Appendix - Historically, Aggressive Rate Hikes Have Seldom Been Without Economic Pain


Fed Tightening Cycles & Global Recessions: Few Tightening Cycles by the Fed Have Resulted in "Goldilocks" Outcomes that Avert a Recession. And this time, the Fed has assumed the fasted pace of hikes in four decades; since the Volcker era (1980s).

Dec 1986-Feb 1989
+300bp
(to 9.75%)
~11.1bp/mth

Feb '94-May '95
+300bp
(to 6.00%)
~18.8bp/mth

Jun '99-Jul '00
+125bp
(to 6.50%)
~8.9bp/mth

Jun '04-Aug '06
+425bp
(to 5.25%)
~15.7bp/mth

Dec '15-Mar '19
+225bp
(to 2.50%)
~5.6bp/mth

Mar '22-Jul '23
+525bp
(to 5.50%)
~30bp/mth

Recession — Fed Funds Rate (Upper Limit)

Sources: CEIC, Bloomberg, Mizuho Bank

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Appendix - US (Consumer) Exceptionalism – Exuberance Exhausted?

U.S. Consumption Back to Trend but Income Lags

United States: Real Income and Consumption Indexes

Indexes, 2019 = 100

Legend: Real disposable income · Real consumption · Average trend
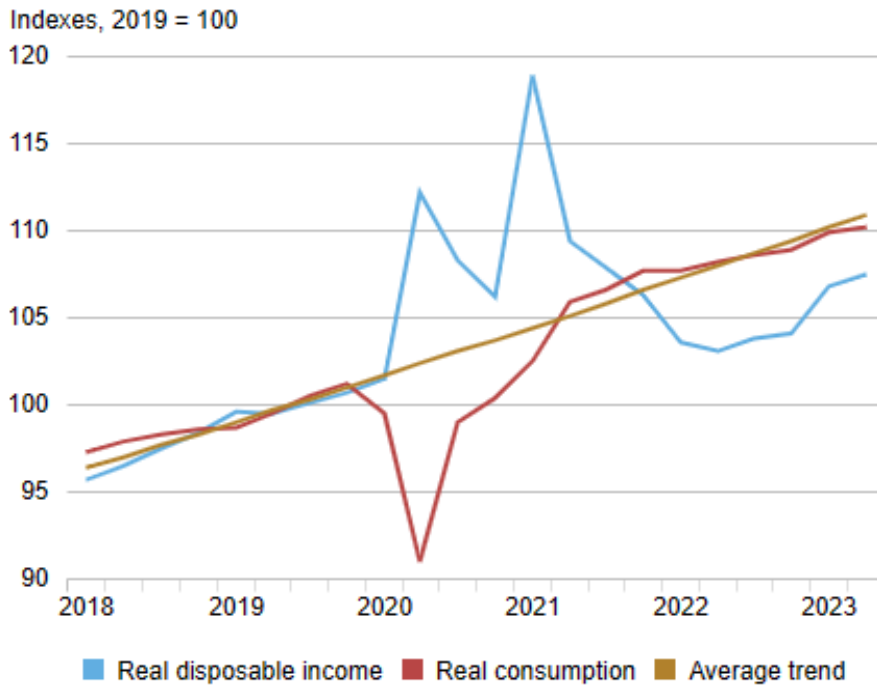
Sources: Bureau of Economic Analysis, Integrated Macroeconomic Accounts; authors' calculations.
Note: The average trend for consumption and income is based on growth from the fourth quarter of 2014 to the fourth quarter of 2019.

