

Weekly Highlights

- **DXY sags ahead of Powell's speech**
- **Moderate core PCE growth, moderate cuts**
- **Koizumi in "poll" position**
- **Heavy data schedule in prospect**
- **EUR and GBP at year to date highs vs USD**
- **Headline eurozone CPI to drop sharply on energy base effects**
- **PBoC dialled back CNY fixing support**
- **1Y MLF rate to remain unchanged**
- **BoT, BoK and BI stood pat but FX gains varied on potential easing**
- **Australia's likely marginal dis-inflation is no comfort to the RBA**
- **Hungary may put an end to the easing cycle**
- **Poland to discuss rate cuts in 2025**

Contact details:

Colin Asher
Senior Economist,
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 – DXY under pressure as first FOMC cut looms

Major Events and Data Releases

Date	Event	Survey	Prior
26-Aug	Durable goods orders (%MoM, Jul)	4.2	-6.7
27-Aug	House price index (%MoM, Jun)	--	5.9
	Consumer confidence (DI, Aug)	100.1	100.3
29-Aug	GDP, 2 nd est (%saar, Q2)	2.8	2.8 (p)
	Weekly jobless claims (k)	235	232
30-Aug	Personal income (%MoM, Jul)	0.2	0.2
	Personal spending (%MoM, Jul)	0.5	0.3
	Core PCE (%MoM, Jul)	0.2	0.1
	U Mich consumer confidence, final (DI, Aug)	67.8	67.8 (p)

Source: Bloomberg

Thursday's comments from the Fed's Collins and Harker, who line up closely with Powell on the hawk/Dove spectrum, implied that any rate cuts would likely be measured, while the FOMC minutes of the 31 July FOMC meeting suggested that the bulk of the Committee believed that the time to start easing policy was approaching. For the bulk of the week, market pricing of the September FOMC meeting has oscillated between 31bp and 35bp, implying a small chance of a 50bp move. Given the Fed speak over the week, those looking for a move of more than 25bp presumably believe that the upcoming payrolls report will be soft enough to push the Fed into 50bp cut. During the week, the BLS released its initial payrolls revisions that showed payrolls 818k lower in March than previously estimated. This dove UST yields to the lows for the week and they subsequently rose on the Thursday. The US dollar was soft early in the week but the declines ended alongside the low for UST yields. Through the week, the Democrats held their national convention, culminating in Harris accepting the nomination on Thursday. Interestingly, her lead in the betting markets has ebbed over the week, possibly as a result of third candidate Kennedy mulling throwing the towel in and backing Trump.

On Friday afternoon, Chair Powell sounded somewhat dovish noting that he did not seek or welcome further labour market deterioration. More broadly he sounded happy to ease, as noted in the FOMC minutes earlier in the week. UST yields pushed back towards the week's lows and the DXY index dropped.

Outlook

The week will start with investors looking for additional policy clues beyond Powell's comments from the Jackson Hole symposium. It is quiet on the monetary policy front, with only Bostic scheduled to speak. As for the data the focus will be on the core PCE report for July, where a 0.2%MoM increase is expected. This pace of increase is close to what the Fed hopes to see. While YoY rates are seen nudging higher, 3m annualised rates should look pretty benign. This week also sees household spending and income data due. Spending should continue to look healthy even as consumer confidence remains soft. Earnings in the tech sector this coming week will have the ability to shape sentiment in the equity markets.

colin.asher@mizuhoemea.com

Japan – BoJ Governor Ueda signals more hikes ahead

Major Events and Data releases

Date	Event	Survey	Prior
27-Aug	PPI Services (%YoY, Jul)	2.9	3.0
29-Aug	Consumer confidence (DI, Aug)	37.0	36.7
30-Aug	Unemployment (% , Jul)	2.5	2.5
	Job offers/applicants ratio (Jul)	1.23	1.23
	Tokyo CPI (%YoY, Aug)	2.3	2.2
	Tokyo Ex fresh food CPI (%YoY, Aug)	2.2	2.2
	Tokyo Ex ff&e CPI (%YoY, Aug)	1.4	1.5
	Industrial production (%MoM, Jul)	3.6	-4.2
	Retail sales (%MoM, Jul)	0.4	0.6
	Housing starts (%YoY, Jul)	-1.0	-6.7

