Mizuho Global Weekly

June 14, 2024

Weekly Highlights

- **Weak CPI sees USD dip. Only partially reversed by hawkish Fed**
- **USD – the least dirty shirt in the laundry for now**

- **BoJ disappoints (again). JPY under pressure (again)**
- **Rise in headline CPI to improve inflation optics. Core to be softer**

- **Ructions in the EGB markets undermine EUR**
- **BoE on hold. Absence of political problems supporting GBP**

- **PBoC drives gradual RMB depreciation via CNY fixing**
- **Holiday data indicate robust tourism demand**

- **Weak growth dilutes hawkish hold by RBA amid stubborn inflation**
- **BI hike to anchor IDR; inflation outlook higher amid fiscal push**

- **ZAR rises on hope of a centrist government being formed**
- **Hungary to slow the pace of easing**

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US – Weak price data, falling UST yields fail to dim USD appeal

Major Events and Data Releases

Date	Event	Survey	Prior
17-Jun	Empire m'fact index (DI, Jun)	-14.0	-15.6
18-Jun	Retail sales (%MoM, May)	0.3	0.0
	Ex auto retail sales (%MoM, May)	0.2	0.2
	Industrial production (%MoM, May)	0.4	0.0
19-Jun	NAHB housing index (DI, Jun)	45	45
20-Jun	Weekly jobless claims (k)	--	242
	Housing starts (%MoM, May)	1.1	5.7
	Philly Fed m'fact index (DI, Jun)	4.5	4.5
21-Jun	Composite PMI, flash (DI, Jun)	--	54.5

Source: Bloomberg

In the end it was the data rather than the Fed that drove market developments this week. The weak CPI, released the morning of the FOMC meeting, saw UST yields and the USD decline sharply. The FOMC meeting was hawkish with the median dot signalling just 1x25bp cuts this year, down from 3 in March. The GDP forecasts were unchanged, the unemployment forecasts were a touch higher in 2025/2026 and the PCE forecasts were 0.2pp higher in 2024. The hawkish forecasts were somewhat undercut by the fact that the mean dot (rather than the median Dot which is the usual focus) was much closer to 1.5 cuts. Furthermore, Powell noted in the press conference that while it was possible to change the dots in the wake of the data on the morning of the meeting, in general people tended not to. This leaves the suspicion that one or two FOMC participants may have preferred to lower their 2024 dot. The median long-run dot was also revised higher and we suspect that it will keep going higher in coming quarters. Markets reversed around half the CPI move in the wake of the FOMC meeting. On the Thursday, a soft PPI report and elevated weekly jobless claims further played into the narrative of slowing activity/lower inflation. Alongside a solid 30yr UST auction this helped UST yields push to fresh lows for the week, with 10yrs now around 4.2%. However, events elsewhere saw DXY push higher, albeit mainly thanks to its high EUR weighting. The greenback was higher against EUR, GBP and JPY but lower against the rest of the G10 complex.

Outlook

Tuesday is Fed day, with Barkin, Logan, Kugler, Goolsbee, Collins and Musalem all lined up to speak in the wake of this week's FOMC meeting, with most talking about the economy/policy outlook. Tuesday will also be the highlight for data with retail sales and industrial production due. In the wake of the slightly softer run of data of late, it will be important for the coming week's reports not to show too much weakness. Housing and manufacturing sentiment are also due in the week. The soft data and low yields should be weighing on the US dollar but problems elsewhere in the currency world are making the US dollar's demerits easier to overlook.

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Japan – Ueda: Master of the mixed message

Major Events and Data releases

Date	Event	Survey	Prior
17-Jun	Machinery orders (%MoM, Apr)	-3.0	2.9
19-Jun	Trade balance, sa (¥bn, May)	-625	-560
	Exports (%YoY, May)	12.8	8.3
	Imports (%YoY, May)	9.6	8.3
21-Jun	CPI (%YoY, May)	2.9	2.5
	Core CPI (%YoY, May)	2.6	2.2
	Ex ff&e CPI (%YoY, May)	2.2	2.4
	Composite PMI, flash (DI, Jun)		52.6

Source: Bloomberg

Despite action on bond purchases being widely trailed in the media ahead of the BoJ meeting, the Bank failed to act merely noting "*the Bank will conduct the purchases in accordance with the decisions made at the March 2024 MPM. The Bank decided, by an 8-1 majority vote, that it would reduce its purchase amount of JGBs thereafter to ensure that long-term interest rates would be formed more freely in financial markets. It will collect views from market participants and, at the next MPM, will decide on a detailed plan for the reduction of its purchase amount during the next one to two years or so*". This go slow on bond purchases mirrors the rhetorical caution on policy rates. In the press conference Ueda gave out mixed messages noting the reduction in bond purchases will be "*not only a small amount but will be of a reasonable scale*". He also noted it would take a long time to figure out the right level of JGB holdings. On policy he noted that a hike in July was possible but also said that the price trend was a little below 2.0%, which implies to us that it will need to firm a little to allow a hike. The decision suggests to us that the JGB market is a much higher priority than the foreign exchange market for the BoJ board.