Foreign Income and Consumption Tracking Below Trend

Foreign Economies: Real Income and Consumption Indexes

Indexes, 2019 = 100

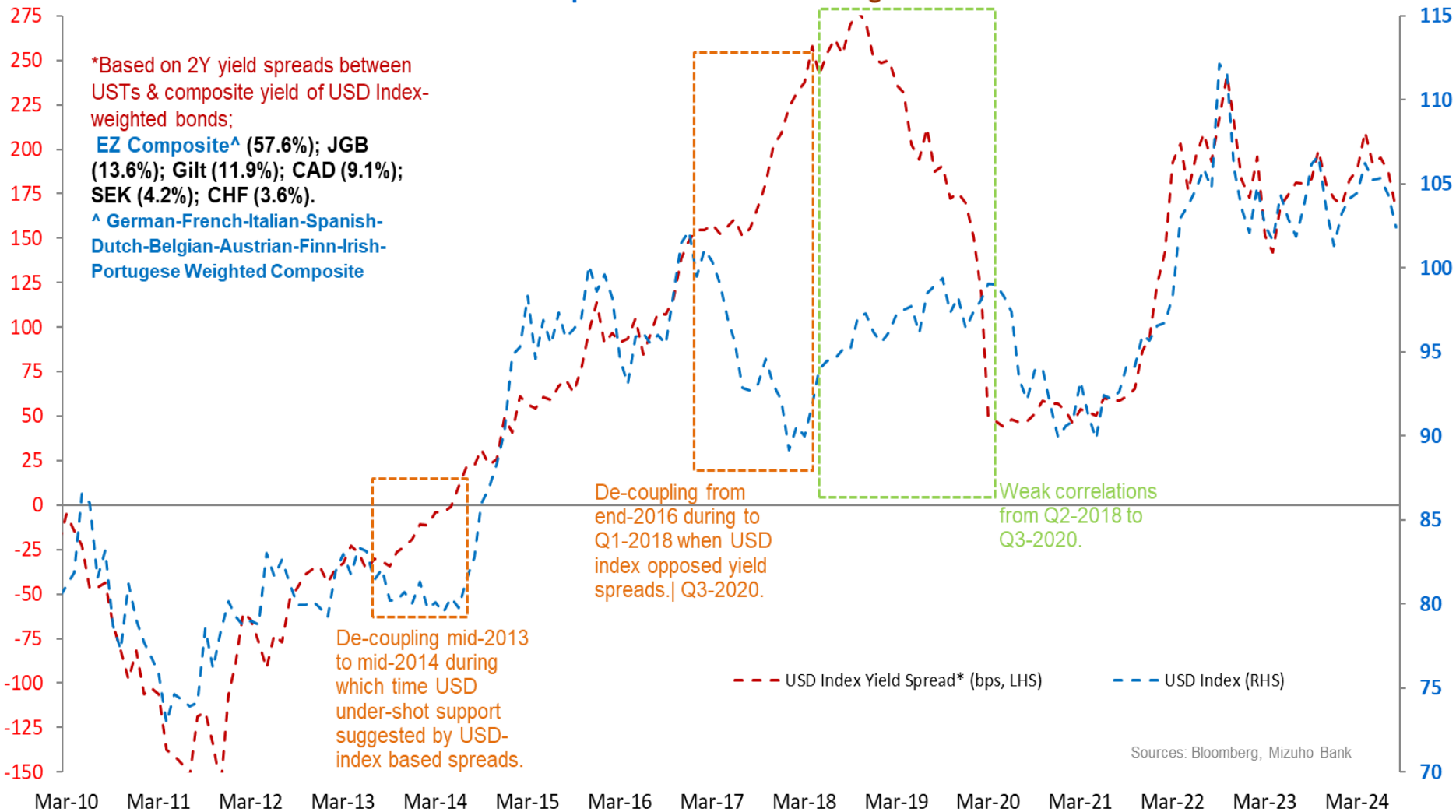Legend: Real disposable income · Real consumption · Average trend
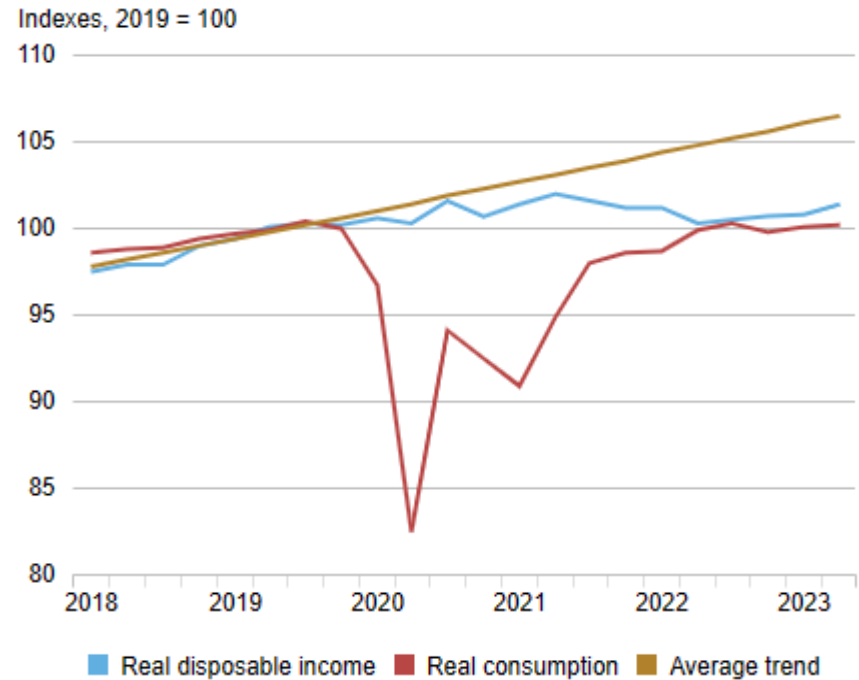
Sources: Eurostat; UK National Statistical Office; Japanese Cabinet Office; Statistics Canada; authors' calculations.