Source: Bloomberg

In Japan, it has been a good week for the LDP's Shinjiro Koizumi. We had expected that at just 43 he would pass up the opportunity to run in the upcoming contest. However, having hinted that he will run this week, he now looks to be the front runner. A Nikkei poll showed Koizumi as the leading candidate among people who identified themselves as LDP supporters. He was seen as best qualified to be LDP president (and thus Prime Minister) by a little under 40% of respondents who expressed a preference. 11% of respondents said they didn't have a preference. He also seems to have the support of at least one of the LDP kingmakers – Suga, putting him in a strong position for the first round. At the same time the Aso faction looks to be struggling to exert influence over the process, further boosting Koizumi's chances. On the Friday, BoJ Governor Ueda spoke in the Diet. He said that Q2 GDP and recent wage data show the economy moving in line with the BoJ's forecast. He confirmed that if the data continue to move in line with the forecast further hikes will be appropriate. The CPI for July was more or less in line with expectations, with ex fresh food and energy measure dipping below 2.0% for the first time since Nov-22. The CPI is in for a bumpy ride in coming quarters as the impact of subsidies come in and fall out of the data, with jumps expected in early 2025 and again in autumn next year. Regardless of the gyrations in headline CPI, we suspect that underlying price pressures will remain around 1.5% level for most of the period. USD/JPY pushed lower in the week, alongside lower UST yields.

Outlook

The coming week sees most of the data released on the Friday. Industrial production and retail sales will detail activity at the start of the quarter. Tokyo CPI has been volatile this year, bouncing around a little above 2.0%. A small increase is likely in August. Industrial production is seen reversing much of last month's drop, which was partially driven by auto shutdowns. The forecasts for August and September will be in focus as without further sizable increases, production will drop on a quarterly basis in Q3. The Tokyo CPI will likely show headline CPI picking up, even as ex fresh food and energy edges a little lower.

colin.asher@mizuhoemea.com

Europe – EUR and GBP at year to date highs vs USD

Major Events and Data Releases

Date	Event	Survey	Prior
27-Aug	GE – IFO business climate (DI, Aug)	86.0	87.0
27-Aug	UK – Distributive trades survey, sales (DI, Aug)	--	-30
28-Aug	EZ – M3 (%YoY, Jul)	2.7	2.2
29-Aug	EZ – New car registrations (%YoY, Aug)	--	4.3
	EZ – EU Commission econ sentiment (DI, Aug)	96.0	95.8
	EZ – CPI (%YoY, Aug)	2.2	2.6
	EZ – Core CPI (%YoY, Aug)	2.8	2.9
	EZ – Unemployment (%), Jul)	6.5	6.5
30-Aug	UK – M4 ex OIFCs (3m% saar, Jul)	--	2.5

Source: Bloomberg

Both EUR and GBP hit year to date highs against the US dollar this week amid a focus on the start of the FOMC easing cycle. The gap between expectations for FOMC easing and BoE/ECB easing over the remainder of the year is starting to look stretched, with ~102bp of easing priced in for the Fed, 43bp for the BoE and 68bp for the ECB. The flash PMI data in the eurozone rose a full point but much of the jump was due to a surprise surge in French services, which was driven by the Olympics. The German PMI was weak. Germany seems to be on the cusp of recession. We suspect that much of the jump at the eurozone level will be reversed next month, as the French Olympic bounce evaporates. In contrast the UK PMI looked good, with stronger activity and prices also easing – a goldilocks type of report.

