MIZUHO

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WEEK AHEAD

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08-Aug-2024

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Economic Calendar

•Survey results from Bloomberg, as of 8 Aug 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
13 Aug	US	PPI Final Demand/Ex Food and Energy YoY	Jul	--	2.6%/3.0%
	JP	Machine Tool Orders YoY	Jul P	--	9.7%
	JP	PPI YoY	Jul	3.0%	2.9%
	GE	ZEW Survey Expectations/Current	Aug	--	41.8/-68.9
14 Aug	**US**	**CPI/ Ex Food and Energy YoY**	**Jul**	**2.9%/3.2%**	**3.0%/3.3%**
	EZ	GDP SA QoQ/YoY	2Q P	--	0.3%/0.6%
	EZ	Industrial Production WDA YoY	Jun	--	-2.9%
15 Aug	US	Initial Jobless Claims		--	--
	US	Philadelphia Fed Business Outlook	Aug	7.5	13.9
	US	Retail Sales Adv/ Ex Auto and Gas	Jul	0.3%/0.2%	0.0%/0.8%
	US	Industrial Production MoM	Jul	0.0%	0.6%
	US	Empire Manufacturing	Aug	-5.5	-6.6
	JP	GDP Deflator YoY	2Q P	2.6%	3.4%
	JP	**GDP Annualized SA QoQ**	**2Q P**	**2.3%**	**-2.9%**
16 Aug	US	Building Permits/Housing Starts	Jul	1440k/1353k	1446k/1353k
	US	U. of Mich. Sentiments/ Expectations	Aug P	66.4/--	68.8/66.4
	US	U. of Mich.1yr/ 5-10 Yr Inflation	Aug P	--	2.9%/3.0%
	EZ	Trade Balance SA	Jun	--	12.3b
	JP	Tertiary Industry Index MoM	Jun	0.4%	-0.4%

Asia

Date	Country	Event	Period	Survey*	Prior
12-15 Aug	CH	Aggregate Financing CNY YTD	Jul	19089.6b	18099.2b
	CH	New Yuan Loans CNY YTD	Jul	13700.0b	13262.1b
12-18 Aug	CH	FDI YTD YoY CNY	Jul	--	-29.1%
12 Aug	**IN**	**Industrial Production YoY**	**Jun**	**5.5%**	**5.9%**
	IN	CPI YoY	Jul	3.7%	5.1%
	IN	Exports/Imports YoY	Jul	--	2.6%/5%
13 Aug	AU	Wage Price Index YoY	2Q	4.1%	4.1%
14 Aug	**IN**	**Wholesale Prices YoY**	**Jul**	**2.1%**	**3.4%**
	KR	Unemployment rate SA	Jul	--	2.8%
15 Aug	**CH**	**Industrial Production YoY**	**Jul**	**5.5%**	**5.3%**
	CH	**Surveyed Jobless Rate**	**Jul**	**5.1%**	**5.0%**
	CH	Fixed Assets Ex Rural YTD YoY	Jul	3.9%	3.9%
	CH	1-Yr Medium-Term Lending Facility Rate		2.30%	2.30%
	CH	Retail Sales YoY	Jul	2.6%	2.0%
	CH	New Home Prices MoM	Jul	--	-0.7%
	AU	**Employment Change/Unemp. Rate**	**Jul**	**25.0k/4.1%**	**50.2k/4.1%**
	ID	Exports/Imports YoY	Jul	3.5%/1.5%	1.2%/7.6%
	PH	**BSP Overnight Borrowing Rate**		**6.50%**	**6.50%**
	PH	Overseas Cash Remittances YoY	Jun	3.1%	3.6%
16 Aug	SG	Non-oil Domestic/Electronic Exports YoY	Jul	2.4%/--	-8.7%/-9.5%
	MY	BoP Current Account Balance MYR	2Q	--	16.2b
	MY	**GDP YoY**	**2Q F**	**5.7%**	**5.8%**
	TA	**GDP YoY**	**2Q P**	**--**	**5.1%**

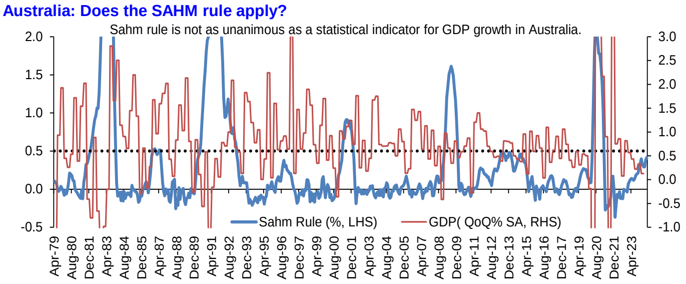
Week-in-brief: Push Back - Dissociating Shocks and Aligning Paths

