

July 19, 2024

## Weekly Highlights

- **Trump talk buffets USD**
- **Fed to leave policy unchanged in end-July meeting**
- **Fears of further intervention, Trump talk lift JPY**
- **BoJ to slash bond buying, rate cut less certain**
- **ECB – as you were. Policy unchanged**
- **BoE decision on a knife edge**
- **RMB resilient in face of weak data and Trump Trade**
- **No surprises from the Third Plenum**
- **MAS hold on solid growth; disinflation still playing out**
- **Indian budget to continue fiscal consolidation**
- **Dovish shift for South African Reserve Bank**
- **Turkiye to keep rates on hold**

## Contact details:

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

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

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

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

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

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

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

**This week's publication covers the coming 2 weeks. The next publication will be on 2 August**

## US – GDP to remain above trend, leaving Fed in no rush

### Major Events and Data Releases

Date	Event	Survey	Prior
23-Jul	Existing home sales (%MoM, Jun)	-2.7	-0.7
24-Jul	Composite PMI, flash (DI, Jul)	--	54.8
25-Jul	GDP (%saar, Q2)	1.9	1.4
26-Jul	Core PCE (%YoY, Jun)	0.2	0.1
31-Jul	FOMC (% , mid)	5.375	5.375
1-Aug	ISM Manufacturing (DI, Jul)	--	48.5
	Vehicle sales (mn saar, Jun)	--	15.3
2-Aug	Non-farm payrolls (k, Jun)	170	206
	Unemployment (% , Jun)	4.1	4.1
	Average hourly earnings (%MoM, Jun)	--	0.3

Source: Bloomberg

Mid-week, the US dollar took a hit from Trump currency comments, in which he highlighted his efforts to get China and Japan to strengthen their currencies last time he was in office. He noted “*So we have a big currency problem because the depth of the currency now in terms of strong dollar/weak yen, weak yuan, is massive. And I used to fight them, you know, they wanted it weak all the time. They would fight it and I said, if you weaken it any more, I’m going to have to put tariffs on you*”. Some of Trump’s former advisors (former trade Chief Lighthizer) already have plans to limit USD strength. The greenback dropped sharply in the wake of the comments but by Friday had recovered much of the dip. Through the week, Trump selected JD Vance as his running mate and Vance addressed the Republican Convention with a speech bolstering the America First agenda, implying less overseas aid (Ukraine) more tariffs (China). UST yields ended the week little changed, while equities were lower, led by tech stocks. Small caps however, had a less down beat week. The greenback ended the week firmer against all G10 currencies except JPY and CHF.

### Outlook

The 31 July FOMC meeting is not likely to see a policy change. Fed speakers over the past few weeks have been keen to suggest that they do not yet have the necessary confidence to lower rates, even although recent data have been very encouraging and may provide said confidence later in the year. The focus will be on Powell’s signalling for subsequent meetings. There are a number of important data releases over the coming 2 weeks, including GDP, payrolls and the core PCE deflator. GDP finished Q2 on a high note with data released since the start of July pushing the Atlanta Fed Nowcast from 1.6% to 2.7%. The biggest contributor was the retail sales report but housing and industrial production also contributed. Growth looks like it will remain above trend in Q2. Payrolls will come after the July policy decision. Weekly jobless claims in the payrolls survey week imply some mild softness in payrolls but the big picture remains one of a solid labour market providing consumers with the wherewithal to keep spending. It seems more likely than not that the Democrats will ditch Biden as their presidential candidate in the near future (it has already happened in the betting markets), but a replacement will initially be trailing Trump in the polls suggesting that the market impact will be limited. The bulk of the Trump Trade will likely happen before rather than after the election this time round.

[colin.asher@mizuhoemea.com](mailto:colin.asher@mizuhoemea.com)

## Japan – BoJ to ponder less bond buying and rate hikes

### Major Events and Data releases

Date	Event	Survey	Prior
24-Jul	Composite PMI, flash (DI, Jul)	--	49.7
26-Jul	Tokyo CPI (%YoY, Jul)	2.3	2.3
	Tokyo Ex ff&e CPI (%YoY, Jul)	1.6	1.8
30-Jul	Unemployment (% , Jun)	--	2.6
31-Jul	Retail sales (%MoM, Jun)	--	1.6
	Industrial production (%MoM, Jun)	--	3.6
	Consumer confidence (DI, Jul)	--	36.4
	BoJ meeting (% , lower bound)	0.0	0.0