Unsurprisingly, in the wake of the decision, USD/JPY pushed up above 158.30, a level that has only been seen around the initial intervention in late April earlier in the year. However, the press conference eased some of the pressure and then general risk off sentiment, mainly driven by French election risks, saw JPY gain ground and end the week down only modestly against the US dollar.

Outlook
The highlight of the week ahead will be the CPI data. Another jump is expected. The jump will be driven by administrative factors such as subsidies on electricity prices. The ex fresh food and energy CPI, a much better guide to underlying price pressures, will remain little changed. With the PPI jumping, it is clear that pressures at the top of the price chain are elevated, boosting the chances that the CPI remains elevated in coming months. Trade data for May and the flash PMI for June are also due.

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Europe – Politics and PMIs in focus

Major Events and Data Releases

Date	Event	Survey	Prior
18-Jun	GE – ZEW expectations (DI, Jun)	50.0	47.1
19-Jun	EZ – C/A balance, sa (€bn, Apr)	--	35.8
	UK – CPI (%YoY, May)	2.0	2.3
	UK – Core CPI (%YoY, May)	3.5	3.9
20-Jun	UK – BoE meeting (%)	5.25	5.25
	EZ – New car registrations (%YoY, May)	--	13.7
	EZ – ECB economic bulletin	--	--
	EZ – Consumer confidence (DI, May)	-13.6	-14.3
21-Jun	EZ - Composite PMI, flash (DI, Jun)	52.3	52.2
	UK - Composite PMI, flash (DI, Jun)	53.0	53.0
	UK – Retail sales (%MoM, May)	1.1	-2.3

Source: Bloomberg

Politics have been front and centre in a quiet week for data and central bank speak. The week kicked off with President Macron's shock announcement of a Lower House election in France in the wake of his party's poor performance in the EU elections. Early polls suggest that his gamble may not pay off. The Bund/OAT spread has pushed out to its widest since 2017 when Le Pen was challenging Macron for the presidency on a platform of leaving the EU. Le Pen's RN party, which is leading in the polls, no longer advocates leaving the EU, although it remains against many EU initiatives. A RN victory would certainly complicate EU policy making. Its not only in France where the repercussions of the EU vote are being felt. In German the shocking performance of the 3 coalition parties makes the budget negotiations even harder as each party seeks to appeal to its core support to limit further declines. Compromise is lower down the agenda than usual ahead of the 3 July budget deadline. EUR/CHF sits at 3m lows as CHF benefits from safe haven flows. GBP/USD is down small.

Outlook

Friday is PMI day, with flash estimates for both manufacturing and services for the eurozone, the UK and beyond. The flash PMI is one of the most useful measures of cyclical developments in the absence of timely alternatives at the eurozone level. The eurozone PMI has been crawling higher in recent months and it would not be a surprise if it took a breather. The impact of recent elections is not likely to be captured in this month's survey. In the UK the survey is likely to drift sideways around current levels. Thursday is central bank day. In Europe it's the BoE, Norges Bank and the SNB. Regardless of the CPI data, the BoE is likely to remain on hold this week. Unless the case for action is crystal clear (and in our opinion it isn't) the BoE is likely to leave policy settings unchanged in the midst of the election campaign. The CPI data will nonetheless feed into expectations for the August BoE meeting, as will the flash PMI and retail sales. Sales seem likely to increase thanks to slightly less bad weather in May. May was cold if a little drier than April! As for the SNB – a cut is in the balance. Markets currently see a ~60% chance of 25bp cut. Norges Bank will leave rates on hold.

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China – PBoC drives gradual depreciation via CNY fixing

Major Events and Data Releases

Date	Event	Survey	Prior
17-Jun	1Y MLF rate (%, Jun)	2.5	2.5
	Retail Sales (%YoY, May)	3.0	2.3
	Industrial Production (%YoY, May)	6.1	6.7
	Fixed Assets Investment YTD (%YoY, May)	4.2	4.2
20-Jun	1Y LPR (%, Jun)	3.45	3.45
	5Y LPR (%, Jun)	3.95	3.95

Source: Bloomberg

During the three-day Dragon Boat Festival holiday (8-10 Jun), China’s tourism demand remained robust. A total of 110 million domestic trips were made, representing a 6.3% increase compared to the same period last year. Notably, tourism spending rose at a faster pace of 8.1%YoY, reaching RMB 40.4bn. Additionally, China recorded nearly 5.8 million cross-border trips, marking a substantial increase of 57%YoY. This strong tourism demand, coupled with higher pork prices, has exerted mild upward pressure on China’s consumer inflation in May (0.3%YoY).

Externally, the EU joined the US in levying additional tariffs on Chinese electric vehicle (EV) imports. The RMB market showed resilience, as the tariffs solely target Chinese EVs only. However, the hawkish FOMC meeting, coupled with spillover effects from the renewed JPY depreciation added downward pressure on RMB. Against the backdrop of external headwinds, the PBoC continued to set the CNY fixing weaker to a 5m low of 7.1151, unleashing RMB depreciation pressure. Subsequently, spot CNY extended its decline to its 7-month low of 7.2554. Separately, the CNY 35bn of 50-year ultra-long special bond auction drew strong market demand at 2.53% yield, accompanied by a high bid-to-cover ratio of 5x. This indicates the continuation of China’s bond market frenzy, with the 10Y CGB yield hovering near 2.3%.