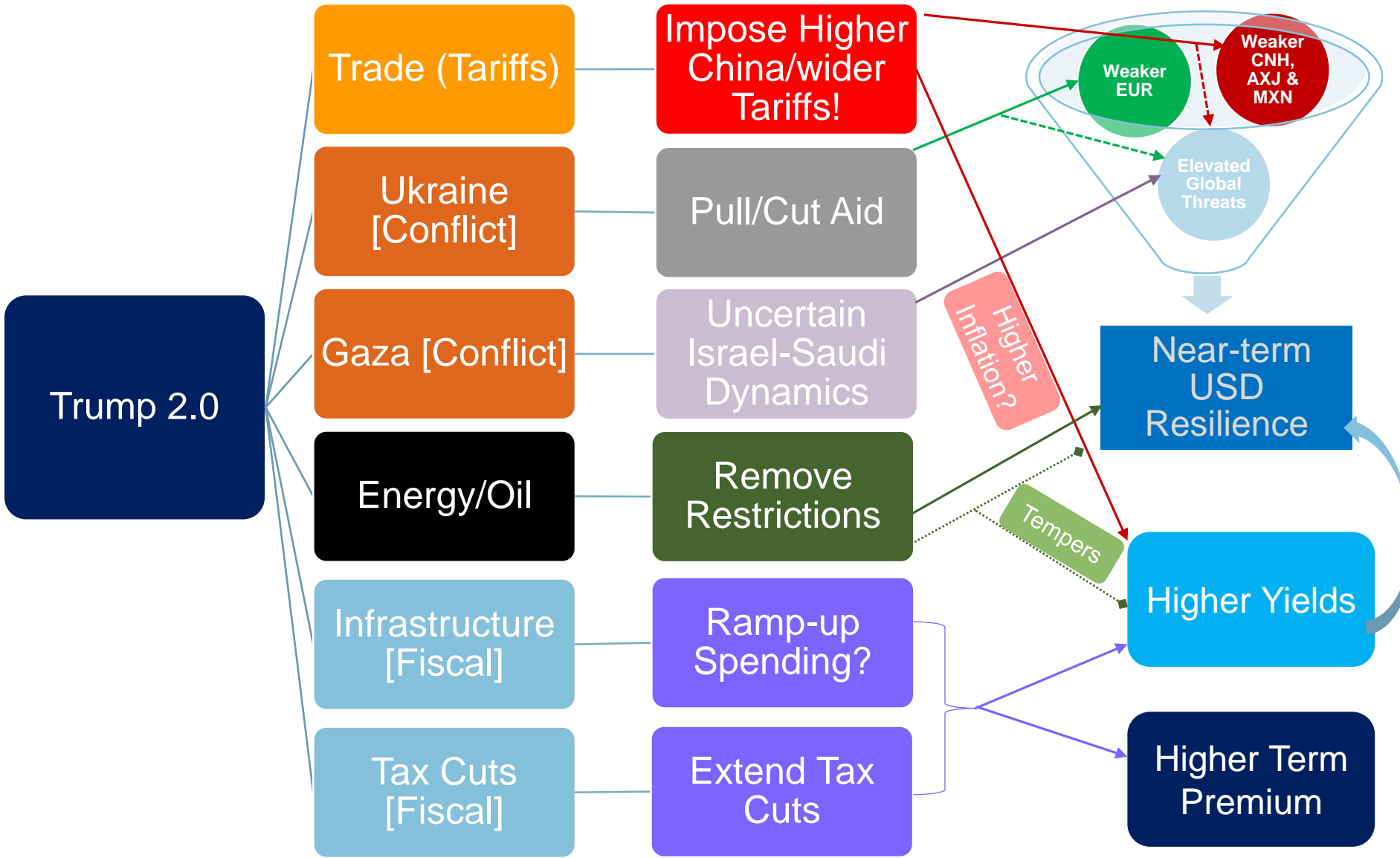Notes: The foreign high-income series is a GDP-weighted average of the euro area, Japan, the United Kingdom, and Canada. Disposable income data for the second quarter of 2023 in Japan have not yet been released. Income for that quarter is extrapolated from the first quarter of 2023 at the average growth since the first quarter of 2022. Japan represents about 15 percent of the foreign index.