- Amid shocks from the carry unwind and tech sell-off this week, markets have begun to dissociate the JPY carry unwind and recession risks **to pare back bets for outsized near Fed cuts**.
- Specifically, a 98% chance of a 50bps cut at the start of the week has been reduced to 83% as **Fed officials re-iterated that they are unlikely to over-react to a single NFP print.**
- Down Under, amid projections showing a slight further delay to inflation's return to target, the **RBA kept rates unchanged.** Governor Bullock pushed back on rate cuts saying that they are not on the table in the near term (over the next 6 months) despite saying that they are not ruling anything "in" or "out" and even followed up with bullish comments on not hesitating to hike rates.
- Nonetheless, it is worth nothing that the RBA's allusion to stretched production capacity and excess demand colliding with the fact that labour force participation rates are at record highs imply that employment gains appear at risk further down the road.
- In turn, **the upcoming jobs report (15 Aug) will be in focus** as markets get another chance to re-assess the RBA's potential to move policy. Even as the unemployment rate has creeped up in recent months, we find that the SAHM rule phenomenon is less applicable in Australia's context and hence caution is valid though over-reaction is unwarranted. Consequently, the policy needle is unlikely to be shifted.
- Similarly in India, the RBI kept rates on hold as Governor Das kept the focus on continued withdrawal of monetary accommodation. He cautioned against complacency on core inflation by highlighting the risks of persistent food inflation even as he espoused optimism on the agricultural sector due to better than expected rainfall.
- In the Philippines, headline CPI surprised on the upside on rising food and energy inflation. Moderating core inflation is of little consolation considering the outsized weights of food and energy cost. This sets the stage for the **BSP to be restrained at their meeting on 15 August as they keep rates on hold and push back their intentions for a rate cut**.
- Admittedly, continued weakness in household consumption from the Q2 GDP print imply that **dovish inclination and signals from the BSP will persist and PHP depreciation pressure unabated.**
- Looking ahead, even as the upcoming US inflation print may soften and affirm easing bets, EM-Asia FX ought to temper expectations of outright rallies especially amid China's domestic concerns.

US CPI: Cooling or Chilling?

- After US recession scare from NFP last week, **fears of a policy mistake that sabotage a soft-landing continues to lurk**. And ***CPI data*** is no exception. Specifically, there may be a **fine line between US CPI cooling** (on plan) **and chilling** *on signs of demand-pull aspects fading quickly.*
- Especially as markets may have a **tendency to project**, *maybe even amplify,* **trends to account for notoriously "long and variable lags"** of policy. The silver lining is that continued dis-inflation is expected to broaden through both housing and non-housing services.
- But if the ***deceleration in core/services inflation is more rapid than expected***, **upsized Fed rate cut expectations could kick in** again.
- Consequent **volatility in front-end yields** will be **par for the course**. ***But frustratingly,*** **whether this triggers "risk off" on policy mistake fears or supports risk on rate cut bets remains to be seen**.

Australia: Does the SAHM rule apply?



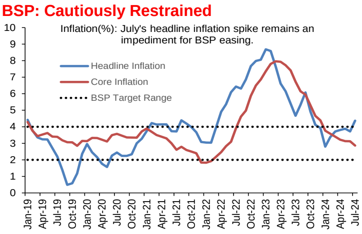
Source: CEIC; Mizuho.

- Amid the recent focus on the SAHM rule in the US alongside the upcoming job report in Australia (15 August), we find that the **SAHM rule is not as unanimous as a statistical indicator for economic recession in Australia compared to the US**. As of June 2024, the SAHM rule indicator for Australia stands at **0.42** as of June reflecting the creep up in unemployment rate.
- While the **SAHM rule did correspond to the recession in the early 1980s, 1991 recession and GFC, there were false positives in 1987 as well as in 2013** where the 0.5% threshold was breeched but the economy did not enter a technical recession.
- As such, while the **uptick in unemployment rate ought to induce caution** from the RBA, one should **refrain from over-reaction and unwarranted extrapolation** from the limited applicability from the case in the US. One could arguably make the case for a higher threshold for a modified SAHM rule above the 0.5% mark, though the case of not being overly reactive would still stand.
- Either way, given the **significant distance of current inflation to the RBA's target**, it **remains a high bar for the jobs report to move the policy needle especially with RBA's Bullock categorically saying that cuts are off the table for the next six months.**

