MIZUHO
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WEEK AHEAD

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17-May-2024

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Economic Calendar

•Survey results from Bloomberg, as of 17 May 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
20 May	JP	Tertiary Industry Index MoM	Mar	-0.1%	1.5%
21 May	EZ	ECB Current Account SA	Mar	--	29.5b
	EZ	Trade Balance SA	Mar	--	17.9b
22 May	US	Existing Home Sales	Apr	**4.16m**	**4.19m**
	JP	Trade Balance	Apr	-¥295.0b	¥387.0b
	JP	Core Machine Orders YoY/MoM	Mar	1.5%/-2.0%	-1.8%/7.7%
	US	FOMC Meeting Minutes			
23 May	US	New Home Sales	Apr	**678k**	**693k**
	US	Initial Jobless Claims		--	222k
	US	Chicago Fed Nat Activity Index	Apr	--	15.0%
	US	Kansas City Fed Manf. Activity	May	--	-8.0
	EZ	Mfg/Services PMI	May P	46.1/53.5	45.7/53.3
	EZ	**Consumer Confidence**	**May P**	-14.0	-14.7
	JP	Machine Tool Orders YoY	Apr F	--	-11.6%
24 May	US	U. of Mich. Sentiment/Expectations	May F	67.4/-	67.4/66.5
	US	U. of Mich. 1Y/5-10Y Inflation	May F	--	3.5%/3.1%
	US	**Durable Goods Orders/Nondef Ex Air**	**Apr P**	**-0.7%/0.1%**	**0.9%/-0.2%**
	JP	**Natl CPI/Ex Fresh Food, Energy YoY**	**Apr**	**2.4%/2.5%**	**2.7%/2.9%**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
20 May	**CH**	**1Y/5Y Loan Prime Rate**		**3.45%/3.95%**	**3.45%/3.95%**
	ID	BoP Current Account Balance	1Q	-$2119m	-$1290m
	MY	Exports/Imports YoY	Apr	14.8%/18.6%	-0.8%/1.7%
	TH	**GDP YoY/SA QoQ**	**1Q**	**0.8%/0.5%**	**1.7%/-0.6%**
	TW	BoP Current Account Balance	1Q	--	$34839m
21 May	AU	RBA Minutes of May Policy Meeting			
22 May	AU	PMI Mfg/Services	May P	--	49.6/53.6
	ID	**BI-Rate**		**6.25%**	**6.25%**
	KR	PPI YoY	Apr	--	1.6%
	TW	Unemployment Rate	Apr	3.4%	3.4%
23 May	**SG**	**CPI/Core YoY**	**Apr**	**2.7%/3.1%**	**2.7%/3.1%**
	KR	**BOK Base Rate**		**3.50%**	**3.50%**
	TW	Industrial Production YoY	Apr	9.5%	4.0%
	SG	**GDP YoY/SA QoQ**	**1Q F**	**2.5%/-0.2%**	**2.7%/0.1%**
24 May	SG	Industrial Production YoY	Apr	1.3%	-9.2%
	MY	**CPI YoY**	**Apr**	**1.9%**	**1.8%**
	PH	Budget Balance PHP	Apr	--	-195.9b

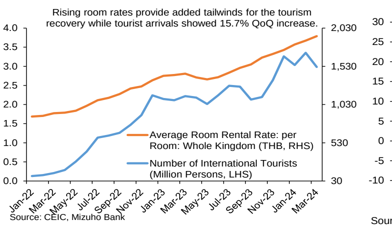
Week-in-brief: Oversentivities and Inconsequentiality

