

July 12, 2024

Weekly Highlights

- **Weak CPI sinks USD**
- **Politics back in the frame**
- **Probable intervention lifts JPY**
- **Inflation data to support BoJ in quest for tighter policy**
- **EUR shrugs off France woes. Pill caution & solid GDP lift GBP**
- **ECB on hold. UK data may drive August BoE decision**
- **PBoC announces start of OMOs**
- **Third Plenum meeting in focus**
- **Malaysia Q2 GDP to remain strong on manufacturing and services**
- **Bank Indonesia to hold rates on IDR respite**
- **Slowing Czech CPI inflation justifies more rate cuts**
- **South Africa to leave policy unchanged**

Contact details:

Colin Asher
Head of Macro Strategy, EMEA,
European Treasury Department
colin.asher@mizuhoemea.com
Tel: +44 20-7012-5262

Ken Cheung
Chief Asian FX Strategist,
East Asia Treasury Department
ken.cheung@mizuho-cb.com
Tel: +852 2306-3352

Serena Zhou
Senior China Economist,
Mizuho Securities Asia Limited
serena.zhou@hk.mizuho-sc.com
Tel: +852 2685 2421

Vishnu Varathan
Head, Economics & Strategy,
Asia & Oceania Treasury Dept.
vishnu.varathan@mizuho-cb.com
Tel: +65 6805-4244

Tan Boon Heng
Economist,
Asia & Oceania Treasury Dept.
boonheng.tan@mizuho-cb.com
Tel: +65 6805-4246

Tan Jing Yi
Market Economist,
Asia & Oceania Treasury Dept.
jingyi.tan@mizuho-cb.com
Tel: +65 6805 4247

Masayuki Nakajima
Senior EMEA FX Strategist,
European Treasury Department
masayuki.nakajima@mizuhoemea.com
Tel: +44 20-7786-2505

US – Soft inflation data sink the US dollar

Major Events and Data Releases

Date	Event	Survey	Prior
15-Jul	Empire m'fact index (DI, Jul)	-8.0	-6.0
16-Jul	Retail sales (%MoM, Jun)	-0.2	0.1
	Ex-auto Retail sales (%MoM, Jun)	0.1	-0.1
	NAHB housing index (DI, Jul)	43	43
17-Jul	Housing starts (%MoM, Jun)	1.8	-5.5
	Industrial production (%MoM, Jun)	0.3	0.7
	Fed's Beige Book	--	--
18-Jul	Weekly jobless claims (k)	--	222
	Philly Fed m'fact index (DI, Jul)	2.9	1.3

Source: Bloomberg

Fed Chair Powell's semi-annual testimony to Congress did not make many waves. He confirmed that the Fed still wanted to be more confident on the inflation outlook before easing policy. The big FX move of the week came in the wake of the soft US inflation print on Thursday, which saw CPI come in at -0.1%MoM and core CPI rise just 0.1%MoM. These are the sorts of numbers that will help the Fed build confidence that inflation is back on track. Nonetheless, we still see a move in July as unlikely. In the wake of the CPI data a number of Fed speakers commented that the data were favourable of the type to engender more confidence but none seemed to be arguing for imminent action. The PPI data in the Friday were also soft but not as soft as the CPI. While the DXY index is down on the week, USD still outperformed NOK, SEK and NZD.

The debate about the President's health (and if he should remain the Democratic candidate in the November election) remains on-going. He chaired the NATO summit this week. In a closely watched speech in the wake of the summit, the President seemed in control of the often difficult subject matter but seemed to struggle with simple names that should be very familiar to him. The number of Democratic members of Congress calling for him to step down has only grown this week and there are fears about the impact on fundraising too.

