# Mizuho Global Weekly

**August 30, 2024**

## Weekly Highlights

- **DXY rebound as overdone easing expectations fade somewhat**
- **Solid payrolls to see easing expectations ebb a little more**

- **Mixed data leave JPY under pressure**
- **Wages still solid, just less so vs June**

- **French and German political woes weigh on EUR**
- **GBP due a breather after solid run**

- **RMB surged to a 15-month high**
- **China's manufacturing PMI to edge lower**

- **BNM hold amid strong growth and tame inflation**
- **Australian GDP driven by pubic spending. Private demand tepid**

- **Poland sees huge deficit in 2025 budget**
- **Turkiye July CPI to confirm further decline in inflation pressure**


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## US – All eyes on payrolls

### Major Events and Data Releases

| Date | Event | Survey | Prior |
|---|---|---|---|
| 3-Sep | ISM m'fact (DI, Aug) | 48.1 | 46.8 |
| 4-Sep | JOLTS job openings (k, Jul) | 8100 | 8184 |
| | Beige Book | -- | -- |
| | Vehicle sales (mn saar, Aug) | 15.4 | 15.8 |
| 5-Sep | ISM non-m'fact (DI, Aug) | 50.9 | 51.4 |
| | Weekly jobless claims (k) | -- | 231 |
| 6-Sep | Non-farm payrolls (k, Aug) | 165 | 114 |
| | Unemployment (%, Aug) | 4.2 | 4.3 |
| | Average hourly earnings (%MoM, Aug) | 0.3 | 0.2 |
| | | | |

Source: Bloomberg

The upgrade to US Q2 GDP and solid weekly jobless claims were behind the push higher in USD this week. The durable goods and consumer confidence reports also topped expectations but elicited less USD strength. Some of the rate cut exuberance in the wake of Fed Chair Powell's Jackson Hole speech eased as there is no sign of the smoking gun required for the Fed to start the easing cycle with a 50bp cut at the FOMC meeting on 18 September. While FOMC pricing for the Sep meeting was little changed, UST yields end the week a little higher with the curve dis-inverting further. Indeed, 2x10s in USTs is now close to flat. It has been a solid week for the greenback, with only NZD outperforming across the G10

While the betting odds have eased for Harris in the wake of Kennedy dropping out of the race at the tail end of last week, in general the polls continue to go her way. She seems to have a small but consistent lead in most forecasts/poll of polls and have caught up in the key swing states.

### Outlook

It will be a quiet start to the week with markets closed for the Labour Day holiday. Given the "payrolls panic" in the wake of the labour market report at the start of August, non-farm payrolls is the main focus in the coming week. Data over the course of the last month have eased recession fears and while the US economy seems to be slowing, evidence that it is slumping is limited. The 114k gain in payrolls in July looks to be below the slowing trend and we expect a bounce in August to around 175k, in part helped by the absence of weather-related factors that seemed to hit in July. The unemployment rate should hold at 4.3%, although the bias is lower rather than higher. Ahead of the payrolls report we have the usual slew of labour market data – the employment sub-indices in the two ISM reports, the ADP and JOLTS reports and weekly jobless claims. Neither JOLTs (one month in arrears) nor weekly jobless claims (~two weeks ahead) have a direct bearing on payrolls but both testify to the general health of the labour market. The ADP report has not been much of a leading indictor either since its methodology change a few years back. The Beige Book is due on Wednesday and both Williams and Waller speak on Friday. To the extent that our payrolls forecast is correct, it will likely see markets price out some of the cuts priced in over the remainder of the year and lift the greenback in the process.