Outlook

Inflation and unemployment will be the focus in terms of the eurozone in the coming week. Headline eurozone CPI is set to drop quite sharply, supporting the disinflation narrative ahead of the 12 September ECB meeting. Headline inflation should be sitting at just above the 2.0% level in the wake of the release. With base effects in energy the driver, core CPI will drop a lot less and remain a lot higher – much closer to 3% than 2%. Eurozone M3 is seen continuing to pick up, moving back towards the 4.0%YoY level it broadly held at ahead of the Covid crisis. In June the eurozone unemployment rate moved off the cycle low of 6.4%. Given the weak activity levels we expect in coming quarters, we suspect that the unemployment rate will nudge gently higher. The PMI saw a very small reduction in private sector unemployment and the fact the new orders are falling, as are backlogs of work, suggest a reluctance to employ new staff going forward. Campaigning for German regional elections in Saxony and Thuringia ahead of the 1 September vote will be a focus too with the polls suggesting an on-going squeeze of centrist parties amid the rise of BSW on the left. Forming a coalition in the wake of the poll will likely be difficult. Investors will be also looking out for any results from French President Macron's talks with party leaders on naming a new prime minister. The talks will continue on Monday. There are a slew of ECB speakers due during the week ahead of the quiet period for the September ECB meeting. We suspect most will subscribe to measured cuts data permitting.

colin.asher@mizuhoemea.com

China – PBoC dials back CNY fixing support

Major Events and Data Releases

Date	Event	Survey	Prior
26-Aug	1Y MLF rate (% , Aug)	2.3	2.3
27-Aug	Industrial Profits (%YoY, Jul)	--	3.6

Source: Bloomberg

The deepening USD sell-off bolstered the renminbi, driving spot CNH towards the 7.11 level from around 7.18. With stabilizing RMB sentiment, the PBoC has restored a market-driven CNY fixing mechanism, phasing out the possible year-long policy support. This saw a positive CNY fixing-estimate gap for the first time since 23 June. By narrowing the gap between CNY spot and the CNY fixing, the PBoC should have mitigated the risk of one-off sharp RMB depreciation at an abrupt policy exit, similar to the CNY fixing reform. In the FX forward market, the 1Y CNH Deliverable Forward (DF) was hovering near -1800 points, while 1Y CNY forward points climbed further to -2250 points from -2400 points over the week. On the data front, the swift global payment of CNY for July rose to its record high of 4.74% from prior 4.61%, indicating progress in CNY internationalization. China's housing regulator pledged to accelerate the purchase of unsold homes to support the property sector, transforming the housing units into affordable housing.

As expected, Chinese banks left their 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.35% and 3.85%, respectively. This suggested that Chinese banks are reluctant to cut their loan rates before PBoC's policy rate cuts due to the narrow net interest rate margins. In the onshore RMB market, the PBoC net drained CNY 347.1bn over the week, in comparison to a net injection of CNY 1523.61bn in the prior week. The 7-day interbank repo rate climbed from 1.78% to 1.89% this Friday. Offshore RMB liquidity conditions remain ample given stable RMB sentiment.

Outlook

As the PBoC dials back its CNY fixing policy support, the RMB market is likely to be driven by the USD movements in the near term. We reckon that further room for RMB appreciation will be limited without improvements in China's fundamentals. The 1Y Medium Lending Facility (MLF) operation due on 26 Aug will be in focus. The MLF rate is expected to remain unchanged at 2.3% without the policy rate cut this month. Previously the PBoC announced it would roll over the maturing MLF due on 15 August.

ken.cheung@mizuho-cb.com

serena.zhou@hk.mizuho-sc.com

EM Asia – Easy gains?

Major Events and Data Releases

Date	Event	Survey	Prior
26-Aug	Singapore Industrial Production (%YoY, Jul)	-1.1	-3.9
	Korea Retail Sales (%YoY, Jul)	--	11.1
	Taiwan Monitoring Indicator (DI, Jul)	--	38.0
20-Aug	Australia CPI (%YoY, Jul)	3.4	4.1
	Philippines Budget Balance (PHP bn, Jul)	--	-209
21-Aug	Australia Retail Sales (%MoM, Jul)	0.3	0.5
	India GDP (%YoY, Q2)	7.0	7.8
	Korea Industrial Production (%YoY, Jul)	7.6	3.8
	Thailand C/A (\$mn, Jul)	--	1950

Source: Bloomberg

In EM-Asia, central banks saw widespread relief with FX gains as UST yields declined and inflows in regional equities took hold. Gains across the spectrum continued to be along the lines of "No" easing and the "Not yet" easing. For one, the likes of the THB rose 2% this week as the BoT stood pat characterising their policy path as being neutral (little room for easing) alongside unofficial reports on the possibility of PM Paetongtarn transforming the digital wallet program to targeted direct cash handouts which scales by funding needs by more than half. However, the BoT's explicit warning on worsening credit quality among households and SMEs and tightening financial conditions warrants caution for stretching the THB rally.

