**
	US	Dallas Fed Services Activity	May	--	-14.4
	JP	Retail Sales YoY	Apr	7.1%	6.9%
	JP	Industrial Production YoY	Apr P	1.3%	-0.6%
01 Jun	US	ADP Employment Change	May	165k	296k
	US	Initial Jobless Claims		235k	229k
	US	ISM Prices Paid/Employment	May	--/--	53.2/50.2
	US	**ISM Manufacturing/New Orders**	**May**	**47.0/--**	**47.1/45.7**
	US	Construction Spending MoM	Apr	0.2%	0.3%
	US	Federal Reserve Releases Beige Book			
	EZ	**CPI/Core YoY**	**May**	**6.5%/5.5%**	**7.0%/5.6%**
	EZ	**Unemployment Rate**	**Apr**	**6.5%**	**6.5%**
	JP	PMI Mfg	May F	--	50.8
	JP	Capital Spending YoY	1Q	5.4%	7.7%
02 Jun	**US**	**Change in Nonfarm Payrolls**	**May**	**190k**	**253k**
	US	Average Hourly Earnings YoY	May	4.4%	4.4%
	US	**Unemployment Rate**	**May**	**3.5%**	**3.4%**

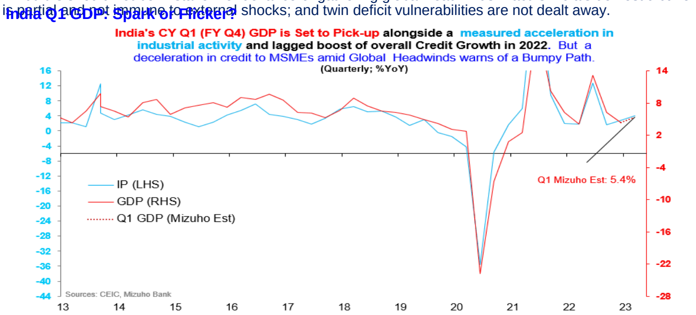
Asia Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
29-31 May	**TH**	**Customs Trade Balance**	**Apr**	**-$500m**	**$2719m**
29-May	**VN**	**Trade Balance**	**May**	**$70m**	**$1510m**
	VN	**Retail Sales YoY**	**May**	**--**	**11.5%**
	VN	**CPI YoY**	**May**	**2.6%**	**2.8%**
	VN	**Industrial Production YoY**	**May**	**--**	**0.5%**
30-31 May	**KR**	**Retail Sales YoY**	**Apr**	**--**	**6.4%**
30 May	**AU**	**Building Approvals MoM**	**Apr**	**2.0%**	**-0.1%**
31 May	**CH**	**Mfg/Non-mfg PMI**	**May**	**49.5/55.0**	**49.2/56.4**
	AU	**CPI YoY**	**Apr**	**6.4%**	**6.3%**
	IN	**GDP/GVA YoY**	**1Q**	**5.0%/4.9%**	**4.4%/4.6%**
	KR	**Industrial Production YoY**	**Apr**	**-7.9%**	**-7.6%**
	TH	**BoP Current Account Balance**	**Apr**	**$2200m**	**$4779m**
	TH	**Trade Balance**	**Apr**	**--**	**$4305m**
	TH	**BoT Benchmark Interest Rate**		**2.00%**	**1.75%**
01 Jun	CH	Caixin China PMI Mfg	May	49.5	49.5
		PMI Mfg (AU/IN/KR/MY/PH/TH/TW/VN)	May F	--	--
	AU	Private Capital Expenditure	1Q	1.0%	2.2%
	KR	Trade Balance	May	-$2640m	-$2654m
02 Jun	**KR**	**CPI YoY**	**May**	**3.2%**	**3.7%**
	KR	**GDP YoY**	**1Q**	**0.8%**	**0.8%**