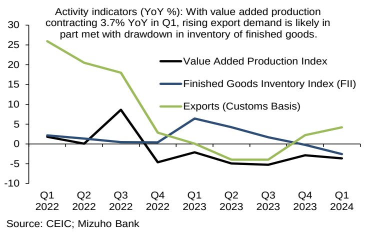
- This week, we saw an **over-reaction from US CPI which saw the plunge in front end UST yields being reversed** the following day. Notwithstanding the reversals, the slowing US retail sales is notable even if it doesn't take away the underlying consumer outperformance thus far.
- With **UST yields still crawling lower and the Greenback still weaker for the week**, it is perhaps **more accurate to view these reactions as being overly sensitive rather than the dismissing these data points as unimportant.**
- Similarly, the BoJ started of this week with reduced JGB buying and **triggered over-reactions to expected continuous cuts** despite the extent of caution which the BoJ and Governor Ueda has shown thus far with regards to policy shifts. In turn, **merely sticking to the same reduced amounts** for the end of the week had JGB yields lower and send USD/JPY higher.
- Meanwhile, Chinese risk assets in Hong Kong rallied amid solid demand (bid cover ratio: 3.9) at its ultra-long bond issuances and optimism around property market stimulus. That said, CNH remained an underperformer relative to regional peers with retail sales disappointment and continued house price contraction dampening the more upbeat industrial production.
- In EM-Asia, the **BSP's rate hold came alongside signals on the possibilite of rate cuts in August leading to PHP underperformance among regional peers.**
- For the upcoming week, **Bank Indonesia on Wednesday** is likely to refrain from such pre-emptive signalling even if the IDR has performed reasonably well since their last meeting. Bank Indonesia will **persist with their rate hold and remains unlikely to front run the Fed in terms of cuts.**
- In Korea, with **growth on the upturn back by semiconductors**, the **BoK on Thursday will also be keeping their policy stance unchanged with little urgency to change either way.**
- Despite a favourable CPI print for April, the BoK is unlikely to declare inflation victory given that core inflation is 1% point above the pre-covid trends.
- In contrast, **Thailand** will have to confront Monday's Q1 **GDP release which is likely to show a further slowdown** from Q4is 1.7% YoY. While the services sector ought to record **robust activity on surging tourist arrivals** from China and Europe, the manufacturing sector continue to remain lacklustre. THB depreciation pressure may creep back after a robust recovery this week. That said, the BoT will over-react to the downbeat growth **despite an oversensitive administration**. All in, policy inaction this week will be far from being inconsequential especially as oversensitive markets look for direction.

FOMC Minutes: Late On Signals & Early on Conclusions

- Chances are, **FOMC Minutes this time will struggle for relevance**, perhaps even interest.
And to be sure, this is by virtue on being ***too late for fresh signals*** on data risks and ***too early to conclude on policy course***. Fact is, given post-CPI (over-)reactions and subsequent moderation in market expectations/pricing of Fed cuts, FOMC Minutes risk being stale.
- Especially **in the context of the deluge of Fed speak** opining on policy calculus in response to evolving, incoming data. The upshot is that *signs of cooling inflation in CPI are encouraging*, assuaging concerns of dis-inflation derailed, but *not sufficiently illuminating* on attaining the 2% inflation target.
In which case, there is **limited visibility on the policy path beyond an extended interim pause** to assess incoming information - both on cooling inflation and jobs.
- And to be sure, nothing in the FOMC Minutes that could shed light one way or another. If anything, hawkish aspects of the FOMC Minutes are likely to be dampened by softer wage/quit rates/job openings.
The June 'Dot Plot' and revised economic projections are now the things to watch through assumed near-term FOMC inaction. Whereas May **FOMC Minutes will, *at most,* only have limited and fleeting sway on** Fed **expectations** and consequent impact on **UST yields** and the **USD**.

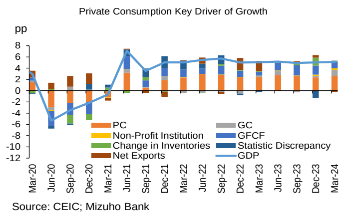
Thailand Q1 GDP: Half Hearted Smile

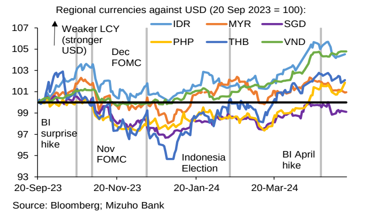




- After Q4's 0.6% QoQ contraction, we expect a **mild sequential expansion of economic activity in Thailand for Q1, averting a technical recession.** That said, we brace for **another unslghtly print on a year ago basis slowing from Q4's 1.7% towards the 1% mark.**
- One key challenge is the **lack of a discernible recovery for the manufacturing sector as it is unable to caputure a significant portion of the uplift from the semiconductor led tech cycle.**
- While exports rose 4.2% YoY, **value added production still contracted 3.7% from a year ago**. The higher external demand may have been met by a drawdown in inventory.
- On a brighter note, **value added production managed a small 0.4% QoQ sa expansion in Q1**.
- Services activity is likely to remain buoyed amid a **15.8% QoQ surge in tourist arrivals led by a strong increase in visitors from both Europe and China.** The continued ascendency in hotel room rates also signals strong demand. As such, tourism-related accommodation, food and beverage sectors are expected to record roubst growth.
- Nonetheless, domestically, households continue to appear stretched as **private consumption index rose a meek 0.8% YoY** in Q1. Worsening the situation, government capital expenditures stayed in deep contraction in YoY terms caused by the delay in budget approvals due to elections last year. A muted 0.2% increase in private investments also reflects **the fragile business confidence in actualising capital expenditure plans.**
- All in, the growth print is unlikely to invite many smiles and instead, it may end up as another unfortunate episode of justifying the digital wallet plans and unwarranted calls for the BoT to cut rates.