Source: Bloomberg

MoF will be thrilled by Trump's currency comments. They have been struggling to support the yen. There is little doubt that if Trump was aware of MoF/BoJ efforts to strengthen the yen he would approve. This contrasts with Yellen's faint disapproval. In the wake of BoJ data on Monday that showed probable intervention on the previous Friday, as well as on the Thursday in the immediate aftermath of the US CPI report, investors were already on edge. In addition to the Trump comments, Taro Kono, a senior LDP politician called on the BoJ to hike rates to defend the yen. Whilst Kono contested the latest leadership contest, we do not see him as a likely successor to PM Kishida, whose approval ratings continue to languish at low levels ahead of the September LDP leadership contest. Kono's comments simply reflect that a large portion of Japanese society see the currency as too weak. The Trump comments saw short JPY positions trimmed. JPY shorts are elevated and as such comments of this type will likely have an impact in the short run. The yen was among the best performing currency on the week ending up fractionally vs the US dollar on the week.

### Outlook

The 31 July BoJ meeting will be the main focus in the next few weeks. There is potentially a lot on the agenda. At the last meeting the BoJ surprised investors by not cutting bond buying rather announcing a consultation. That consultation has now been completed. It produced a wide range of views on the pace, the end point, which part of the curve, how much guidance to provide etc ect. We suspect the BoJ will opt for a large initial cut in monthly purchases in the ¥1.0~1.5trn range, which would take monthly purchases down to ¥4.5~5.0trn. This will likely be followed by a much slower pace of reduction towards a monthly pace of ¥2~3trn over the coming 18~24 months. Its also most likely that the BoJ will mainly focus reductions in bond buying on the sub-10yr section of the JGB yield curve, where their holdings are highest. In addition to these steps on its bond purchases, the BoJ will need to decide if the economy is strong enough to hike rates. Here, we expect Governor Ueda's caution to prevail. We expect that the BoJ will judge that it can wait to hike rates. We expect a hike in the autumn. The BoJ produces new forecasts and it will almost certainly reduce its FY24 GDP forecast from 0.8%. However, we don't see the lower growth forecast having much impact on the inflation forecast. Indeed, the weak yen may see CPI forecasts nudge a little higher. Data on industrial production, retail sales, the labour market and inflation are due as well as the flash PMI.

[colin.asher@mizuhoemea.com](mailto:colin.asher@mizuhoemea.com)

## Europe – BoE decision is a close call

### Major Events and Data Releases

Date	Event	Survey	Prior
24-Jul	EZ – Composite PMI, flash (DI, Jul)	50.7	50.9
	UK – Composite PMI, flash (DI, Jul)		
25-Jul	GE – IFO business confidence (DI, Jul)	89.0	88.6
	EZ – M3 (%YoY, Jun)	1.8	1.6
30-Jul	EZ- GDP (Q2, %QoQ)	--	0.3
31-Jul	EZ – Core CPI, flash (%YoY, Jun)	--	2.9
1-Aug	BoE meeting (%)	5.25	5.25
	UK – BoE DMP survey	--	--
	EZ – Unemployment (% , Jun)	--	6.4

Source: Bloomberg

The ECB meeting had limited market impact, with rates left unchanged as widely expected. EUR softened a little when President Lagarde noted that the September decision was wide open. Having been criticised for pre-committing too early to the June cut, Lagarde is over-compensating with this remark. The ECB's base case, as it stands (and assuming the data play ball) is for a further 25bp cut in September. The ECB's Q2 wage indicator is due in August and the compensation/capita are due in early September, just ahead of the September meeting. In the wake of the meeting, Villeroy noted that market expectations (currently ~45bp of cuts by year end) seemed "rather reasonable". EUR jumped in the wake of Trump's currency comments but was lower vs USD by the end of the week. It was a busy week for data in the UK. The CPI data were not encouraging for those expecting the BoE to cut rates at the 1 August meeting, with headline and services CPI a touch firmer than expected. However, the labour market data were a little more encouraging, especially under the hood. Private sector wages are continuing to slow and vacancies continue to decline. The rise in the National Living Wage from April will fall out the 3m comparison soon and wage growth will then look much more subdued. Retail sales and consumer confidence were also on the soft side. GBP tracked EUR and also ended the week lower vs USD.