Outlook

The Fed's Beige Book is due on Wednesday. It will likely present a picture of a softening economy. There is also a slew of Fed speak due as officials seek to cram in some final words ahead of the 31 July meeting. On the data front retail sales and industrial production will help round out Q2 GDP forecasts. The Atlanta Fed GDP now forecast for Q2 is running at 2.0% saar. Housing starts and the NAHB index are also due. Earnings season picks up with remaining financials early in the week. Politics will remain in focus with The Republican National Convention held from 15~18 July. Presidential candidate Trump is likely to announce his pick for Vice Presidential at the Convention on Wednesday. The nominee is scheduled to give a speech. Our macro forecasts are based on a Trump victory so arguably the VP pick is more consequential than Biden's problems, unless the polls start to suggest that someone else has a better chance of defeating Trump than Biden does. Trump still leads in the polls in most of the key swing states.

colin.asher@mizuhoemea.com

Japan – Intervention lifts JPY

Major Events and Data releases

Date	Event	Survey	Prior
18-Jul	Trade balance, sa (¥bn, Jun)	-887	-612
	Exports (%YoY, Jun)	6.5	13.5
	Imports (%YoY, Jun)	9.5	9.5
19-Jul	CPI (%YoY, Jun)	2.9	2.8
	Ex fresh food and energy CPI (%YoY, Jun)	2.2	2.1

Source: Bloomberg

It has been an interesting week in Japan with the early data focus on wages and investors looking for clues on BoJ bond buying in the wake of BoJ meetings with investors on the topic. The wage data looked solid, especially on a same sample basis, which saw earnings up 2.3%YoY. On the same basis, base pay was up 2.7%YoY, the fastest since 1993. Despite the fact that recent consumption data have been soft, we see the pick-up in wage growth as supportive of the BoJ's quest to tighten policy. BoJ bond buying was also in focus. The press reports of the first meeting with investors was dominated by headline suggesting the mega banks wanted rapid and sizable reductions. However, smaller banks and other investors seemed content with a slower pace of reductions. The consensus is for an initial reduction in the ¥1~1.5trn range with a gentle pace of reductions in subsequent quarters down to around the ¥2~3trn level. The BoJ Branch managers meeting saw 2 of 9 regions downgraded and 2 upgraded. However, the 2 regions that were upgraded are more economically important than the 2 that were downgraded. This too bodes well for policy action at the 31 July, where we expect the BoJ to reduce its Rinban purchases roughly in line with the consensus but to leave interest rates unchanged.

In the wake of the CPI on Thursday, USD/JPY dropped sharply, more than 2% at one stage, leading to speculation of intervention. The ~2.5% move was the biggest intra-day range since the ~3% range in early May, the last time the BoJ intervened. On Friday, tanshi brokers' estimates of the BoJ's accounts were out by ~¥3trn suggesting intervention of approximately that size. We think the amount sizable given that the BoJ intervened as USD/JPY was already on the way down rather than intervening to push the pair lower.

Outlook

It will be a quiet start to the week, with markets closed for Marine Day on Monday. In the coming week the data focus will be on trade and inflation. The trade data are not likely to feed much into the BoJ decision on 31 July. The inflation data may have more of an impact on the outlook for BoJ policy, especially if the weak yen drives inflation higher. Granted, the BoJ would be happier if current inflation was more driven by strong demand rather than rising import costs but with both consumers and corporates expecting inflation to remain elevated for at least the coming year, the BoJ still seems on track to tighten policy. Intervention and the currency will remain a focus both for MoF (intervention) and the BoJ (inflation) in the coming weeks.

colin.asher@mizuhoemea.com

Europe – EUR shrugs off France woes. GBP boosted by Pill, GDP

Major Events and Data Releases

Date	Event	Survey	Prior
15-Jul	EZ – Industrial production (%MoM, May)	-1.0	-0.1
16-Jul	GE – ZEW expectations (DI, Jul)	41.8	47.5
	EZ – ECB bank lending survey	--	--
17-Jul	EZ – CPI, final (%YoY, Jun)	2.5	2.5 (p)
	UK – CPI (%YoY, Jun)	2.0	2.0
	UK – Core CPI (%YoY, Jun)	3.5	3.5
18-Jul	ECB meeting (% , Depo)	3.75	3.75
	UK – Unemployment (3m%, May)	4.4	4.4
	UK – Average earnings (3m%YoY, May)	5.7	5.9
	UK – Payrolled employees (k, Jun)	--	-3
19-Jul	EZ – Current account, sa (€bn, May)	--	38.6
	UK – Consumer confidence (DI, Jun)	-12	-14
	UK – Retail sales (%MoM, Jun)	-0.5	2.9