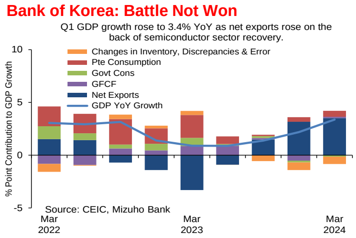
Bank Indonesia: No Surprises

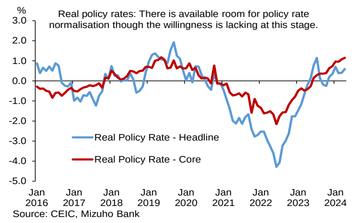




- We expect **BI to stand pat** at the upcoming meeting (22 May) following a 25bps at the April meeting on rupiah-stablity concerns. Another hike is unlikely to be on the table given that IDR has appreciated ~1.5% since the last meeting and have recently moved below the 16,000 handle (the level BI indicated it was working towards) post-US CPI. BI even commented back on 8 May that iDR was "strengthening faster than expected", noting that the rate hikes increased "global market and investor confidence" while policy instruments were "effective" in bringing inflows. Of note, BI increased the frequency of SRBI auctions to twice per week to attract inflows.
- More importantly, **BI saw "better developments" in market since the last rate meeting, with growth supportive while inflation remains manageable**. BI had noted in early May that April inflation was lower than their forecast of 3.3% while Q1 GDP growth was better than its forecast.
- Nonetheless, we reiterate that downside risks to household consumption bears watching, as growth in non-performing consumption loans have been accelerating, compared to a contraction in investment and working capital loans.
- Looking ahead, BI is expected to hold for longer. Barring any sharp downturn to household spending, growth should still be supported with ongoing construction and infrastructure projects, while inflation is expected to be within the target range of 1.5-3.5% through 2024/2025.
- We also **retain our base case that BI will not front-run the Fed in cutting rates**, mainly on rupiah stability concerns and growth still expected to be resilient. While the BI's sees Fed cutting rates in Dec as a baseline scenario, our view that the Fed could cut in 3Q'24 means that we could see BI cutting rates in late-3Q or 4Q. All in, we do not expect any surprises to this meeting.

Bank of Korea: Battle Not Won





- At the BoK's upcoming meeting on the 23 may, our base case is for them to keep **rates unchanged.**
- First, **core inflation remains elevated relative to historical trend (2016-19 average: 1.3%) and as such prevents the BoK** from declaring victory on inflation despite **relatively encouraging signs**.
- The dis-inflation trend has continued for much of this year with core inflation declining to 2.3% in April from 2.5% in January. We also observe a broadening of the dis-inflation with the share of goods in the CPI basket with inflation rates above pre-pandemic levels declining from 72% to 58%.
- To that end, the BoK is **likely to highlight their inflation progress** and even discuss the possibility of **rate normalisation, in turn making a crucial distinction with easing in support of growth.**
- The need to support growth has certainly diminished amid a semiconductor led exports recovery and this will give the BoK more confidence to keep rates elevated. For now, real policy rates remain relatively restrictive especially in 'core inflation' adjusted terms. That said, the stance is certainly still within historical norms, rather than being unprecedentedly restrictive.
- As such, we acknowledge the policy room for 25-50bps of cuts which may reveal in the later parts of 2024. Nonetheless, given the inflation levels, the BoK may not want to follow the footsteps of the BoE, BoC and may refrain from outrightly declaring rate cuts in H2 2024.
- Pressures on the KRW remain a bugbear, while hikes are certainly off table, pre-emptive signalling of rate normalisation raises the costs of stabilising the currency amid a still hostile USD. All in, the BoK has cause to take in the inflation progress but not the confidence to declare that the battle is won.