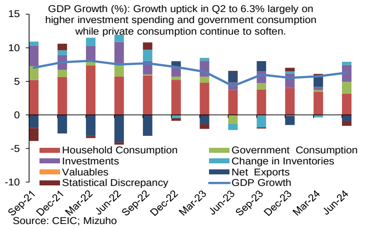
China Risks: Distraction, Not Deliverance

- The threat of a meltdown in global markets yesterday merely provided distraction, not deliverance, from China's on-going structural and geo-economic pressures.
- This is critical context for appreciating CNH surge which has now partly retraced What's more, CNY gains since late last week broadly corresponds to the wider USD sell-off (in DXY terms). So, a benign beta play, not an astounding alpha coup.
- Accordingly, Chinese equities down "just" 1-2% on a day that Nikkei plunged >12% and Nasdaq was down 3.4% (following Friday's 2.4% drop) is not exceptionalism in its own right.
- But instead speaks to relative buffer in an external storm given **already beaten down valuations** but far from a resolution of fundamental structural woes. Admittedly, there **were more concrete and tangible support measures from the Politburo for consumers, tech, real estate and new industries.**
- And to be sure, these are undeniably welcome pain relief, that merely assuage threats of unabated pro-cyclical demand-side pressures. Nonetheless, in totality, the measures fall far short of being a panacea.
- Crucially, not a (longer) game-changer given the scale and breadth of geo-economic threats colliding with generational socio-political shifts. A particular sticking point being, that demand-side confidence shortfall remains chronic and is only superficially acknowledged, not quite addressed.
- Notably, unresolved income hurdles (imposed by elevated youth unemployment and dimming income prospects) and wealth impediments (property, inequality, etc.) continue to hobble the ability to durably lift demand/confidence.
- Quantitatively, **these measures** may potentially **even open the door for incrementally lifting growth momentum** by 0.2-0.4%-pt (per annum) over 6-18 months, albeit depending on execution and follow-through. But the **ability to extricate China from a structural downward drift in growth potential to 4.0-4.5% range** (if that) remains fraught. More worryingly, China's chronic confidence deficit remains an economic overhang that suppresses demand-led growth multipliers, compromises stimulus efforts and stifles CNH/CNY assets amid capital outflow pressures.

BSP: Cautiously Restrained



Source: CEIC; Mizuho



Source: CEIC; Mizuho

- Given the spike in headline inflation for July which exceeded their target range, we expect the **BSP to continue to stand pat at the upcoming meeting (15 Aug)** even as household consumption poses downside risks.
- **Admittedly, the** BSP continues to lean dovishly as they had raised the possibility of cut as early as August at the last two meetings, with Finance Minister Recto (who is also a BSP board member) expressly supporting a cut should BSP Governor Remolona intend to ease policy.
- The BSP had also asserted independence of policy direction from the Fed. As such, **they are likely to continue to signal the possibility of easing in October** and even hint that off cycle easing remains on the table should growth falter.
- The consequent impetus for BSP's easing will be dependent on the return of inflation to within-target range and the extent of **stuttering of the domestic economy**. On the former, headline inflation's return to the BSP's range is critical given the large weight of food and energy as a **moderating core inflation is of little consolation**.
- In fact, **given the substantial deployment of tariffs to check food inflation**, the sight of food prices rising at 6.7% YoY, faster than the 6.5% in June is an uncomfortable sight.
- Nonetheless, the BSP will have their sight fixated on growth as Q2 GDP growth accelerating to 6.3% from 5.8% in Q1 is of little comfort. Household **consumption contracted for the second straight quarter** albeit at a small 0.1% QoQ SA basis with overall growth being held up by government consumption as well as government investment spending on construction projects.
- While growth concerns are certainly warranted, the irony is that overtly dovish BSP inclinations may restrain PHP gains which would otherwise have serve to dampen imported inflation and aid them in the normalisation journey.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	145.8	-3.480	-2.33%	142.00	~	147.00
EUR/USD	1.0943	0.0139	1.29%	1.078	~	1.097
USD/SGD	1.3236	-0.010	-0.75%	1.3200	~	1.3510
USD/THB	35.33	-0.063	-0.18%	35.00	~	35.80
USD/MYR	4.4713	-0.184	-3.95%	4.400	~	4.520
USD/IDR	15895	-395	-2.42%	15,800	~	16,050
JPY/SGD	0.9079	0.015	1.62%	0.930	~	0.919
AUD/USD	0.6553	0.004	0.65%	0.648	~	0.670
USD/INR	83.96	0.236	0.28%	83.6	~	84.2
USD/PHP	57.333	-1.020	-1.75%	56.8	~	58.0

^Weekly change.