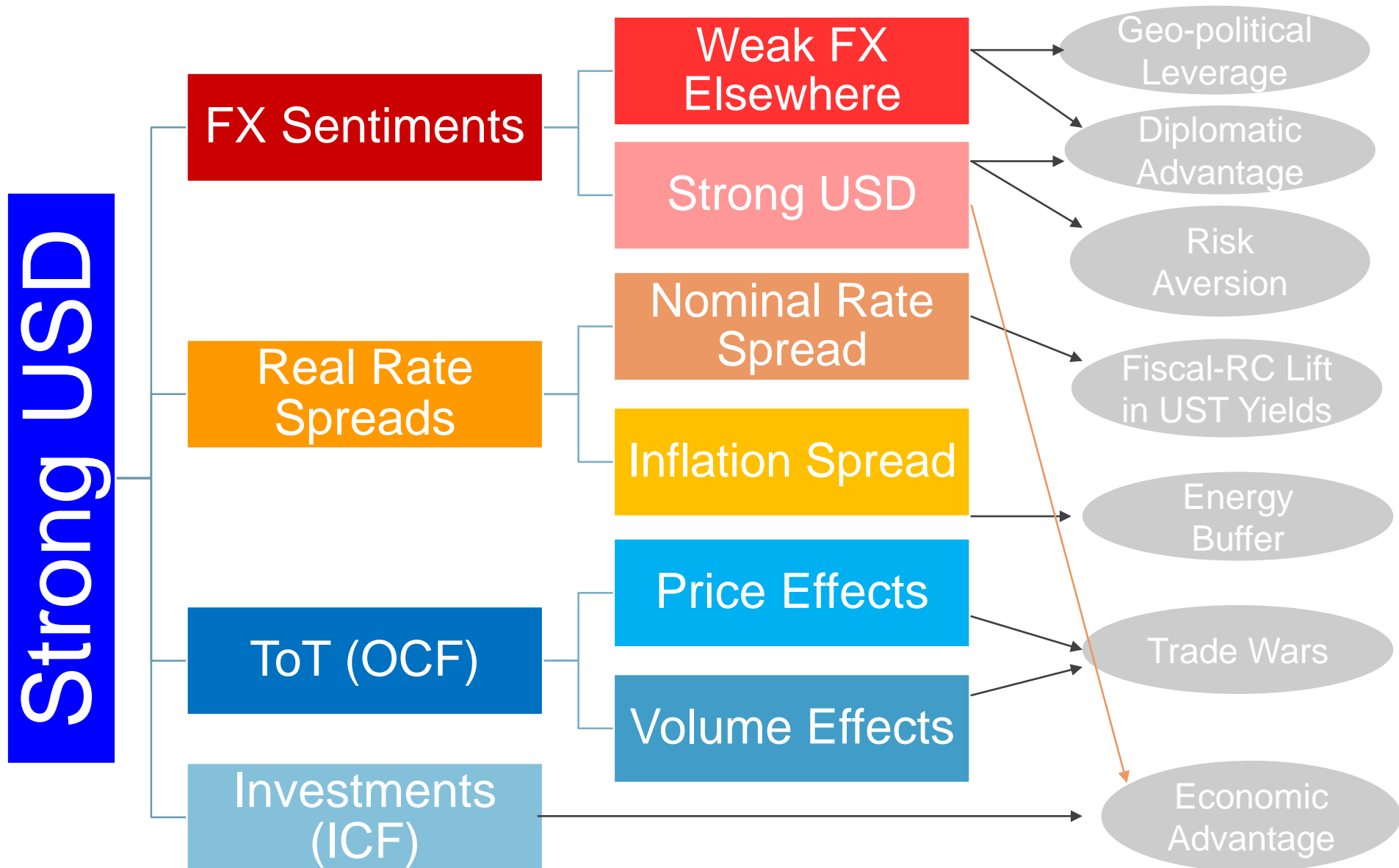Source: Federal Reserve Bank of New York

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Fed & USD: 2Y UST yield spreads (vs. a composite of Yields based on the USD Index) **suggest that USD Declines Depend on ECB Out-Hawking the Fed.**
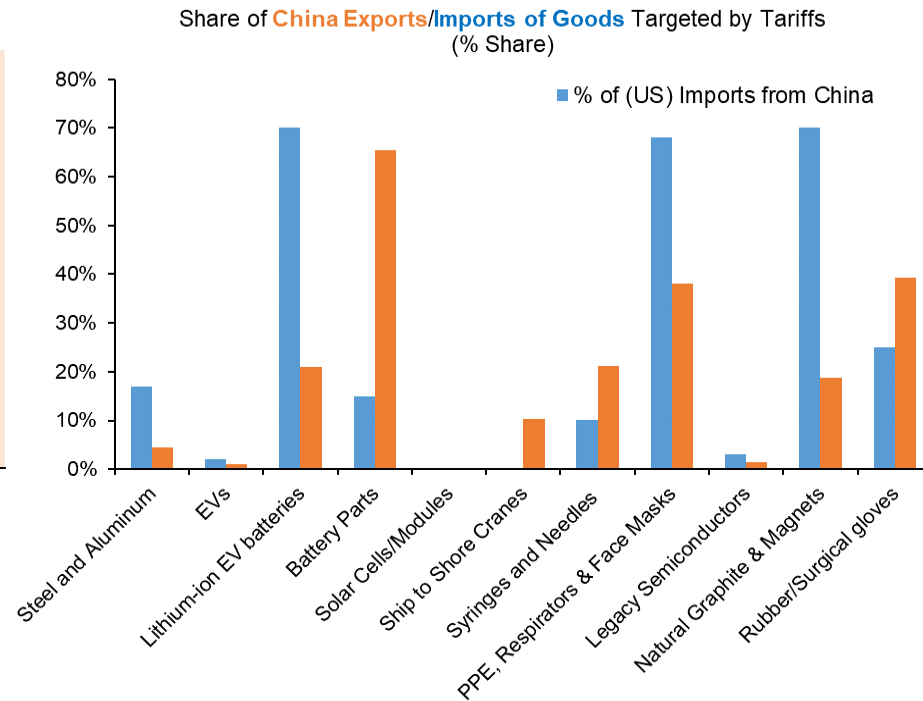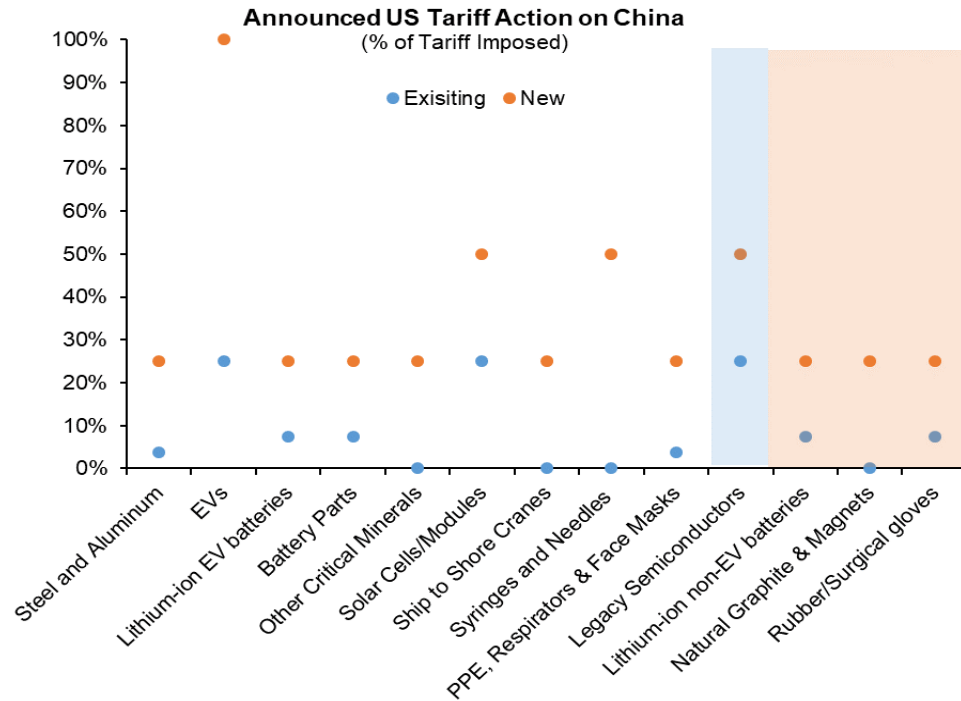

*Based on 2Y yield spreads between USTs & composite yield of USD Index-weighted bonds;
 EZ Composite^ (57.6%); JGB (13.6%); Gilt (11.9%); CAD (9.1%); SEK (4.2%); CHF (3.6%).
^ German-French-Italian-Spanish-Dutch-Belgian-Austrian-Finn-Irish-Portugese Weighted Composite

De-coupling mid-2013 to mid-2014 during which time USD under-shot support suggested by USD-index based spreads.

De-coupling from end-2016 during to Q1-2018 when USD index opposed yield spreads.| Q3-2020.

Weak correlations from Q2-2018 to Q3-2020.