Outlook

CNH is expected to remain under pressure as the PBoC will probably continue to set the CNY fixing weaker amid USD strength. The rise of protectionism is regarded as negative to the RMB outlook as the PBoC may be tempted to allow further RMB depreciation to counter the impact of tariffs. However, a sharp RMB depreciation is unlikely due to concerns over capital outflows. On the policy front, the PBoC is expected to keep its 1Y Medium Lending Facility (MLF) rate unchanged at 2.5% to avoid excessive RMB depreciation pressure.

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EM Asia – Anchors of stability

Major Events and Data Releases

Date	Event	Survey	Prior
17 Jun	Philippines Cash Remittances (%YoY, Apr)	3.3	2.5
18 Jun	Singapore Electronic Exports (%YoY, May)	--	3.3
	S'pore Non-oil Dom Exports (%YoY, May)	-1.0	-9.3
	Australia RBA Cash Rate Target (%)	4.35	4.35
19 Jun	Indonesia Exports (%YoY, May)	1.6	1.7
20 Jun	Bank Indonesia Policy Rate (%)	6.25	6.25
	Malaysia Exports/Imports (%YoY, May)	1.1	9.1
	Taiwan Export Orders (%YoY, May)	5.0%	10.8%
21 Jun	Korea PPI (%YoY, May)	--	1.8%

Source: Bloomberg

This week, as expected, the BoT held rates unchanged as they retained their growth forecast and revised core inflation in 2024 down to 0.5%. Notably, the latest 6-1 voting outcomes from the 5-2 outcomes in the previous two meetings impart a greater sense of stability within the monetary policy committee amid the reported threats of erosion of independence stemming from the government. Looking ahead, the BoT will keep a close watch on fiscal slippage alongside potential for broadening dis-inflation in the CPI basket. In contrast, Malaysia kicked off subsidy rationalisation at the start of the week as they removed diesel subsidies, which saw diesel prices rise 56%. Cost of living pressures will be offset via cash handouts to low income households and lower prices for logistics and transportation companies. Inflation pressures in aggregate are likely to remain mild while the firm commitment to fiscal consolidation will structurally underpin MYR recovery.

In Taiwan, while the CBC proceeded with their expected rate hold, they raised their reverse requirement ratios and tightened house buying rules such as lower mortgage cap to stabilise property prices which continued to soar in Q1. Australian employment was higher than expected on strong hiring in full-time jobs and the unemployment rate edged lower to 4.0%.

Outlook

Nonetheless, the RBA looks set to stand pat next week in the face of sticky inflationary pressures which has eroded household purchasing power and diminished household savings ratio. In turn, while the stock of employment remains healthy, the RBA will remain wary of not excessively tightening borrowing costs and raising the interest burden which constrains the support from income flows.

In Indonesia, IDR's underperformance since the last Bank Indonesia's meeting has been exacerbated by incoming President Prabowo's plans to increase debt-to-GDP ratio to 50% (2023: 40%). BI is expected to proceed with another hike as in addition to providing a stronger anchor for the IDR, higher fiscal expenditures (necessitating higher borrowings) could mean structurally higher inflation going forward, and thus the need for higher nominal policy rates.

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EMEA – ZAR rises on hopes of a moderate government being formed

Major Events and Data Releases

Date	Event	Survey	Prior
17-June	Poland Core CPI (%YoY, May)	3.9	4.1
18-June	Hungary Policy Rate (%)	7.00	7.25
19-June	South Africa CPI (%YoY, May)	5.2	5.2
	South Africa Retail Sales (%YoY, Apr)	1.5	2.3
20-June	Poland Industrial Output (%YoY, May)	0.9	7.9

Source: Bloomberg

Last week in EMEA, ZAR shined, appreciating more than 2% against USD on the hope that a centrist government would be formed. South Africa's newly elected Parliament convened for the first time on 14 June as lawmakers prepared to elect the country's next president. ANC Secretary-General said on Thursday that alongside the centrist Democratic Alliance (DA), the Inkatha Freedom Party (IFP) and the smaller Patriot Alliance (PA) have opted to join a proposed government of national unity. Furthermore, the extremist parties such as the Economic Freedom Fighters (EFF) and uMkhonto we Sizwe (MK) declined the involvement of unity government.

The currencies of Central and Eastern Europe (CEE) depreciated against both EUR and USD. CEE Currencies generally follow the EUR's weakening against the USD after ECB cuts and European Parliament election. But country specific risk (such as renewed conflict between Hungary and EU) may also affect the region.

TRY also depreciated in response to a report that the government is studying new taxes worth $7billion that target corporates.

Outlook

Next week, main focus will be the monetary policy decision by the National Bank of Hungary (NBH) on 18 June. Most recent communications and inflation releases seem to be more supportive for lowering the pace of the monetary policy loosening further to a 25bp rate cut in June from a 50bp cut in May.

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