RBA Minutes: Assessment, No Direction

- Given the Statement on Monetary Policy (SMP) which includes detailed forecasts and considerations, the minutes releasing next week are expected to re-affirm them.
- There were three key points from the SMP: 1. Consumption expected to remain subdued. 2. Less spare capacity in labour market than anticipated. 3. Dis-inflation expected to continue.
- Since then, the April jobs report showed a **rise in unemployment rate on the back of higher participation rates and slower hiring as full time employment declined. The worry here will be the subsequent feedback loop into consumption.** Lastly, even if unlikely to be discussed in the minutes, there may be a technical, yet contentious point about the RBA's admission of "using only financial market pricing is the best predictor of the future cash rate path" which questions central bank independence/leadership and endogeneity issues surrounding their forecasts.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	155.88	0.100	0.06%	153.00	~	157.80
EUR/USD	1.0846	0.0075	0.70%	1.072	~	1.092
USD/SGD	1.3471	-0.008	-0.55%	1.3450	~	1.3620
USD/THB	36.237	-0.483	-1.32%	36.10	~	37.00
USD/MYR	4.6867	-0.053	-1.12%	4.650	~	4.710
USD/IDR	15955	-90	-0.56%	15,950	~	16,100
JPY/SGD	0.8642	-0.005	-0.61%	0.852	~	0.890
AUD/USD	0.6655	0.005	0.77%	0.646	~	0.680
USD/INR	83.38	-0.124	-0.15%	83.1	~	83.6
USD/PHP	57.62	0.188	0.33%	57.0	~	58.0

^Weekly change.

FX: Eager USD Bears

- **USD bears appear a tad too eager to seize and exaggerate bets on Fed rate cuts and the attendant yield drop**; partly juiced up by "risk on" (drag on USD)
- The trouble with such a bearish USD reflex, that has, since **early-May,** sent; USD/SGD down 2 big figures (mid-1.36 to mid-1.34); EUR/USD up >2 big figures (mid-1.06 to sub-1.09) and; AUD up even more (from mid-0.64 to test 0.67) understates USD propensity for resilience in the context of a slightly different Fed cycle-USD dynamic this time.
- Apart from **under-appreciating (pun intended) the "competitive pivot" proposition** that still places the Fed comparatively less dovish (hence USD less bearish?), prevailing geo-politics and US election are potential triggers for bullish USD flex; even if only intermittently so.

Warrants AXJ caution

- And this has particular resonance for EM Asia FX (AXJ) as a confluence of risk factors warn against aggressively bets for AXJ gains. For one, the extent of dis-advantageous nominal policy spreads (vis-à-vis the Fed) is, and remains, significant, dampening the impetus for "carry" based gains.
- What's more, the exceptional US-Asia inflation dynamics (with US having much higher inflation) now reverting means diminished real pick-up advantage for AXJ.

Taxing the CNH

- Admittedly, hopes are rising on the CNY1trln bond issuances towards fiscal fillip and announcement of property backstop involving purchases of unsold inventory.
- Nonetheless, intensifying US-China trade tensions remain a bugbear and in turn reflected by the relatively smaller gains compared to Asian peers.

Bond Yield (%)

14-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.780	-8.6	4.383	-11.3	Flattening
GER	2.933	-2.7	2.478	-3.7	Flattening
JPY	0.320	1.5	0.938	3.4	Steepening
SGD	3.317	-5.8	3.183	-6.2	Flattening
AUD	3.900	-11.7	4.209	0.1	Steepening
GBP	4.277	0.2	4.101	-6.3	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,297.10	1.42
Nikkei (JP)	38,787.38	1.46
EuroStoxx (EU)	5,045.39	-0.78
FTSE STI (SG)	3,309.19	0.56
JKSE (ID)	7,317.24	3.22
PSEI (PH)	6,618.69	1.64
KLCI (MY)	1,616.58	0.99
SET (TH)	1,383.95	0.88
SENSEX (IN)	74,005.42	1.85
ASX (AU)	7,814.37	0.84

UST: Inflation Inflammation?

- UST bears were duly burnt by the **US CPI print affirming dis-inflation alongside slower retail sales** as 2Y UST yields **plunging towards 4.7%.**
- Though this was quickly reversed by Fed speakers stressing not to get carried away with one print as they need more dis-inflation prints to gain confidence on cuts.
- For the upcoming week, markets will need to digest more Fed speak, likely highlighting that the dis-inflation remain insufficient to regain confidence.
- The inherent tendency to emphasize high for longer will imply trading for 2Y yields in the 4.7-4.8% rather than being sent plunging another 15bps lower.
- Meanwhile, we retain the case for opportunistic UST bulls to bite at the long end on dip to support trading around 4.3-4.45%.

FX Brief:

1) JPY: BoJ's cautious policy making may invite bears to challenge 157 though bets of further hike remain on the table with end of week CPI.