- - - USD Index Yield Spread* (bps, LHS)   - - - USD Index (RHS)

Sources: Bloomberg, Mizuho Bank

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Appendix: Geo-Political Flares to Watch

Announced US Tariff Action on China
(% of Tariff Imposed)

● Exisiting ● New

Share of China Exports/Imports of Goods Targeted by Tariffs
(% Share)

■ % of (US) Imports from China

Source: The White House; Mizuho Bank

Source: The White House; Mizuho Bank

Share of China Exports on which US Tariffs are Imposed (% Share)

■ % of (China) Exports to US ▲ China's Share of Targeted Exports (%)
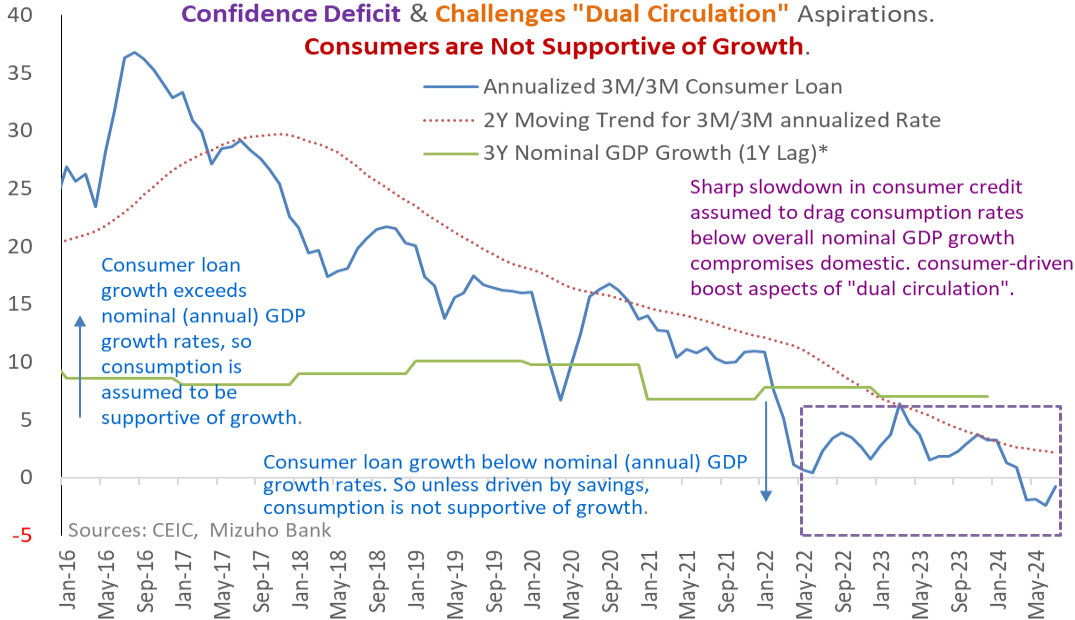
Source: The White House; Mizuho Bank
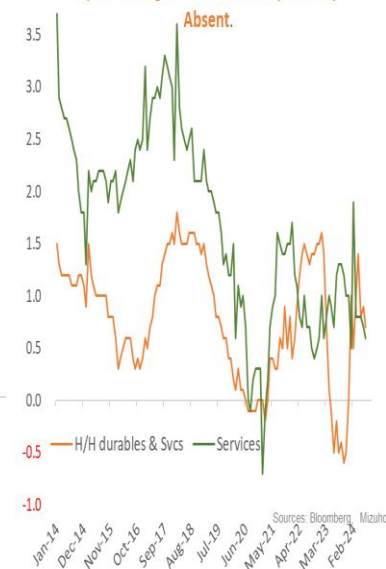
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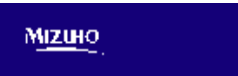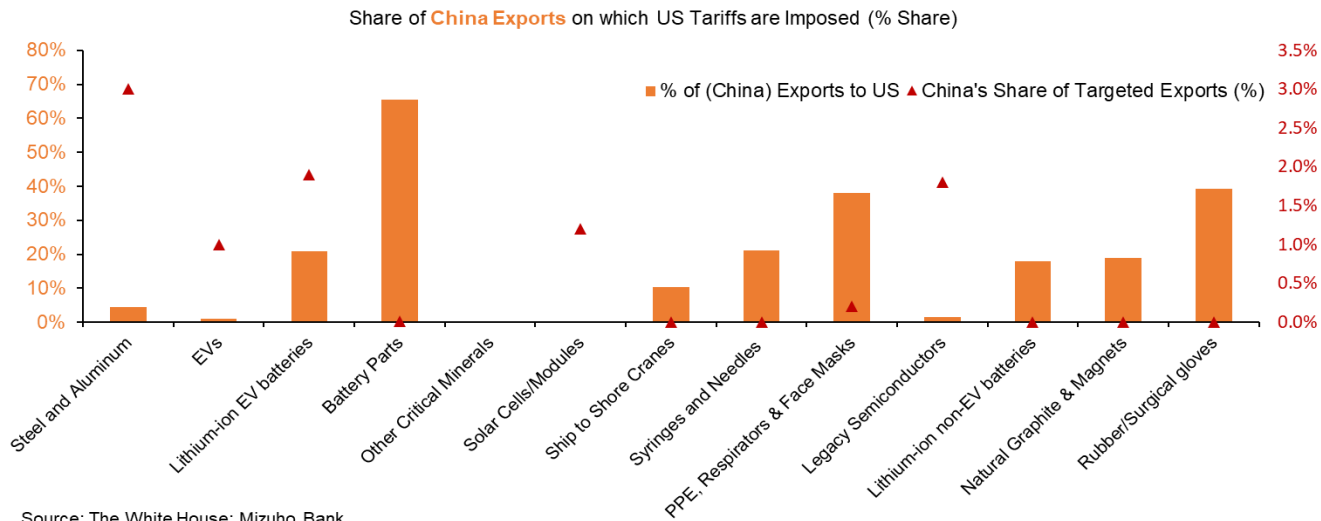
Appendix: China Consumer Confidence Impaired