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## Japan – Wage watch

### Major Events and Data releases

| Date | Event | Survey | Prior |
|---|---|---|---|
| 2-Sep | Capex spending (%YoY, Q2) | 9.9 | 6.8 |
| 3-Sep | Monetary base (%YoY, Aug) | -- | 1.0 |
| 5-Sep | Cash earnings (%YoY, Jul) | 3.0 | 4.5 |
| | Cash earnings, same sample (%YoY, Jul) | 3.2 | 5.1 |
| | Real cash earnings (%YoY, Jul) | -0.4 | 1.1 |
| 6-Sep | Household spending (%YoY, Jul) | 1.2 | -1.4 |
| | | | |

Source: Bloomberg

It was a quiet week for data in Japan until Friday, when the month-end data deluge produced mixed results. The Tokyo CPI data were firmer than expected. Ex fresh food and energy Tokyo CPI edged up from 1.5%YoY to 1.6%YoY, vs expectations of a small decline in the YoY rate. Service prices firmed a little too. We do not expect that the BoJ will be spurred into action at the September meeting but the firmer price outlook does support the case for tighter policy over the balance of the year. Other data were less supportive of tighter policy. Industrial production rose 2.8%MoM in July but was well shy of expectations. July retail sales also rose a little less than expected, up just 0.2%MoM, while the jobless rate jumped from 2.5% to 2.7%. That said, the job offers/applicants ratio did push higher on the month, suggesting the underlying labour market remains firmer than the rise in unemployment suggests. The government raised its view of economy for first time in 15 months, boosting its assessment of consumption and housing construction. This week's 2yr JGB auction saw elevated demand with 2yr JGB yields at a decade high. It has been a mixed week for the yen, down against USD but up against EUR.

**Outlook**

On the data front the focus in the coming week will be on the wage data and the capex data for Q2 that feeds into the second estimate of GDP. Recall that last month's jump in the wage data helped calm markets in the wake of the BoJ hike and the "payrolls panic". That jump in wages in June was in part driven by bonus payments and as bonus season is mainly behind us, headline wage growth will slow. Should July cash earnings come in as expected at 3.0%YoY, nominal wage growth will still be elevated. The focus will likely be on scheduled cash earnings in the same-sample survey, which are seen pushing marginally higher to a fresh cycle high. There will also be a focus on MoF's weekly portfolio flow data. These have show heavy overseas bond buying in the last 3 weeks, ahead of the potential first Fed cut. There is no evidence in this data set of mass repatriation of Japan's overseas asset holdings, which was a focus of speculation in the wake of the yen's surge and focus on the carry trade unwind at the start of August. The LDP election campaign officially starts on 12 September. As yet only a few members are officially in the race. Next week Motegi, Hayashi, Takaichi and Koizumi are expected to officially enter the race, with as many as 11 eventually expected to throw their hats into the ring.

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

### Major Events and Data Releases

| Date | Event | Survey | Prior |
|---|---|---|---|
| 4-Sep | EZ – PPI (%YoY, Jul) | -2.5 | -3.2 |
| | EZ – Composite PMI, final (DI, Aug) | 51.2 | 51.2 (p) |
| | UK – Composite PMI, final (DI, Aug) | | 53.4 |
| 5-Sep | EZ – retail sales (%YoY, Jul) | 0.1 | -0.3 |
| | UK – DMP 1Y price expectations (%YoY, Aug) | | 2.5 |
| | | | |

Source: Bloomberg

ECB commentary this week has suggested that a September rate cut is close to being a done deal, although subsequent cuts are much less certain. The ECB's Muller said "*We can be increasingly confident that in September, it's possible to lower policy rates*" in the wake of the headline CPI dropping to just 2.2%YoY in August. However, the likes of Schnabel noted "*While goods inflation has fallen back to its pre-pandemic average at a fast pace, services inflation is still more than twice as high as its average between 1999 and 2019*". She concluded that headline inflation understates the challenges for policy and that the ECB should proceed cautiously. Market pricing for the 12 September ECB meeting is little changed this week, with a 25bp cut seen as a near certainty. Markets continue to price ~65bp of easing by year end – 2x25bp cuts and a ~60% chance of a third. The fact that core eurozone CPI dropped much less than headline CPI will add to ECB caution. On the political front, there has been no progress in naming a French PM/government – deadlock continues. Despite the on-going deadlock, French bonds have not underperformed this week. In Germany, the extremist parties continue to poll well ahead of state elections in Saxony and Thuringia this coming weekend. It was a quiet week for GBP. EUR/GBP threatened to break below the 0.84 level for the first time since late July as EUR remained under pressure.

### Outlook

It is a quiet week in prospect in Europe. Dramatic progress in France is not expected, while success for the extreme parties in the German state elections will not be a surprise. The UK parliament reconvenes briefly ahead of Party Conference season, while the first round of the Conservative Party leadership contest take place. The final PMI data for both the UK and the Eurozone are not likely market moving. The eurozone PPI will likely show goods price disinflation continuing to ease. In the UK, the BoE's Decision Maker Panel is released late in the week. This report contains much interesting detail on price, employment and wage expectations among companies. Corporate CPI inflation expectations have come down to just 2.5% at both the 1-year and 3-year horizons. Output price expectations are also easing. Wage growth expectations are unchanged over the last 3m at 4.1%, although the 3m average has eased. Wage expectations are likely still a little firmer than the BoE would like.

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## China – RMB rallies to 15-month high

### Major Events and Data Releases

| Date | Event | Survey | Prior |
|---|---|---|---|
| 31-Aug | Mfg. PMI (DI, Aug) | 49.5 | 49.4 |
| | Non-mfg. PMI (DI, Aug) | 50.1 | 50.2 |
| 2-Sep | Caixin China PMI Mfg. (DI, Aug) | 50.0 | 49.8 |
| 4-Sep | Caixin China PMI Services (DI, Aug) | 52.1 | 52.1 |
| | | | |

Source: Bloomberg

Spot CNH extended its rally to a 15-month high around 7.0750. The intensifying USD sell-off after chair Powell's dovish speech at the Jackson Hole symposium provided a tailwind for CNH. In response, the PBoC dialed back its CNY fixing policy support, setting the CNY fixing stronger, to a 2-month high of 7.1124. With a less bearish RMB outlook, some exporters might have offloaded their FX holdings, amplifying the CNH rally. Other headlines also contributed to improved RMB sentiment. The PBoC's seminar with financial experts and economists pledged more stimulus measures, boding well on the growth outlook. The meeting between Chinese President Xi and US Security Advisor Sullivan signalled a potential improvement in the China-US relationship.

The PBoC net injected CNY 204bn of liquidity via open market operations in the last week of August, compared to the withdrawal of -CNY 347.1bn in the prior week. The PBoC conducted CNY 300bn of 1Y Medium Lending Facility (MLF) at an unchanged rate of 2.3%. With the CNY 401bn MLF maturing in mid-August, the PBoC net withdrew net CNY 101bn of liquidity via the MLF operation. The MLF operation indicated that the PBoC might regularly delay MLF operations date to around the 25$^{th}$ of every month, diluting its guidance on the Loan Prime Rates (LPRs) setting and reinforcing the role of the 7-day reverse repo rate as the key policy rate.

**Outlook**

Although USD/CNH pushed below the 7.1 level, it might be too early to worry about RMB appreciation risks without improvements in China data or further downside pressure on the greenback. Despite the looming Fed pivot and the RMB appreciation bias in the near term, the persistent USD-CNY interest rate differential and lack of attractive RMB investment assets may deter exporters from converting their USD holdings in the onshore markets. In the offshore market, the flush CNH liquidity makes the carry trade of long USD/CNH appealing again. In any case, the PBoC reserves plenty of tools to curb RMB appreciation if necessary, such as lowering the FX forward reserve ratio and raising the FX Required Reserves Ratio. On the data front, China's industrial activity is likely to have moderated further in August. According to high-frequency indicators, demand for thermal coal has weakened notably, implying softer electricity demand. At the same time, daily steel production also fell in August, recording a month-to-date decline of 9.2%YoY. In view of such sluggishness, we expect China's official Manufacturing PMI, which is expected this coming Saturday, to moderate further in August, to 49.2, down from 49.4 in July.

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## EM Asia – (Dis)Comfort?