Source: Bloomberg

Despite a clear lack of progress politically, French bonds outperformed early in the week, dragging Italian bonds with them. With neither the far left nor the far right winning a majority in the second round, all feasible coalitions will contain the centre that did better than expected. The prospect of no government is also possible, bringing to mind the Belgian period without a government from Dec-18 to Oct-20. French bonds underperformed late in the week. In the UK a hawkish speech from Chief Economist Pill (*“at the margin recent developments in these indicators have hinted towards some upside risk to my assessment of inflation persistence”*) saw markets price a lower chance of a cut in August and GBP push higher. The following morning UK GDP came in at 0.4%MoM for May, twice as strong as expected. Even if one assumes a small dip in June, it still suggests that Q2 GDP will be firm and that annual GDP estimates will be revised higher. GBP sits at multi-month highs ve both EUR and USD.

Outlook

The ECB meeting is the focal point of the schedule in the eurozone next week. We expect policy will be left unchanged, which is the strong consensus. That said, we suspect that President Lagarde will leave the path open to a cut at the September meeting in her press conference. There will be no new forecasts at this meeting. We see limited change in the statement. The second estimate of eurozone inflation is also due. In a recent speech, ECB Chief Economist Lane said he much preferred the rich detail in the second estimate that allowed a much more detailed assessment of what is driving inflation and how persistent it is likely to be. EU President von der Leyen is expected to win her confirmation vote on Thursday. It is a heavy data week in the UK. Given that the 1 August BoE meeting seems to be a close call, the data may be the deciding factor. The CPI, labour market and retail sales reports are some of the most important monthly reports and all are due in the coming week. There is very little BoE commentary scheduled ahead of the BoE meeting. The King’s speech will lay out the new government’s programme on Wednesday.

colin.asher@mizuhoemea.com

China – Third Plenum meeting in focus

Major Events and Data Releases

Date	Event	Survey	Prior
15-Jul	1Y MLF rate (% , Jul)	2.5	2.5
	GDP (%YoY, Q2)	5.2	5.3
	Retail sales (%YoY, Jul)	3.4	3.7
	Industrial Production (%YoY, Jul)	5.0	5.6
	Fixed Assets Investment YTD (%YoY, Jul)	3.8	4.0
15~18 Jul	The Third Plenum meeting	--	--

Source: Bloomberg

Spot CNH spot rebounded to a 1-month high of 7.258 amid the USD sell-off after the release of cooling US CPI data. The sharp correction in USD/JPY also caused spillover effects on USD/CNH. However, the upside for spot CNH was limited by the PBoC's persistent CNY fixing weakening bias, which aimed to unleash CNY depreciation pressure. The PBoC took the chance of USD correction to reduce its policy support for the CNY fixing, leading to the actual fixing – estimate gap narrowing to -1204 pips. Overall, RMB sentiment showed some signs of improvement, with the \$CNH-\$CNY gap narrowing to near +100pips and CNY spot moving away from the top of its trading band. China data for June were mixed, with intensifying disinflationary pressure and solid export growth.

The PBoC took another step towards establishing its new monetary policy framework. On Monday, the PBoC said that it will start carrying out overnight temporary repo or reverse repo operations from 16:00 to 16:20 on each working day, with a pricing of 7-day reverse repo rate -20bps for repo and +50bps for reverse repo. These fixed repo rates (at 1.6%) and reverse repo rate (at 2.3%) may serve as the lower and upper bounds for the interest rate corridor to anchor short-term interest rates. Over the week, the PBoC maintained CNY 2bn of daily reverse repo operations, keeping the net liquidity injection neutral.

Outlook

The Third Plenum of China's 20th central committee is set to begin next Monday (15 July). This plenum, which typically focuses on economic matters, is anticipated to present a broad plan for reforms that will transform China's economy in the next five years and beyond. Immediate effects of this upcoming plenum are likely to be limited, and we expect it to address topics such as expanding revenue sources for local governments, attracting foreign investment, and enhancing technology self-sufficiency. However, should there be any concrete measures announced to mitigate risks associated with the property downturn and local debt, the market could respond positively, given current low expectations. On the data front, Q2 GDP is set to moderate to around 5%YoY, with retail sales, industrial production and fixed asset investment to ease in June.