Week-in-brief: US Debt Deal is Relief, Not Resplendence

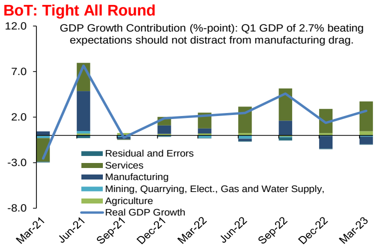
- On Saturday, the wires were awash with **news of a (US debt) deal on the table**; and both President Biden and House Speaker McCarthy have expressed confidence about sealing the debt deal.
- **What's needed** now are 218 votes in the House abnd 51 in the Senate to get the deal inked a; thereby ensuring that **a debt ceiling crisis is averted**.
- Voting is expected to be on Wednesday (31st May), but **while both sides have expressed confidence, the deal is not yet a shoo-in**. **Hard-liners in both parties**, and more importantly the sway that may be able to garner, is **a bit of an uncertainty and bug bear**.
- Which means that the **stage may be set for volatility** if agitations by hard-liners delay a deal.
- Moreover, even when the deal is inked, **the reality of wall of T-bill issuances** (to replenish the Treasury) **at the expense of market liquidity may rudely arrest exuberance**.
- Also, ining a deal not only removes tail risks for Fed hawks, but also diminishes fiscal prop for the economy. Upshot being, a **deal to avert crisis is low bar relief, not resplendence**.
- Nevertheless, for now, **markets are enjoying relief rallies**; **on the low bar of a deal** on the table; with **US equity futures solidly in the green** looking to build on Friday's resounding rally.
- The **Greenback has extended gains**, as we thought it would on fading debt ceiling risks.
- USTs though were mixed. While *10Y yields slipped* ~2bp to 3.8%, **2Y rose ~3bp to 4.56%**.
- This pick-up in 2Y yields is perhaps **attributable to marginal hawkish bets** based on; i) *fading debt ceiling risks*, which markets assume will render the Fed less restrained in terms of tightening and; ii) *PCE measures of inflation surprising (mildly) to the upside* rendering June FOMC 'live" (from a pause), and deferring rate cut bets.
- After uncomfortably sticky PCE print last week, US ISM and jobs data might attract more attention as market may be less assured about **asssumed June FOMC pause**; **not deemed a done deal**!
- In our neck of the woods, the **BoT is expected to raise rates by 25bp to 2.00%** (Wed), being a slow starter and now positioning for tourism-led multipliers and services inflation.
- Elsewhere**, India's Q1 (CY) GDP is set to pick up to around mid-5%** from mid-4% range in Q4.
- Admittedly, **corresponding pick-up in industrial activity is an encouraging sign of resilience**.
- But it is should not be mistaken for defiance of gathering global headwinds. Fact is India's domestic buffer is partial and not immune to external shocks; and twin deficit vulnerabilities are not dealt away.

India Q1 GDP: Spark or Flicker?



- **Set to come in around 5.4% YoY**, **India's Q1 (CY) GDP is set to be a bright spot**; *outshining China,* and tempting optimism about being able to defy headwinds.
- Question though is, whether this a **spark the fuels a sustained bullish India story, or a flicker that is vulnerable to global headwinds and uncertainties**; therefore, succumbing to a **bumpy ride rather than** being poised for **an unbridled acceleration**.
- To be sure, we are not contesting this narrative given signs of **resilience and the backdrop of a pick-up in industrial activity** (with *robust capital goods output*), **healthy consumer demand** and a **run-way of overall credit growth lift in 2022**.
- What's more, ***with inflation continuing to ease sharply***, there ***may be excitement about fillip for forward-looking growth*** owing to the **waning drag on discretionary income from dis-inflation**.
- *But* such **unbridled optimism** is **not just premature (**amid two-way risks) **but also overdone**, missing the fact that India is not immune to gathering global headwinds.
- In particular, given **lagged effects of RBI tightening** against a backdrop of **tighter global financial/liquidity conditions**, *dangers of capital account upheavals* and *pipeline credit drag*.
- Tellingly, the **pullback in the rate of credit growth to MSMEs**, which account for a significant portion of jobs (household demand), also **counsel caution about getting light-headed about growth upside** accentuated by softer inflation and scope for RBI to ease.
- In fact, the logic may be the other way around insofar the need for the RBI to ease may be underpinned by downside risks to growth from imported headwinds.

BoT: Tight All Round



Source: CEIC; Mizuho Bank

Thailand Tourism Recovery (As of March 23)

	% of March 2019
Occupancy	91%
International Tourist Arrivals	56%
Room Rates	79%

- BoT Governor Sethaput has been signalling their inclination to **continue tightening monetary policy** at their meeting this Wednesday **which take policy rates to 2.00% from 1.75%** on the back of **robust tourism led recovery**.
- Admittedly, given the **circumstances of rather high occupancy rates contrasting with further room for tourist arrivals to pick up**, **accommodation and related services prices have more upside ahead.** In addition, **upside risks may stem from probable minimum wage increases** and increased spending from the new government.
- That said, policy risk persists considering that services sector is currently the main driver of growth. While the tight labour market boost purchasing power, **higher debt servicing cost will dent private consumption** considering the high levels of household debt.
- Specifically, given that household debt is **about 87% of GDP**, a small pickup in NPL and/or interest servicing burden is inadvertently still a significant drag on growth.
- A substantial portion of debt is related **consumption needs** such as personal loans and credit cards which have **considerably higher interest** compared to asset-based loans such as housing debt.
- As such, this **dampens traditionally strong growth multipliers** from tourism **at an inconvenient time where the manufacturing sector continues to face substantial headwinds** alongside a depreciating THB (since elections) worsening imported inflation **accentuating the dilemma.**
- On balance, we expect **the BoT to halt their tightening cycle sooner rather than later** with **headline and core inflation both within their 1-3% target range**.