### Outlook

The flash PMI data are among the most important cyclical activity indicators for the eurozone. These have taken a breather of late, led by renewed weakness in manufacturing. The composite index is still at a level that implies a modest expansion but there is little room for further weakness before the spectre of recession rears its head. The UK flash PMI is also due. The 1 August BoE decision will be a close call. We see Pill (in the wake of his 10 July comments), Mann, Greene and Haskel voting to leave policy unchanged. We expect Dhingra and Ramsden to vote for a 25bp cut. We have not heard from either Bailey or Breeden since the election was called. In the wake of the May MPC meeting Bailey seemed to be leaning towards an early cut and we think that he will vote for a cut and Breeden will vote with him. That leaves new member Clare Lombardelli, from whom we have not heard since her appointment. We assume she will vote with the Governor, leaving a 5-4 majority for a 25bp cut.

[colin.asher@mizuhoemea.com](mailto:colin.asher@mizuhoemea.com)

## China – No Surprises from the Third Plenum

### Major Events and Data Releases

Date	Event	Survey	Prior
22-Jul	1Y LPR (% , Jul)	3.45	3.45
	5Y LPR (% , Jul)	3.95	3.95
31-Jul	Mfg. PMI (DI, Jul)	--	49.5
	Non-mfg. PMI (DI, Jul)	--	51.8

Source: Bloomberg

Spot CNH range-traded over the week. The RMB market showed resilience in the face of disappointing Q2 GDP data and weak consumption as well as falling property prices, as the bearish China growth outlook has been well-priced in. To recap, China Q2 GDP growth expanded less than expected by 4.7%YoY (vs. 5.1%YoY expected), marking the slowest growth pace since Q1 2023. Consumption was the weakest link due to insufficient demand and bearish expectations for China's growth. Retail sales rose by only 2.0%YoY (vs. +3.4%YoY expected), with sliding growth in automobiles (-6.2%YoY). Home appliances dropped by -7.6%YoY, despite the support from trade-in schemes. Industrial production moderated less than expected to +5.3%YoY (+5.0%YoY expected) from prior 5.6%YoY. Fixed asset investment edged down to 3.9%YoY as expected from prior 4.0%YoY due to the drag from the decline in property investments. Externally, the tailwind of a looming Fed policy pivot in September was offset by the growing "Trump trade" after the attempted assassination.

At the beginning of this week, the PBoC kept the 1Y Medium Lending Facility (MLF) rate unchanged at 2.5% as expected, while mildly draining CNY 3bn liquidity via operations. The PBoC also scaled up its reverse repo operations to counter the tax payment impact in mid-July, net injecting CNY 1173bn of liquidity over the week. As a result, the 7-day interbank repo rate climbed moderately to 1.9% from 1.7% in the prior week. In the offshore market, CNH liquidity conditions tightened as Chinese banks were suspected to pay up short-term rates to defend the currency and narrow the CNH-CNY spread during the Third Plenum meeting. Overnight CNH HIBOR hit a 3-month high of 5.23% before settling at 3.59%.

### Outlook

The communique released following China's Third Plenum provided only broad guidelines on reforms to be accomplished by 2029. These initiatives include enhancing the independence and resilience of industrial supply chains, fostering new manufacturing strengths, and overhauling fiscal and financial systems. While the lack of details and measurable targets is in line with market expectations, the plenum also highlighted risks related to the property downturn, local government debt and smaller financial institutions. We expect more detailed and concrete support to be unveiled at China's upcoming politburo meeting by the July-end, which traditionally focuses on the economy's prospects and policies for the second half of the year.

[ken.cheung@mizuho-cb.com](mailto:ken.cheung@mizuho-cb.com)

[serena.zhou@hk.mizuho-sc.com](mailto:serena.zhou@hk.mizuho-sc.com)

## EM Asia – Holding on

### Major Events and Data Releases

Date	Event	Survey	Prior
8-Jul	Taiwan Unemployment Rate (% , Jun)	--	3.4
9-Jul	Singapore CPI (%YoY, Jun)	2.8	3.1
	India Budget	--	--
10-Jul	Malaysia CPI (%YoY, Jun)	2.2	2.0
	South Korea GDP (%QoQ, Q2)	0.1	1.3
11-Jul	Vietnam CPI (%YoY, Jul)	--	4.3
	Australia CPI (%YoY, Jun)	--	4.0
12-Jul	Taiwan GDP (%YoY, Q2)	--	6.6
	Singapore MAS Policy Decision	--	--
	Indonesia CPI (%YoY, Jul)	--	2.5
	South Korea CPI (%YoY, Jul)	--	2.4

