

Economic Calendar

Date	Country	Event	Period	Survey*	Prior
01 Jul	US	ISM Manufacturing/Prices Paid	Jun	49.2/55.4	48.7/57.0
	JP	Tankan Large Non-Mfg Index/Outlook	2Q	33/28	34/27
	JP	Tankan Large Mfg Index/Outlook	2Q	11/11	11/10
	JP	Tankan Large All Industry Capex	2Q	13.8%	4.0%
02 Jul	US	JOLTS Job Openings	May	--	8059k
	EZ	Unemployment Rate	May	6.5%	6.4%
	EZ	CPI Estimate/Core YoY	Jun	2.5%/2.8%	2.6%/2.9%
03 Jul	US	ADP Employment Change	Jun	163k	152k
	US	Trade Balance	May	-\$72.2b	-\$74.6b
	US	Initial Jobless Claims		--	233k
	US	Durable Goods Orders/Nondef Ex Air	May F	--	0.1%/-0.6%
	US	ISM Services Index/Prices Paid	Jun	52.5/-	53.8/58.1
	US	Factory Orders	May	0.3%	0.7%
	EZ	PPI YoY	May	-4.5%	-5.7%
	US	FOMC Meeting Minutes		--	--
04 Jul	EZ	ECB Account of June Policy Meeting		--	--
05 Jul	US	Change in Nonfarm Payrolls	Jun	188k	272k
	US	Unemployment Rate	Jun	4.0%	4.0%
	US	Average Hourly Earnings MoM	Jun	0.3%	0.4%
	EZ	Retail Sales MoM	May	0.5%	-0.5%
	JP	Coincident Index/Leading Index CI	May P	--	115.2/110.9

Week-in-brief: Heating Up?

- This week, renewed dose of worries surrounding US fiscal deficit late in the week saw longer-end UST yields higher trading higher while short-end yields edged up less as data pointed to slower growth outlook despite the Q1 GDP upward revision and as markets await Friday PCE print. Caution on risk sentiments saw US equities eking marginal gains.

- Meanwhile, in neighbouring Canada, inflation in May accelerated to 2.9% YoY from 2.7% YoY in April driven by a surge in services inflation from mobile services, travel, rent as well as air transport. The ensuing push back in rate cut expectations aided the CAD's ability to stay flat against the USD and relative outperformance among most G10 peers.

- Not to be outdone, AUD led G10 peers on the back of Australia's May headline inflation print surging to 4.0% YoY from 3.6% YoY in April. Nonetheless, not all inflation measures printed higher. Inflation excluding volatile items moderated and on sequential MoM basis, goods inflation declined while services inflation was stable.

- For now, the inflation print alone may not move RBA's policy needle without follow-up prints of real economy resilience. As such, AUD bulls looking for further rallies will have to stay patient.

- For next week, we will look to the retail sales release and RBA minutes in terms of sizing the odds for another rate hike.

- Asia was similarly not spared as outcomes stayed hot with Singapore's core inflation staying sticky to back the case for prolonged hold of the MAS' current S\$NEER appreciation stance.

- In the same vein, Malaysia headline CPI rose 2.0% YoY in May from 1.8% in April which represents an elevated 0.3% NSA MoM increase with price increases across a broad range of categories ranging from food, communications, recreation, housing, utilities to tourism related services such as restaurants and hotels.

- The removal of diesel subsidies in June is likely to push inflation above 2% in the next print.

- Inflation will remain in focus for EM-Asia next week.

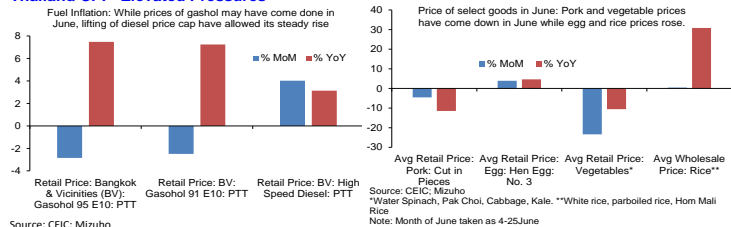
- Indonesia's inflation on Monday face the risks of disappointing consensus expectations to moderate given Eid festivities and rice price woes.

- In Thailand, June CPI print is likely to moderate from 1.5% YoY but remain elevated to stay around 1.3%, staying within the BoT's 1-3% range, aiding the case for holding rates to lean against inflation upside from fiscal measures.

- In contrast, for Korea, continued moderation of headline inflation may be sufficient for the BoK to ponder policy normalisation in 2024, and KRW may feel pressured relative to peers.