ken.cheung@mizuho-cb.com

serena.zhou@hk.mizuho-sc.com

EM Asia – Shaky and shifty positions

Major Events and Data Releases

Date	Event	Survey	Prior
8-Jul	Indonesia Exports (%YoY, Jun)	5.7	2.9
9-Jul	India Exports (%YoY, Jun)	--	9.1
	India Wholesale Prices (%YoY, Jun)	3.6	2.6
10-Jul	Philippines Cash Remittance (%YoY, May)	3.0	3.1
	S'pore Non-oil Dom Exports (%YoY, Jun)	-1.3	-0.1
11-Jul	Singapore Electronic Exports (%YoY, Jun)	--	21.9
	Bank Indonesia Policy Rate (%)	6.25	6.25
12-Jul	Australia Unemployment (% , Jun)	4.1	4.0
	Malaysia Exports (%YoY, Jun)	2.5	7.3
	Malaysia GDP (%YoY, Q2)	4.6	4.2
	Philippines C/A balance (\$mn, Jun)	--	2000

Source: Bloomberg

As expected, the BoK held rates. As we had postulated, they displayed a clear inclination to "examine the timing of a rate cut" but at the same their statement added the fresh constraints of 1) assessing the impact of foreign exchange markets, 2) housing prices in Seoul and its surrounding areas, and 3) household debt on financial stability. Notably, these three constraints all lean towards a hold: 1. KRW remains the underperformer YTD among Asian peers except for JPY. 2. Housing prices in Seoul have increased and 3. Household loan growth also remained strong. In fact, with only 2 members out of 7 open to a cut in the next three months, barring a discernible turn in the three conditions listed, a Q4 cut remains our baseline view. In Malaysia, BNM had a relatively similar statement as they kept their rates on hold and MYR remains supported by the lack of need for pipeline easing or calibration.

While the THB has managed to outperform this week, scrutiny on political and fiscal risks are set to grow. Thailand's government announced that 24 July will be the date where all details of their digital wallet plans will be revealed. On the same day, the courts will continue to hear the case for removal of Prime Minister Srettha on ethical violations of the constitution.

Outlook

Bank Indonesia is set to stand pat amid the brief respite afforded by IDR and a contained inflation trajectory. That said, IDR risks have certainly not abated given the intensifying scrutiny on the fiscal path ahead amid the back and forth on assurances on fiscal deficit and reports on President-elect Prabowo attempts to remove the need to adhere to the fiscal deficit ceiling. Malaysia's Q2 GDP is also set to accelerate above 4% on strong manufacturing production driven by on-going electronics demand as well as resilient services amid improving consumer confidence and ample household liquidity from loans and EPF withdrawals. That said, the latter's financial prudence remain in doubt given the already dire retirement needs shortfall.

jingyi.tan@mizuho-cb.com

EMEA – Slowing Czech CPI justifies more rate cuts

Major Events and Data Releases

Date	Event	Survey	Prior
16-Jul	Poland Core CPI (%YoY, Jun)	3.7	3.8
17-Jul	South Africa Retail Sales (%YoY, May)	0.6	0.6
18-Jul	Poland Industrial Production (%YoY, May)	-1.5	-1.7
	South Africa Policy Rae (%)	8.25	8.25

Source: Bloomberg

Last week most EMEA currencies appreciated against USD and EUR, amid renewed optimism that weak US labour and inflation data will allow the Fed to cut interest rates as soon as September. PLN and ZAR, which are widely seen as carry currencies, appreciated most.

CZK was a notable exception, depreciating around 0.5% against USD. June CPI was 2.0%YoY, significantly down from 2.6%YoY, and also below the market consensus (2.4% YoY). Slowing inflation propels market expectations that the Czech National Bank will keep easing monetary policy.

TRY also dropped, depreciating over 1.0% against USD. Bloomberg reported the head of Turkiye's exporter's assembly said TRY should drop to at least 37 against USD (around 10% cheaper than current spot level) and insisted exchange rates should move "parallel to inflation".

Outlook

Next week, the South African Reserve Bank (SARB) will announce its policy rate on 18 July. SARB is likely to keep its policy rate at 8.25%. We expect SARB to focus on sticky inflation dynamics, but some banks predict the SARB may start easing as early as this meeting.

masayuki.nakajima@mizuhoemea.com

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies’ financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

Brazil: Banco Mizuho do Brasil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd