Mizuho Global Weekly

June 28, 2024

Weekly Highlights

- **Debate reaction – a microcosm of a Trump victory in November**
- **Payrolls to show labour market remains solid**

- **USD/JPY hits 38-year high**
- **Tankan to keep BoJ on track for a rate hike**

- **Elections in focus in France and UK**
- **Eurozone inflation to ease further, labour market still solid**

- **PBoC sets CNY fixing weaker for 7 straight sessions**
- **Manufacturing PMI to improve slightly in June**

- **Retail sales and RBA minutes may shift policy expectations**
- **Easing inflation pressure in Korea may pressure KRW**

- **Poland to leave policy unchanged**
- **Turkiye's disinflation process to get underway**

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US – Labour market still solid

Major Events and Data Releases

Date	Event	Survey	Prior
1-Jul	ISM m'fact (DI, Jun)	49.2	48.7
2-Jul	JOLTS openings (k, May)	7864	8059
	Vehicle sales (mn, saar)	15.90	15.90
3-Jul	ADP (k, Jun)	158	152
	Weekly jobless claims (k)	235	233
	Composite PMI, final (DI, Jun)	--	54.6 (p)
	ISM non-m'fact (DI, Jun)	52.5	53.8
	FOMC minutes	--	--
5-Jul	Non-farm payrolls (k, Jun)	188	272
	Unemployment (k, Jun)	4.0	4.0
	Average hourly earnings (%MoM, Jun)	0.3	0.4

Source: Bloomberg

It was an interesting week, with the Presidential debate providing much food for thought. The weak Biden performance saw both UST yields and the US dollar push a higher. US equity futures also gained. This is a likely microcosm of developments should Tump win the elections in November – at least initially. UST yields ended the week higher, while the DXY index recovered from an early dip to end the week little changed. Elevated oil prices are less of a hurdle for the US dollar now that it is a net exporter. Brent crude futures ended the week ~$87/barrel. The IMF advised the US to improve its fiscal discipline as part of its Article IV consultation but investors were happy to ignore the advice.

Outlook

The week is split by the 4th July holiday. In the first part of the week, there is a full data schedule including the ISM reports, JOLTS job openings, ADP, weekly jobless claims (on Wednesday due to the holiday), vehicle sales and the FOMC minutes from the 12 June meeting. The minutes may detail additional information on the degree of confidence that the Fed needs to ease policy. We have the impression that having erred in prematurely signalling that easing was coming in the wake of the slide in inflation in late 2023, they are determined to avoid making the same mistake. Despite a slew of important data releases this week, it may well be that the focus is on replacing Biden as the Democratic candidate in November's presidential election. He just looked too old in Thursday's debate and the topic is not going to go away. On the other hand, he will need to be persuaded to step down. He sees himself as the only person who can defeat Trump and persuading him to step down will be no easy task. It is also probably the case the if the choice is between Biden and Vice President Harris, most Democrats would probably prefer to keep Biden, regardless of his obvious problems. Both would need to be persuaded to step aside to allow either Newsom (California) or Whitmer (Michigan) to lead the party into the November elections. On the other side of the 4 July holiday is non-farm payrolls. The consensus forecasts here see solid job gains just below the 200k level, with the unemployment rate remaining low – around 4%, while earnings growth continues to ease, although for now its remains above the pre-Covid pace.

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Japan – USD/JPY pushes up to fresh 38-year highs

Major Events and Data releases

Date	Event	Survey	Prior
1-Jul	Tankan lge m'fact (DI, Q2)	11	11
	Tankan lge non-m'fact (DI, Q2)	33	34
	Tankan Annual Capex (%YoY, Q2)	13.8	4.0
	Consumer confidence (DI, Jun)	36.4	36.2
3-Jul	Composite PMI, final (DI, Jun)	--	50.0
5-Jul	Household spending (%YoY, May)	0.2	0.5
	Leading index (May)	--	110.9

Source: Bloomberg

USD/JPY pushed up above the 161 level late in the week to a 38-year high. That said, the prospects for intervention in the near term look slim, despite elevated rhetoric from policy makers. It was announced that MoF's Vice President of International Affairs Masato Kanda will be replaced by Atsushi Mimura on 31 July. The change was as expected given usual rotations of top bureaucrats. The change of personnel likely makes little difference to the prospects of intervention. Finance Minister Suzuki noted that currency moves out of line with fundaments were unhelpful. This week has seen USD strength rather than JPY weakness, with SEK and NOK both underperforming JPY this week. USD/JPY volatility is higher this week, but still not especially elevated, while the USD/JPY spot level is still close to the late April/early May intervention level – which means that on a 2-month horizon USD/JPY is close to flat. We suspect that it still requires both a rapid jump and elevated volatility as well as a higher spot level and would not expect to see intervention this side of the 165 level, depending on the speed of the approach. That said, we see most of Japanese society in agreement that a weak yen is increasingly a problem, with a survey of SMEs showing ~55% saying the cons outweigh the pros while only 2% said they favoured a weak currency. The Kishida administration is also feeling the heat from the weak yen but as yet has been able to do little to address the underlying weakness.