**Major Events and Data Releases**

| Date | Event | Survey | Prior |
|---|---|---|---|
| 2-Sep | Indonesia CPI (%YoY, Aug) | 2.1 | 2.1 |
| 3-Sep | Australia Current Account (A$bn, Q2) | -5.5 | -4.9 |
| | South Korea CPI (%YoY, Aug) | 2.1 | 2.6 |
| 4-Sep | Australia GDP (%QoQ, Q2) | 0.2 | 0.1 |
| 5-Sep | BNM Overnight Policy Rate (%) | 3.0 | 3.0 |
| | Thailand CPI (%YoY, Aug) | 0.4 | 0.8 |
| | Philippines CPI (%YoY, Aug) | 3.6 | 4.4 |
| | Taiwan CPI (%YoY, Aug) | 2.3 | 2.5 |
| 6-Sep | South Korea Current Account ($mn, Jul) | -- | 12259 |
| | Philippines Unemployment Rate (%, Jul) | -- | 3.1 |
| | Vietnam Industrial Production (%YoY, Aug) | -- | 11.2 |
| | Vietnam CPI (%YoY, Aug) | 4.0 | 4.4 |
| | | | |

Source: Bloomberg

RBA is unlikely to be comforted by dis-inflation progress, as the moderation was led by electricity rebates. Concerns over inflation likely overshadowed stagnant retail sales, which saw AUD barely nudging lower even as it provided further evidence of stretched household budgets. Meanwhile, Bank of Thailand appears to increasingly ponder the parameters for easing policy to balance against tightening financial conditions and uneven growth.

On the fiscal front, Philippines looks on track for a fiscal deficit of 5.6% of GDP in 2024, but the proposed 2025 budget (still under debate) ignites risks of fiscal slippage. Indonesia formalised its intention to implement targeted fuel subsidies, while it was reported that Malaysia is considering re-introducing the consumption tax, in replacement of gasoline subsidy rationalisation.

**Outlook**

BNM is expected to remain on a prolonged hold. Strong growth gives little reason for a cut while managed inflation does not provide any impetus to hike, as the policy stance remains supportive of economic fundamentals.

Australian GDP growth will provide little relief insofar as government spending is likely to remain the main driver of activity while household spending remains lacklustre. The external sector is also likely to remain a drag on growth as the trade balance headed lower in Q2.

Vietnam's inflation should moderate on lower fuel prices and softer food inflation, even as economic growth and wage growth continue exerting some upside pressure. Meanwhile, economic activity is expected to be mixed. While retail sales would be supported by recent salary adjustment and sales, industrial production could moderate on slower inputs imports growth from South Korea.

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## EMEA – Poland sees huge deficit in 2025 budget

### Major Events and Data Releases

| Date | Event | Survey | Prior |
|---|---|---|---|
| 2-Sep | Turkiye GDP (%YoY, Q2) | 3.20 | 5.70 |
| 3-Sep | Turkiye CPI (%YoY, Jul) | 51.90 | 61.78 |
| | South Africa GDP (%YoY, Q2) | 0.30 | 0.50 |
| 4-Sep | Poland Policy Rate (%) | 5.75 | 5.75 |
| | | | |

Source: Bloomberg

Last week, EMEA currencies broadly weakened against USD, as the rally after Fed chair Powell's dovish comment on 23 August faded, but stayed firm against EUR.

The National Bank of Hungary (NBH) kept policy rate at 6.75% at the 27 August meeting, following 15 consecutive cuts. 17 of 23 economists in the Bloomberg survey precited a pause while 6 expected a cut. HUF strengthened 0.3% against EUR after the decision. But after statement was published and Vice Governor Virag spoke, HUF weaken as the MPC explicitly mentioned room for more rate cuts.

In Poland, the government approved the state budget draft for 2025 on 28 August. It envisaged a third straight year with a public sector deficit of more than 5% of GDP. While PLN weakened last week, the market reaction to budget was limited, as investors may have expected large borrowing needs, considering poland's geopolitical situation. Indeed, the main source of the deficit is coming from military spending (4.7% of GDP), amid Russia's ongoing invasion of Ukraine.

**Outlook**

In the coming week, the National Bank of Poland (NBP) will announce its monetary policy decision on 4 September. Given the high growth rate of service inflation from wage pressure and the massive budget deficit, the NBP is likely to keep its policy rate unchanged at 5.75%.

In Turkiye, Q2 GDP and the July CPI print are due. We believe these data will confirm growth deterioration and a decline in inflation pressures.

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