2) EUR: Wage growth debate may assist in buoyancy off mid-1.07 though rallies above 1.09 remain a high bar as ECB cut looms in June.

3) AUD: Ascendency above 67 cents to be softened by weak jobs report though RBA tendency to hold to buoy above mid-65 cents.

4) CNH: US-China trade tensions saw CNH underperformed despite bond issuances and report efforts of property stimulus.

5) INR: Political jitters saw rupee weakness despite inflation indicators pointing to persistent RBI hawkish tendencies.

6) SGD: Stronger EUR could continue to impart some strength even as CNH remains soft. Expect oscillations around 1.35 handle.

7) IDR: FedSpeak wanting more evidence on dis-inflation could see IDR buoyant above 16,000 again. Muted reaction expected to BI's hold this week.

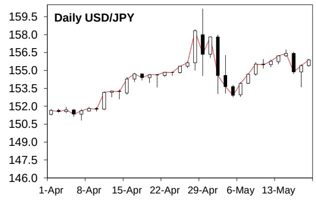
8) THB: Muted gains amid upside CPI surprised making up BoT continued rate hold. Fiscal worries amid renewed fuel subsidies remain a restrain for outsized rallies.

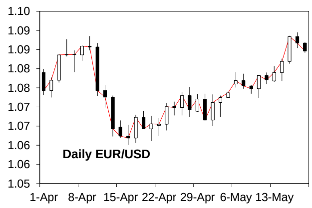
9) MYR: Overperformed most regional currencies (with the exception of THB). Continued MYR measures by BNM and improving external balances could possibly retain traction under 4.70.

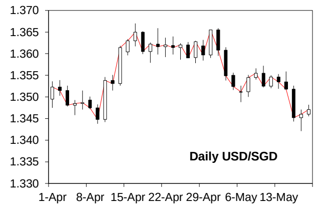
10) PHP: That PHP underperformed on "less hawkish" comments and a possible cut in Aug could get BSP rethinking on policy trajectory. Continue trading above 57.

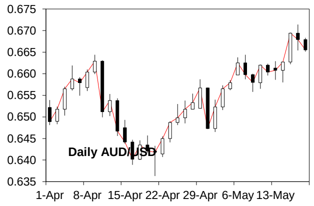
11) KRW: Outperformed as UST yields weakened backed by looming BoK rate hold. Structural semiconductor tailwinds to remain supportive.

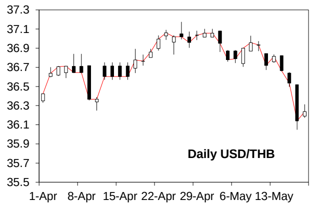
12) TWD: Attempts will be made to consolidate gains at these levels of 32.1-32.3 aided by semiconductor tailwinds.

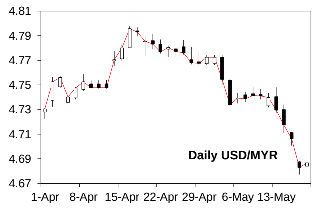


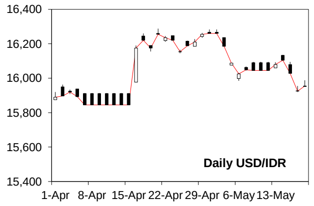


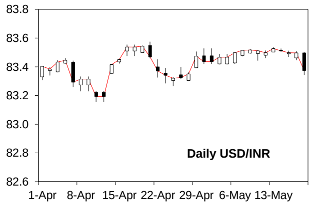


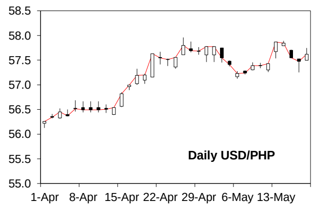


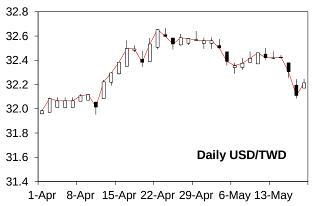


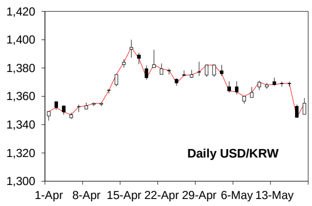


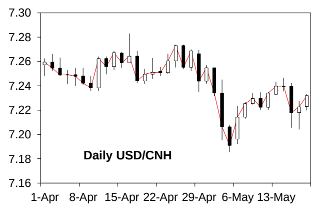












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