OPEC Threats Allayed, not Annihilated

- **Despite Russia** (Deputy PM Alexander Novak) **reassuring that OPEC was not set to cut output in June**, **Saudi's warning to markets** that bets on oil price declines will be met with action by the cartel **suggest that the OPEC is agitating to inflcit supply discipline**.
- **Specifically, Saudi's Energy Minister**, Prince Abdilaziz bin Salman **openly warning (short) speculators to** "*watch out*" and that they "*will be ouching*" **appear to validate** our earlier observations **about supply (cut) response to rapid price declines to/below $75** Brent barrel..
- Admittedly, Brent prices bouncing off tests below $74 mid-May to $77-78 on US debt ceiling hopes **allays imminent threats supply cut response**. *But in no way does it annihilate threat of cuts later.*
- So what are the **risks ahead of June's OPEC meeting**? The most desirable outcome is that Novak is right and there are no cuts. As a corollary, the least desirable would be Saudi overriding Russia's guidance to go ahead with an announced cut (although Russia may pump more).
- Finally, and the *curve ball*, is that June's meeting might pass uneventfully, but *Saudi blindsides with a unilateral, inter-meeting cut*; with powers conferred upon it previously.

Vietnam CPI: Disinflation Amid Deflationary Fears

- **Vietnam's headline inflation is expected to continue to decline further**.
- The **drags** would continue to come from **declining transportation cost** from lower petrol prices as well as **on-going adjustments on education fees.**
- While **manufactured goods** may continue to experience **dis-inflation on subdued demand**, extreme weather conditions may have added upward pressures to food prices.
- **Utilities charges is likely to have risen** as retail electricity tariffs were adjusted upwards by 3% by the state operator EVN (amid a build-up of rising costs earlier absorbed).
- On one hand, given the on-going tourism sector recovery, services inflation on accommodation cost, recreation and eating out might prove sticky. But on the other, weak economic growth, services providers could **generate price competition** as they seek to grab a bigger share of tourist inflows.
- What's more, a sharp slowdown in industrial activity, which arguably is the main driver of wages (and hence consumption), the overarching risk appears to be aligned to industrial sector dent.
- It is in this context that the the **SBV has just cut refinancing by 50bp**; as the **policy concerns are trained on a deflationary economic collapse** , not upward wage/growth-price spirals.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	140.6	2.620	1.90%	136.00	~	142.00
EUR/USD	1.0723	-0.0082	-0.76%	1.065	~	1.088
USD/SGD	1.3522	0.008	0.58%	1.3400	~	1.3600
USD/THB	34.677	0.297	0.86%	34.40	~	34.90
USD/MYR	4.6003	0.063	1.38%	4.550	~	4.660
USD/IDR	14955	30	0.20%	14,850	~	15,100
JPY/SGD	0.9614	-0.014	-1.48%	0.944	~	1.000
AUD/USD	0.6517	-0.013	-2.01%	0.648	~	0.675
USD/INR	82.57	-0.094	-0.11%	82.2	~	83.0
USD/PHP	55.783	0.105	0.19%	55.5	~	56.4

^Weekly change.

FX Outlook: What Debt Ceiling Resolution May Prompt

- We had opined last week aboutr how markets would navigate the debt ceiling crisis and come up with some conjectures about how the resolution might impact markets as well.
- Below is an excerpt* of our thoughts from the report last week.
- A resolution of the **debt crisis is a fair cause for abrupt reversal of the "default dumping"**.
- Which in turn entails **an emphatic USD leg-up**.
- This, as **markets are inclined to buy back USD**; on a confluence of debt default relief (that quells selling of USD assets), *accentuated by speculative shorts squeezed* and (dovish/crisis) monetary policy bets being reversed out all at the same time.
- What's more, **expectations of the *US Treasury issuing a flood of T-bills*** (thereby **mopping up USD liquidity**) could also **amplify the demand for, and upside in, USD**; as banks are likely to pre-emptively shore up USD liquidity ahead of the the Treasury's bill issuances (that are anticipated).
- This may be **reflected initially as subdued EUR**, but could become more pronounced in terms of weighing on EM currencies, particularly those with twin deficits as USD liquidity squeeze hits.
- The decline in JPY may also be pronounced as USd strength on its own accord conspires with the dcline in haven demand (which will drag on JPY and CHF at the margin).
- Gold could also feel some of the headwinds as the 2011 debt ceiling experience informs us of Goild's haven demand declining fairly sharply on resolution.
- Equities: We expect **relief rallies in equities**. But **perhaps only partially**; as full restoration and follow-through bullish momentum may be hampered by *global economic risks* and *QT constriction* alongside *credit tightening*. Moreover, *catch-up UST issuances may compete for liquidity*
- UST Yield Ease, Not Collapse: For yields, outcomes may be more nuanced due to tensions with Fed and calibrations across the curve/liquidity. On one hand, the **exaggerated surge in UST yields** (on the initial UST sell-off) **will reverse**. But on the other, a **"higher for longer" Fed** (*especially as earlier, and likely overdone, bets on sharp Fed cuts are reversed*) **will check the depth of downside in UST yields** as will dynamic pricing of inflation-recession risk tensions.