Down the ladder, KRW gains were smaller with the BoK keeping rates unchanged but hinting at a rate cuts in Q4 with a policy statement that removed "*while maintaining a restrictive monetary policy stance for a sufficient period of time*", despite highlighting ongoing concerns on housing prices and debt. Governor Rhee also added that 4 members were open to a rate cut in the next 3 months while 2 preferred that rates remain unchanged. Similarly, with Bank Indonesia being "*open to rate cut in Q4*", IDR gains were smaller this week especially with protests over election laws denting the IDR recovery path. AUD saw muted gains despite hawkish tendencies revealed in the RBA minutes, likely as RBA's allusion to "holding for longer" as achieving the same restrictive stance as a hike implicitly means that the bar for a hike is high.

Outlook

In turn, Australia's July headline inflation is also likely to slow on administrative measures such as power bill relief alongside a cooling housing market and lower petrol prices. Nonetheless, buoyant employment and wage growth imply that the extent of dis-inflation ahead may continue to be limited comfort to the RBA. That said, the cost of living measure induced mechanical dis-inflation conspiring with softer retail sales may tempt AUD bears even though the RBA is likely to remain unmoved. Meanwhile, India's Q2 GDP is set to normalise lower as election spending fades, industrial production moderates and slower credit expansion dampens nominal growth momentum. This sets the stage for measured cuts by the RBI in Q4 contingent on macro-stability.

boonheng.tan@mizuho-cb.com

EMEA – Hungary may put and end to its easing cycle

Major Events and Data Releases

Date	Event	Survey	Prior
27-Aug	Hungary Policy Rate (%)	6.75	6.75
28-Aug	Turkiye Trade Balance (USD bn, July)	-7.15	-5.87
30-Aug	Poland Preliminary CPI (%YoY, Aug)	4.3	4.2
	South Africa Trade Balance (ZAR bn, July)	17.6	24.2

Source: Bloomberg

Last week the performance of EMEA currencies was mixed. Rate cut expectations for the Fed supported overall risk sentiment but each country's fundamentals decided the currency moves.

TRY depreciated around 1.0% against USD last week, the largest decline in EMEA after RUB and ILS. A surge in foreign deposit raises concern that locals may have resumed accumulating foreign currencies and selling TRY. The Central Bank of Turkiye (CBRT) maintained the one week policy rate at 50.00% and maintained its hawkish stance. The CBRT stressed the importance for the public's inflation expectations to converge with its own forecast (38%YoY for 2024 in the latest report).

In Poland, PLN slipped due to comments from National Bank of Poland (NBP) Governor Gapinski. He commented to the Polish Press Agency on 20 August *"It can't be ruled out that economic situation will develop in such a way that discussion about adjustment of monetary policy could be justified before 2026."* Kotecki, a key member of the MPC also said on 22 August that a large majority of the MPC sees room for a discussion about potential interest rate cuts at the beginning of 2025.

In South Africa, the July CPI rose 4.6%YoY from a year earlier, compared with 5.1%YoY in June. We believe the decrease of the CPI's growth rate backs the case for a rate cut next month.

Outlook

In the next week, the National Bank of Hungary (NBH) will announce its monetary policy decision on 27 Aug. The market is divided on whether it will keep the easing cycle going or hold the policy rate at 6.75%. The NBH cut 25bp in July but changed its rhetoric towards a more cautious policy stance. CPI inflation picked up to 4.1%YoY in July from 3.7%YoY, reducing the real interest rate. Volatile risk appetite is another reason why we believe the NBH may put an end to the easing cycle which has been in place since April 2023.

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