- All in, EM-Asia may continue to face the heat from inflation, yet central banks may not be as ready to turn hawkish. In turn, EM-Asia currencies remain at risk especially if US nonfarm payrolls next continues to show robustness.

Thailand CPI - Elevated Pressures



- We expect Thailand's June CPI print to moderate from 1.5% YoY but remain elevated to stay around the 1.3% vicinity staying within the BoT's 1-3% range, aiding the case for holding rates.

- On food inflation which make up 40% of the CPI basket, we expect the pace of price increase to moderate as vegetable and pork prices decrease to offset likely milder increase in prices of eggs and rice. Nonetheless, food services inflation may remain elevated amid spillovers from tourism growth and some pass-through from higher input costs such as raw materials and energy costs.

- As for other services, tourism related prices such as air fares are also expected to rise given the seasonal surge of tourist arrivals in June and room rates will also rise on the higher demand.

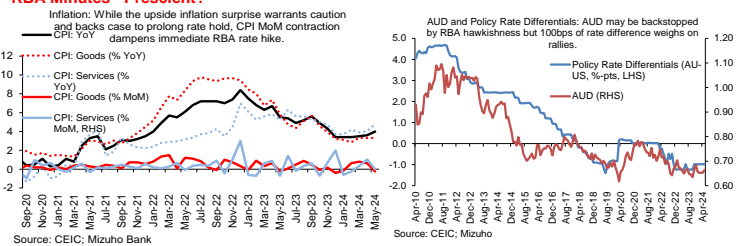
- While retail gasohol prices are lower on average in June, diesel prices have continued to rise and reached its price cap of 33 baht in June. As such, fuel inflation is unlikely to slow. Furthermore, gasohol prices have climbed towards the end of June signalling continued discomfort over transport costs.

- That said, car prices may see some decline amid weaker sales on tighter loan approvals and deeper discounts in the EV segment.

- On balance, amid woes of enlarged fiscal deficits, the BoT will keep a close watch on fiscal measures such as energy subsidies and the digital wallet plans which can drastically alter the inflation trajectory.

Date	Country	Event	Period	Survey*	Prior
01 Jul	CH	Caixin China PMI Mfg	Jun	51.5	51.7
		Mfg PMI (AU, ID, KR, MY, TH, PH, TW, VN)	Jun		
	ID	CPI/Core YoY	Jun	2.7%/2.0%	2.8%/1.9%
	KR	Exports/Imports YoY	Jun	4.4%/-4.0%	11.5%/-2.0%
02 Jul	SG	Purchasing Managers/Elect. Sector Index	Jun	--	50.6/51.1
	AU	RBA Minutes of June Policy Meeting			
	KR	CPI/Ex Food and Energy YoY	Jun	2.6%/2.2%	2.7%/2.2%
03 Jul	CH	Caixin China PMI Services	Jun	53.4	54.0
	AU	Building Approvals MoM	May	1.7%	-0.3%
	AU	Retail Sales MoM	May	0.3%	0.1%
04 Jul	AU	Trade Balance	May	A\$6300m	A\$6548m
05 Jul	SG	Retail Sales/Ex Auto YoY	May	--	-1.2%/-4.5%
	KR	BoP Current Account Balance	May	--	-\$285.2m
	TH	CPI/Core YoY	Jun	1.0%/0.4%	1.5%/0.4%
	PH	CPI YoY 2018=100	Jun	3.9%	3.9%
	TW	PPI YoY	Jun	--	2.7%
	TW	CPI/Core YoY	Jun	2.3%/1.9%	2.2%/1.8%

RBA Minutes - Precient?



- From the RBA's policy decision in June, the upcoming release of the Minutes will undoubtedly reflect their discussion on hiking rates and keeping interest rates on hold.

- At first glance, hawkish leanings even before the latest headline CPI print for May which surprise to the upside to print at 4.0% YoY, surpassing expectations of 3.8%, appear to be rather precient.

- Certainly, while there is every right to be cautious, it should be notable that inflation excluding volatile items moderated from 4.1% in April to 4.0% in May.

- After all, underlying inflation pressures was what RBA's Assistant Governor Kent was referring to while reiterating their alertness to inflation risks. Specifically, much of the increase was due to higher fuel inflation (9.3% YoY) due to low base effects from a year ago. In fact, the statistical point becomes apparent on a MoM basis, goods and services CPI levels both fell in May compared to April.

- Nonetheless, we note that underlying inflation may not have moderated sufficiently which delays its return to the RBA's 2-3% target range.