** For the full report, please see: Mizuho Flash - A Thought Experiment on US Debt Default, 25th May 2023*

USD/JPY: Recalibration?

- Admittedly, the stark rise of nearly 30bps in UST yields has sent JPY bulls into hiding.
- Furthermore, higher oil prices conspire to see the pair head back above 140, last seen in late Q3/early Q4 2022.
- Inevitably, the backdrop of higher UST yields warrants a reassessment of the JPY outlook especially as Fed's policy narrative to keep rates higher for longer remains staunch.
- With debt ceiling deal fading haven allure, the USD/JPY looks buoyed.
- That said, the risk of BoJ intervention rises if the pair continues its unfettered rallies.
- On balance, we expect the pair to trade in the 138-142 range.

EUR: Sliding Lower

- With the German economy sliding into a recession on manufacturing woes, ECB's chief economist continues to talk up the support services sector and its attendant spillover on inflation. Despite the need for further hikes, the quantum and pace continues to be doubted.
- EUR rallies remain weak as UST yields retain its buoyancy.
- For this week, the EUR looks to remain pressured below mid-1.08. That said, 1.06 slippage is too much a fall as inflation looks far from falling.

SGD: Resolution & Recalcitrance

- Resolution of USD debt ceiling and recalcitant downside CNH risks conspire top suppress SGD performance against the USD.
- Sub-1.35 declines may remain challenged as USD buy-back on debt ceiling resolution conspires with the propensity for slippage in the CNH.
- Admitteldy, CNH off its lows has prompted fleeting bouts of SGD rebound.
- But this remainss as shallow as the CNH bounce.
- More importantly, the pressures at the margin are suggestive of USD upside and CNH downside; rather than the opposite.
- As scuh, while the S$NEER may remain rich, SGD out-perfomance may be at best against non-USD trade-basket currencies for the time being.
- Whereas USD/SGD may be bujoyed on the mid-1.34 to sub-1.36 range.

AUD: Oil & Toil

- Admittedly, there are some tensions in AUD dynamics, infusing more two-way.
- For one, oil price bounce on the debt ceiling is providing some commodity-linked boost to the Antipodean. What's more CNH bouncve off last week's lows also accentuates this support.
- But that said, overall USD tone from debt deal hopes continues to weigh on the AUD.
- What's more, the wider hawkish Fed pricing at the margin, conspiring with underlying China demand concerns means that the AUD is likely to remain slippery.
- Sub-0.65 is still a risk despite Oil's rescue towards mid-0.65. And the bigger picture is that there is loads of toil left for the AUD amid lingering downtuirn/China risks impacting vias commodities. And a more hawkish RBA incline may only backstop, not rfefuel (rallies).

Bond Yield (%)

26-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.562	29.6	3.798	12.5	Flattening
GER	2.921	19.0	2.535	11.2	Flattening
JPY	-0.076	-0.9	0.407	2.1	Steepening
SGD	3.298	20.5	2.970	16.2	Flattening
AUD	3.588	10.0	3.728	0.1	Flattening
GBP	4.460	54.4	4.326	33.8	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,205.45	0.32
Nikkei (JP)	30,916.31	0.35
EuroStoxx (EU)	4,337.50	-1.32
FTSE STI (SG)	3,207.39	0.15
JKSE (ID)	6,687.00	-0.20
PSEI (PH)	6,530.20	-2.02
KLCI (MY)	1,402.98	-1.79
SET (TH)	1,530.84	1.05
SENSEX (IN)	62,501.69	1.25
ASX (AU)	7,154.76	-1.71

US Treasuries: No More Cuts?

- **UST bulls got cut up last week** as 2Y yields soard 29.6bps while 10Y yields was taken 12.5bps higher.
- Lower initial jobless claims alongside higher GDP price deflator has **significantly reduced bets for the end-23/early 24 cut** to barely 10bps from more than 50bps last week.
- Fed Chair Powell's caution surrounding the ability to watch the data ran into a slew of fellow officials stating the need for further hikes and more importantly last friday's **stubborn PCE deflator print which states an unwelcomed re-acceleration**.
- This week, debt ceiling resolution might provide respite for UST bulls. 2Y yields are projected to trade in the 4.4%-4.65% range.
- Meanwhile, uptick in sentiments may allow some upside on the long end and see 10Y yields remain buoyant off 3.70%