Outlook

The week kicks off with the Tankan. Sentiment is estimated to be little changed. We will be looking at the capacity indictors and inflation expectations, as well as the FX forecasts. The capex forecasts are also of interest given the investment in the GDP accounts seems quite weak. Aside from the Tankan, the final PMI reports, consumer confidence and household spending are due. The yen is not the only "price" near multi-year records, with the Topix just 2.6% away from its record level reached in December 1989. The Nikkei hit a record high in March this year. JGB yields are also near multi-year highs as markets gradually start to price in a rate hike.

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Europe – Elections in focus

Major Events and Data Releases

Date	Event	Survey	Prior
1-Jul	UK – M4 ex OIFCs (3m% saar, May)	--	4.6
2-Jul	EZ – CPI (%YoY, Jun)	2.5	2.6
	EZ – Core CPI (%YoY, Jun)	2.8	2.9
	EZ – Unemployment (%, May)	6.4	6.4
3-Jul	EZ – Composite PMI, final (DI, Jun)	50.8	50.8 (p)
	EZ – PPI (%YoY, May)	-4.1	-5.7
	UK – Composite PMI, final (DI, Jun)	51.7	51.7 (p)
5-Jul	EZ – Retail sales (%MoM, May)	0.2	-0.5
	UK – DMP 1yr CPI expectations (%YoY, Jun)	2.8	2.9

Source: Bloomberg

It has been an interesting week with elections in focus. The final polls have changed little over the course of the week in both France and the UK. French bonds have underperformed German ones this week but not significantly. Despite the modest pressure on French bonds, EUR has held up well. One reason why EUR is holding up well is the fact that Fr-exit is not on the agenda in the French elections. The biggest impact of the election is likely on French fiscal policy, debt sustainability and debt. This leaves French bonds rather than EUR in the spotlight – at least initially. GBP was also little changed vs the greenback over the course of the week.

Outlook

The first thing investors will be doing on Monday is assessing the first round of the French elections. There is still plenty to play for before Round 2 on 7 July. RN is polling best ahead of the elections at around 36%, with the New Popular Front on 28% and Macron's centrists on 20%. However, winning a majority of seats in the second round still looks difficult for RN, especially if there is a lot of anti RN cooperation/tactical voting. In sharp contrast, the UK election on 4 July is a foregone conclusion. The Labour Party will win a large majority. The only question is what sort of records it sets in the process. Secondary considerations, like who will be the official opposition, will have limited impact on policy going forward.

Alongside, the politics there are plenty of data. The main focus will be on the eurozone CPI. The French, Spanish and Italian CPI's didn't contain any surprises and suggest the consensus call for a slight slowdown in the YoY rate is correct. The German CPI on Monday will provide additional guidance. The eurozone unemployment data are due too. The eurozone unemployment rate remains at the cycle low. The uptick in the German unemployment rate suggests that the risks for the eurozone print are on the upside. In the UK, the money supply and consumer credit data are due early in the week and the BoE's Decision Maker Panel (DMP) is due on Friday along with the BoE's quarterly credit conditions survey. In the absence of complete labour market data, the DMP is enjoying additional focus.

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China – PBoC sets CNY fixing weaker for 7 consecutive sessions

Major Events and Data Releases

Date	Event	Survey	Prior
30-Jun	Mfg. PMI (DI, Jun)	49.5	49.5
	Non-mfg. PMI (DI, Jun)	51.0	51.1
1-Jul	Caixin China PMI Mfg. (DI, Jun)	51.5	51.7
3-Jul	Caixin China PMI Services (DI, Jun)	53.4	54.0

Source: Bloomberg

Spot CNH fell to a 7-month low at 7.3077, as the PBoC consistently set the CNY fixing weaker for 7 straight days, marking the longest losing streak in a year. In response to the PBoC's signal to unleash RMB depreciation pressure, spot CNY dropped further towards the 7.269 level and continued to trade near the top of its 2% trading band. Despite CNY deprecation against USD, the RMB basket index held steady around the 100 level. However, the $CNH-$CNY spread widened to +300 pips, reflecting souring RMB sentiment in the offshore market. CNH liquidity conditions tightened but subsequently eased. Overnight CNH HIBOR spiked to 4.0% before falling back to 1.3%. Externally, USD strength, spillover effects from the JPY slide and improving re-election prospects for Trump added downside pressure on CNH.

In response to tighter liquidity conditions towards half-year end, the PBoC extended liquidity injections via open market operations, net injecting CNY 352bn over the week. However, the 7-day interbank repo rate climbed further to 2.12% from 1.95% on the previous Friday. The onshore bond market rally continued, with 10Y China Government Bond (CGB) yields sinking to a 22-year low of 2.22%.