- RBA's Kent has recently alluded to model estimates of neutral rates around 3.5% along with the usual caveats of considerable uncertainty. While it shows the restrictiveness of current monetary policy, the sufficiency of restriction will be increasingly debated in the months ahead.

- We will look within the upcoming minutes for the RBA's parameters to hike. Specifically, it may well end up being that it is not a sharp upward inflation shock that tilts the case for hikes but the resiliency of the domestic labour market conspiring with slow to moderate inflation that tempts the RBA to undertake another hike in August.

- As for the AUD, hawkish tendencies from the RBA may aid to backstop around 66 cents. That said, rallies above 67 cents remain vulnerable as seen from the inability to sustain the initial post CPI spike.

ASEAN: Diverging Fiscal Paths?

Historical Budget Deficits (as % of GDP) and Fiscal Trajectory

	16-19 avg	2022	2023	2024E	Fiscal Trajectory
ID	2.3%	2.4%	1.7%	2.8%	Expected to be maintained within 3% of GDP ceiling
MY	3.3%	5.6%	5.0%	4.3%	Target at 3.5% of GDP for 2024-2026 under Medium Term Fiscal Framework
PH	2.7%	7.3%	6.2%	5.6%	Target to reach 3.7% of GDP by 2028.
TH	2.8%	3.5%	3.3%	3.6%	2025 budget deficit widen to 4.4% on digital wallet plans.
VN	2.9%	4.4%	4.1%	3.6%	2021-2025 National Financial Plan targets fiscal deficit at 3.7% of GDP.

Source: CEIC; National Authorities; Mizuho

- Notably, Indonesia and Thailand are set to see fiscal deficits widening this year mainly driven by increased expenditures, even as Thailand's fiscal deficit remains wide by 2016-2019 standard.

- Concerns over fiscal prudence cannot be overstated.

- THB is the worst performing regional currency YTD, as digital wallet plans looks to widen fiscal deficit and increase the debt-to-GDP near to the 70% debt ceiling.

- Meanwhile, IDR has been pressured on concerns over the high expenditures required of president-elect Prabowo's campaign pledges. This has been exacerbated on plans to increase the debt-to-GDP ratio to 50% which could possibly mean fiscal deficit exceeding 3%. While senior officials have subsequently reassured that fiscal deficit will remain within 3% with the free meal program being scaled down to ~0.5% of GDP (prev: 1.6%), IDR could remain soft till more concrete announcements to affirm fiscal sustainability.

- Looking forward, IDR could underperform THB in coming quarters given that most of the fiscal woes should have been priced in for Thailand, while ongoing developments in IDR should confer a higher risk premium. BI's remarks that rate cuts could be considered if fiscal woes ease at the June meeting do not provide support either.

- Meanwhile, PHP also looks to be soft as fiscal deficit has been slow to consolidate, by both regional and its own historical standards. The "twin deficit" overhang should mean that any PHP rallies are likely to be unsustainable.

- While Malaysia's Jan-Apr fiscal position is worse compared to a year ago and risks fiscal slippages on the 2024 target, at this juncture, outlook for Malaysia is arguably better on possibly higher revenues on services tax and capital gains tax effective earlier this year, while reduction of diesel subsidies (and petrol subsidy in pipeline) reduce expenditures. Ceteris paribus, MYR could still be the outperformer on a firmer fiscal standing among ASEAN peers.

- As for Vietnam, even as fiscal trajectory remains healthy, the VND is unlikely to see outperformance given the need for extensions on VAT reductions and fee payments to prop up the fragile economic confidence in the corporate and banking sectors.

**Forex Rate**

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	160.91	1.110	0.69%	159.00	~ 164.00
EUR/USD	1.0695	0.0002	0.02%	1.064	~ 1.080
USD/SGD	1.357	0.002	0.15%	1.3500	~ 1.3660
USD/THB	36.805	0.145	0.40%	36.20	~ 37.20
USD/MYR	4.7172	0.0045	0.10%	4.690	~ 4.730
USD/IDR	16375	-75	-0.46%	16,250	~ 16,500
JPY/SGD	0.8433	-0.004	-0.52%	0.849	~ 0.833
AUD/USD	0.6633	-0.001	-0.12%	0.659	~ 0.672
USD/INR	83.45	-0.091	-0.11%	83.1	~ 83.7
USD/PHP	58.611	-0.204	-0.35%	57.4	~ 59.0

^Weekly change.