Source: Bloomberg

Bank Indonesia stood pat, remarking that the scope of easing would depend on Fed Funds Rate, UST yields and USD strength, suggesting that any cuts would be after the Fed. Meanwhile, fiscal woes persist as appointing Prabowo's nephew as Deputy Finance Minister could allude to shifting power dynamics within the cabinet amid Prabowo's push for more fiscal spending. Elsewhere, Malaysia's Q2 GDP out-turn (5.8% YoY) powered by services, manufacturing and agriculture sectors, supports BNM's abstention from the global easing cycle. Down under, resilient job gains in Australia is unlikely to meet RBA's "more constrained aggregate supply" threshold for a hike, as unemployment ticked up amid higher participation rates.

### Outlook

MAS is set to hold as services resilience and nascent manufacturing upturn provide a buffer against geopolitical uncertainties, especially as dis-inflation is still playing out. Meanwhile, some VND recovery should give SBV a little breathing space, while growth remains supported. Even as headline CPI could edge up (Jun: 4.3%) on upward adjustment to fuel prices in mid-June amid elevated food and healthcare inflation, the headline CPI should remain within SBV's 4.0-4.5% target range.

India's budget will probably retain ambitious fiscal consolidation goals despite demands for more state spending in the context of a more diverse political coalition in the Modi government. This, however, falls short of catalysing any imminent ratings upgrade for now.

Korea Q2 growth could edge up slightly from Q1 (3.3%YoY) as already-elevated manufacturing output limits further acceleration, while the real estate and services sectors remain supported. Taiwan's Q2 GDP is expected to moderate (Q1: 6.6%YoY) as low base effects in Q1 dissipates. Growth will continue to be driven by the electronics sector, wholesale trade and financial services, but household demand should print softer as retail sales growth remains tepid.

[jingyi.tan@mizuho-cb.com](mailto:jingyi.tan@mizuho-cb.com)

**EMEA – Dovish shift for South African Reserve Bank****Major Events and Data Releases**

Date	Event	Survey	Prior
22-July	Poland Retail Sales (%YoY, Jun)	5.8	5.4
23-July	Turkiye Policy Rate (%)	50.00	50.00
23-July	Hungary Policy Rate (%)	6.75	7.00
24-July	South Africa CPI (%YoY, Jun)	5.1	5.2
31-July	Poland Preliminary CPI (%YoY, July)	-	2.6
1-Aug	Czech Policy Rate (%)	-	4.75

Source: Bloomberg

Last week in EMEA, most EMEA currencies depreciated against the greenback after an assassination attempt on former US President Donald Trump over the weekend. The Trump Trade gained momentum.

ZAR depreciated more than 2% against USD, against the backdrop of strong dollar. The South African Reserve Bank (SARB) left its policy rate unchanged at 8.25% as widely expected, but two MPC officials favoured a 25bp cut, while the other 4 members wanted to keep rates on hold. The market expectation that SARB may start easing cycle as early as 19 September, one day after the Fed meeting, is growing.

**Outlook**

In the next 2 weeks, the Central Bank of Turkiye (CBRT), the National Bank of Hungary (NBH) and the Czech National Bank (CNB) will announce monetary policy decisions. The CBRT is likely to leave its policy rate unchanged at 50.00% on 23 July. The CBRT's Governor Fatih Karahan told Bloomberg in a 12 July interview *"Any actions we take on policy rates should be calibrated so as to hit the inflation target in 2025 and beyond"*. He pushed back on market expectations of early rate cut.

On the other hand, NBH Deputy Governor Virag signalled in his speech on 15 July that the NBH plans to reduce its key rate on as many as three occasions over the remainder of the year following softer inflation data.

The CNB is likely to extend its easing cycle on 1 August, but at a slower pace. CZK has been under pressure after the CNB surprised the market with 50bp cut in the last meeting in June. We believe the CNB will deliver a 25bp cut.

[masayuki.nakajima@mizuhoemea.com](mailto:masayuki.nakajima@mizuhoemea.com)

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