Outlook

While the PBoC has paused the CNY fixing weakening trend, it is too early to conclude that CNY is bottoming out. In our view, the PBoC may attempt to unleash RMB depreciation pressures to align with the recent major FX market developments and demand-supply dynamics, while keeping capital outflow pressures muted. We reckon that the PBoC will maintain the rather gradual pace of CNY depreciation to drive CNY lower, while containing the strength of RMB basket index. If the CNY spot starts to move away from the top of the trading band, it would indicate progress of unleashing CNY depreciation pressure. On the data front, recent high-frequency data suggest China's industrial activity improved in June. The weekly PMI for thermal coal showed an increase in both demand and supply, while the production of industrial materials such as crude steel and PTA has strengthened in June, indicating better manufacturing sentiment compared to May. Consequently, we anticipate China's official Manufacturing PMI (30 Jun) will improve slightly to 49.7 in June, up from May's 49.5. Separately, the Third Plenum meeting scheduled from 15 to 18 July will provide more insights into deepening reform and promoting China's modernization.

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EM Asia – Heating up?

Major Events and Data Releases

Date	Event	Survey	Prior
24~28-Jun	Indonesia CPI/Core (%YoY, Jun)	2.7	2.8
24-Jun	South Korea Exports (%YoY, Jun)	4.4	11.5
	Singapore PMI (DI, Jun)	--	50.6
	RBA Minutes (June Meeting)	--	--
25-Jun	South Korea CPI (%YoY, Jun)	2.6	2.7
26-Jun	Australia Building Approvals (%MoM, May)	1.7	-0.3
	Australia Retail Sales (%MoM, May)	0.3	0.1
27-Jun	Australia Trade Balance (A$mn,May)	6300	6548
	Singapore Retail Sales (%YoY, May)	--	1.2
	South Korea C/A Balance ($mn, May)	--	-528
	Thailand CPI (%YoY, Jun)	1.0	1.5
29-Jun	Philippines CPI (%YoY, Jun)	3.9	3.9
	Taiwan PPI (%YoY, Jun)	--	2.7
	Taiwan CPI (%YoY, Jun)	2.3	2.2

Source: Bloomberg

Inflation prints this week turned up the heat. Singapore's core inflation stayed sticky to back the case for prolonged hold of MAS' current S$NEER appreciation stance. Meanwhile, Malaysia headline CPI rose 2.0%YoY in May from 1.8%YoY in April, which represents an elevated 0.3% NSA MoM increase with price increases across a broad range of categories ranging from food, communications, recreation, housing, utilities to tourism related services such as restaurants and hotels. The removal of diesel subsidies in June is likely to push inflation above 2% in the next print. BNM will remain vigilant though the bar for policy action is a higher one.

AUD led regional peers on the back of Australia's May headline inflation print surging to 4.0%YoY from 3.6%YoY in April. Nonetheless, not all inflation measures printed higher. Inflation excluding volatile items moderated and on NSA MoM basis, goods inflation declined while services inflation was stable.

Outlook

Consequently, upcoming retail sales release takes on renewed importance as the RBA minutes may reveal further signposts for another hike. Indonesia's inflation on Monday faces the risks of disappointing consensus expectations to moderate given Eid festivities and rice price woes. In Thailand, amid lower vegetable prices dampening higher fuel cost, the June CPI print is likely to moderate from 1.5%YoY but remain elevated to stay around 1.3%YoY. This print staying within the BoT's 1-3% range aids the case for holding rates to lean against inflation upside from fiscal measures. In contrast, for Korea, continued moderation of headline inflation may be sufficient for the BoK to ponder policy normalisation in 2024, and KRW may feel pressured relative to peers.

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EMEA – Turkiye's disinflation process to get underway

Major Events and Data Releases

Date	Event	Survey	Prior
1-Jul	Hungary Manufacturing PMI (DI, Jun)	51.6	51.8
	Poland Manufacturing PMI (DI, Jun)	44.9	45.0
	Czech Manufacturing PMI (DI, Jun)	45.5	46.1
3-Jul	Turkiye CPI (%YoY, Jun)	72.62	75.45
	Poland policy rate (%)	5.75	5.75
5-Jul	Romania policy rate (%)	6.75	7.00

Source: Bloomberg

Last week in EMEA, most currency moves were small, while ZAR depreciated around 1.0% against USD and EUR. The multi-week rally of ZAR halted amid renewed political uncertainty around the new cabinet announcements.

The Central Bank of Turkiye (CBRT) kept its policy rate at 50.00% on 27 June, extending an interest-rate pause in place since April. The CBRT repeated in its statements that its policy will remain tight "until a significant and sustained decline in the underlying trend of monthly inflation".

The Czech National Bank (CNB) cut its policy rates by 50bp to 4.75% on 27 June. Only five of 25 economist surveyed by Bloomberg expected the decision, with most forecasting a 25bp cut. CZK weakened after the announcement.

Outlook

Next week, the National Bank of Poland (NBP) and the National Bank of Romania (NBR) will announce their policy decisions. While the NBP is likely to extend a rate pause until the end of this year, the NBR may start easing policy.

Other than central bank decisions. it is worth watching the June manufacturing PMIs of central and eastern European countries as well as Turkiye's June CPI. Turkiye's CPI inflation is likely to fall fast through summer, thanks to base effects. The June CPI number may confirm the disinflation process has started.

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