China Consumer Loan **(% 3M/3M)**: Entrenched Weakness **Reveals Confidence Deficit** & **Challenges "Dual Circulation"** Aspirations. **Consumers are Not Supportive of Growth**.

- Annualized 3M/3M Consumer Loan
- 2Y Moving Trend for 3M/3M annualized Rate
- 3Y Nominal GDP Growth (1Y Lag)*

Consumer loan growth exceeds nominal (annual) GDP growth rates, so consumption is assumed to be supportive of growth.

Consumer loan growth below nominal (annual) GDP growth rates. So unless driven by savings, consumption is not supportive of growth.

Sharp slowdown in consumer credit assumed to drag consumption rates below overall nominal GDP growth compromises domestic. consumer-driven boost aspects of "dual circulation".
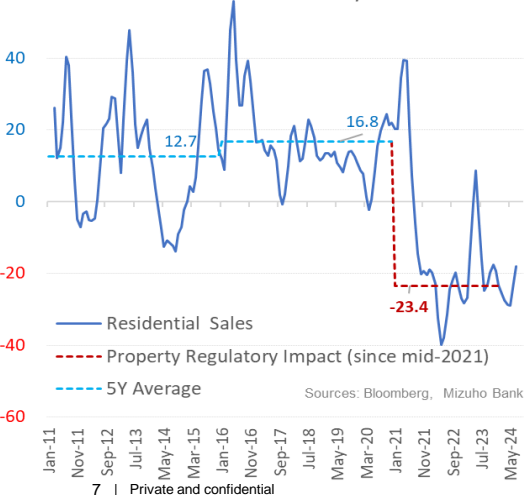
Sources: CEIC, Mizuho Bank

China's Deflation: An **Odd Story of Confidence Deficit** in **Sharp Contrast to the World**; with **Consumer Goods Deflation Worse than the 2015-16 Crisis or COVID!**
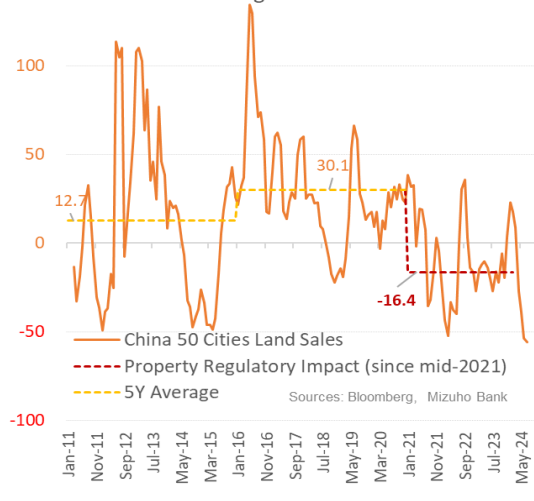