**FX: Stronger**

- In the past week, the USD strengthened against G10 currencies on higher UST yields amid IMF warnings of US' fiscal debt while the first Trump-Biden debate raised the odds of Trump 2.0.
- SEK led losses as Riksbank signalled easing to continue despite standing pat, with as many as three cuts in 2H24, suggesting growing confidence in inflation outlook.
- JPY tested 161 levels as a faster pace of policy tightening diminished amid mixed economic data. While retail sales accelerated, job-to-applicant ratio came down.
- Meanwhile, declines in AUD and CAD were much more restrained on hotter-than-expected headline inflation print.

**EM-Asia: Idiosyncrasies**

- EM Asia FX traded mixed against the greenback amid a still soft CNH.
- Among the currencies that were pressured, THB led losses amid the ongoing BoT-Governmt. BoT Governor assurances that there was no immediate need to change inflation target did not provide uch assurances.
- KRW, IDR, PHP and INR gained on idiosyncratic factors.
- KRW was the outperformer, rallying before the extension of trading hours starting next Monday.
- Meanwhile, IDR gained on reassurances that fiscal deficit would remain within the 3% debt ceiling, with scaled down welfare measures. Nonetheless, IDR remains softer compared to the sell-off sparked by reports of possible increase to debt-to-GDP ratio.
- PHP strengthened despite BSP (which stood pat) maintaining its view that a rate cut was still possible in August. Despite the dovish overtones, the rally could possibly be due to FX interventions, which BSP had acknowledged they have been active in as it did not want PHP to depreciate too sharply.
- INR was also supported inflows ahead of India's index inclusion next month.

**FX Brief:**

- 1) JPY: Verbal warnings with little hints of actual intervention actions may mean sustained buoyancy above 160, with breach of 163 possible.
- 2) EUR: Bumpy dis-inflation progress and rebound in retail sales could sustain buoyancy above 1.07, but spillovers from Riksbank dovish tones, following SNB cut last week, could mean weak rallies above mid-1.07.
- 3) AUD: Higher oil prices and elevated inflation should backstop declines around 66 cents. But rallies towards 67 cents unlikely.
- 4) CNH: Remains soft; may not see durable rallies even if PMI surprises to upside as confidence deficit weighs.
- 5) INR: Recovery below mid-83 could continue as inflows increase on inclusion in bond index.
- 6) SGD: Soft CNH but possibly stronger EUR could mean range-trading above mid-1.35 levels.
- 7) IDR: Reassurances over debt and fiscal plans unlikely to eliminate unease; strength towards 16,200 would be a tough.
- 8) THB: THB performance dented by ongoing BoT and Government rift as news on shifting the inflation target could allow room for monetary policy easing.
- 9) MYR: Soft CNH could temper rallies towards 4.7 levels; but any new developments on petrol subsidies rationalisation could impart strength.
- 10) PHP: Any dips below 57 handle unlikely to be sustained given BSP's rhetoric of possible August cut, and with Jun inflation likely within target range.
- 11) KRW: Strength on extended trading could be tempered by expectations of policy normalisation plans, especially if headline inflation moderates.
- 12) TWD: Doubts on durability of chipmakers' outperformance could mean softness in the coming week.

**Bond Yield (%)**

25-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.716	-1.6	4.294	3.9	Steepening
GER	2.798	2.4	2.439	3.5	Steepening
JPY	0.349	5.9	1.041	8.1	Steepening
SGD	3.342	3.7	3.198	5.9	Steepening
AUD	4.158	15.2	4.307	0.1	Flattening
GBP	4.213	5.6	4.134	5.3	Flattening

**Stock Market**

	Close	% Chg
S&P 500 (US)	5,482.87	0.33
Nikkei (JP)	39,583.08	2.56
EuroStoxx (EU)	4,903.54	-0.08
FTSE STI (SG)	3,334.90	0.87
JKSE (ID)	7,076.68	2.86
PSEI (PH)	6,411.91	4.12
KLCI (MY)	1,587.37	-0.19
SET (TH)	1,299.73	-0.51
SENSEX (IN)	79,257.11	2.65
ASX (AU)	7,767.47	-0.37

**UST: Long Term Pain?**

- UST yield curve steepened this week as fiscal worries mount and US real GDP continued to show continued robust activity.
- For the upcoming week, NFP print and ISM services remains likely to underpin front end yields while saliency of US elections bring renewed attention to see further UST yield curve steepening.
- 2Y UST yields are like to continue to buoy above 4.65% while testing 4.85% to remain restrain on dip buying.
- Meanwhile, sustained elevation in oil prices and us debt servicing concerns may aid trading of 10Y yields around 4.15-4.4%



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