- CPI
- Consumer Goods

Sources: Bloomberg, Mizuho
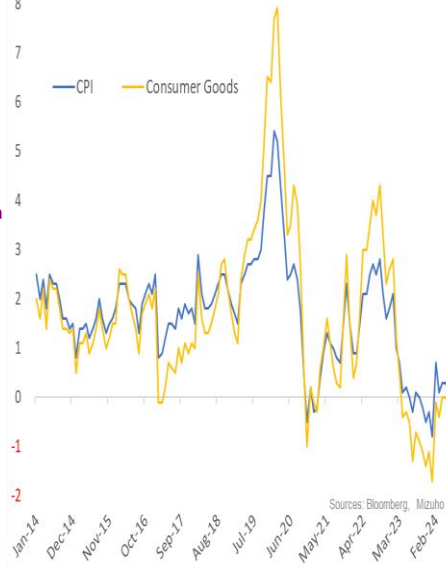
China's Deflation: **Services Inflation Has Picked up on Re-opening.** But **Confidence to Spend on Big Ticket Items Conspicuously Absent.**
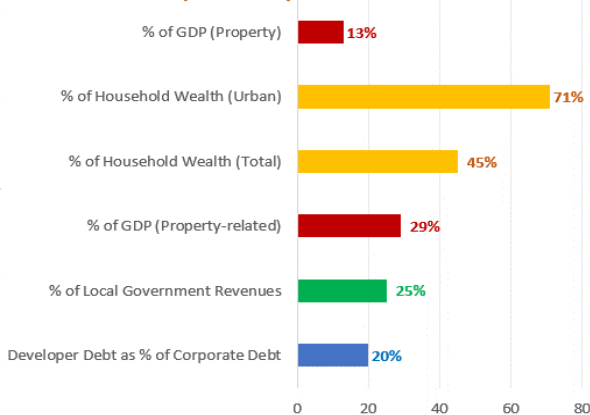

- H/H durables & Svcs
- Services

Sources: Bloomberg, Mizuho

China Property Sales: **Hounded by Confidence Issues**. Base effects flattered H1-2023 Recovery.

12.7
16.8
-23.4

- Residential Sales
- Property Regulatory Impact (since mid-2021)
- 5Y Average

Sources: Bloomberg, Mizuho Bank

China Land Sales: **Local Government Hobbled as Part of the Problem**; Not Some Magical Solution.

12.7
30.1
-16.4

- China 50 Cities Land Sales
- Property Regulatory Impact (since mid-2021)
- 5Y Average

Sources: Bloomberg, Mizuho Bank

Property Sector Liabilities Will Ripple Far Given **High-Multipliers** via; i) **related Industries/Services**; ii) **Significant Local Government Financing Reliance**, &; iii) **Massive H/H Wealth Effects**

% of GDP (Property)	13%
% of Household Wealth (Urban)	71%
% of Household Wealth (Total)	45%
% of GDP (Property-related)	29%
% of Local Government Revenues	25%
Developer Debt as % of Corporate Debt	20%

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Appendix-Geo-Politics: Conflict, Production & Passage

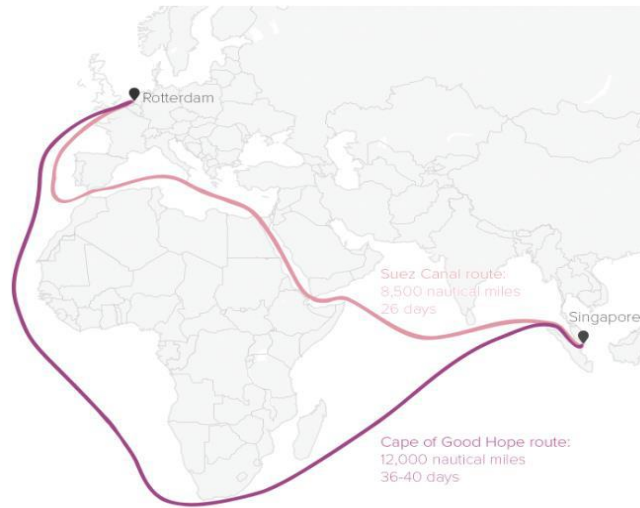**Straits of Hormuz:**

Conflict risks

Most critical Oil choke point – Iran risk

20-22MBpD of Oil (~$1.2b worth)

Most of Saudi's Oil passage

~20-25% od seaborne Oil Passage

➔ **as Large as a Doubling in Prices!**

Red Sea:

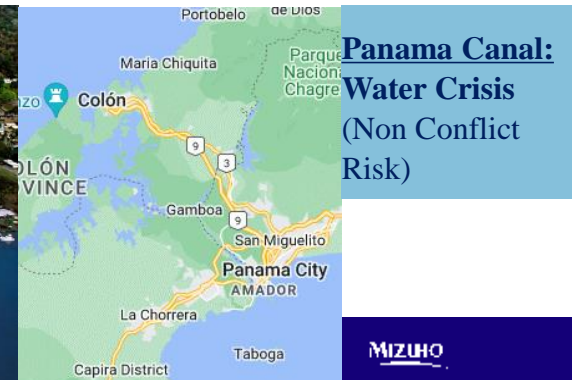**Conflict risks - Houthi Rebels**

Could disrupt passage of Oil

~12% of global shipping (~$1trln)

CoGH detour adds 3-4 weeks to Asia routes

➔ *approximated to be 20% of shipping capacity impact*

Panama Canal: Water Crisis (Non Conflict Risk)

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