FX: Cutting through the Cuts

- The **USD has softened this week on bets for outsized Fed cuts in September**. That said, the finer details on rate cut prospects differentiated G10 outcomes.
- First, while it remains tempting to suggest that the 2% increase in oil prices led NOK outperformance among G10 peers amid a softer USD backdrop, it is more likely the accompanying factor to the expectations that Norges bank will only begin to cut rates at the end of 2024.
- In the same vein, the RBA's continued push back against rate cut with Governor Bullock citing her wiillingness to raise rates if necessary assisted to backstop the AUD battered by the recent carry unwind.

EM-Asia: Asymmetries Abound

- Despite the similarities of a heavy tech sell-off in equities which saw substantial foreign outflows this week, KRW and TWD had contrasting fortunes as the KRW led losses while the TWD gained.
- We should first acknowledge that the opposite held true last week and as such, it is also in part due to the difference in speed of their equities outflows with the Taiex outflows already being heavy last week. Across two weeks, **TWD has appreciated more than the KRW amid continued elevation in headline inflation** which contrast with the BoK which faces easing prospects in Q4.
- Among ASEAN peers, as the threat of carry unwind abated somewhat with BoJ's allusion not to hike amid volatility, the IDR and PHP outperformed in a catch-up rally on lower UST yields after a dull performance last week.
- On the other end, the THB slipped as carry tailwinds faded and geo-political uncertainty rises.

Bond Yield (%)

8-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.935	5.5	3.905	11.5	Steepening
GER	2.338	0.0	2.225	5.6	Steepening
JPY	0.262	-12.7	0.836	-9.7	Steepening
SGD	2.731	-6.0	2.839	6.8	Steepening
AUD	3.765	-2.9	4.065	0.1	Steepening
GBP	3.575	0.2	3.928	10.2	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,199.50	-2.75
Nikkei (JP)	34,831.15	-3.00
EuroStoxx (EU)	4,613.36	-0.55
FTSE STI (SG)	3,250.33	-3.88
JKSE (ID)	7,192.83	-1.58
PSEI (PH)	6,549.27	-0.85
KLCI (MY)	1,589.90	-1.31
SET (TH)	1,293.06	-1.52
SENSEX (IN)	79,055.67	-2.38
ASX (AU)	7,681.98	-3.29

USTs: Reversion and Recession Fears Retained

- First and foremost, it is important to acknowledge that emphatic post NFP plunge last Friday of more than 20bps **that has only been partially retraced for good reason**.
- 2Y UST yields are still more than 15bps lower relative to pre-NFP levels.
- While emergency cuts and even outsized cuts remain a very high bar, the need for steady normalisation is par for the course given the labour market concerns.
- In contrast, 10Y UST yields are only 3-5bps lower relative to pre-NFP prints as the UST yield curve steepened with investors cutting duration and remain cautious amid the subdued appetites at auctions even for havens.
- In our view, the collision of subdued risk sentiment along with the US CPI print imply that there is heightened potential for the yield curve to revert back to an upward sloping one and this in itself may have a self-reinforcing momentum especially as a statistical indicator of impending recession which will trigger even more flight to the front end.
- On balance, we expect 2Y and 10Y yields to trade in the 3.80%-4.05%s range.

FX Brief:

1) JPY: BoJ MoF put does not mean a firm backstop for JPY bears especially as the Fed-UST leg of the yield spread remains a key driver.

2) EUR: Inability to test 1.10 reflects growth concerns and tendencies for ECB easing. Risk of sub-1.09 on US CPI upside surprise.

3) AUD: RBA hawkish vibes may allow backstop off 65 cents though rallies may prove more difficult as CNH woes remain unabated. That said, strong jobs report may allow 66 cents test.

4) CNH: Continued domestic concerns and PBoC easing bias imply that CNH gains may remain elusive and largely an artefact of spillovers of wider USD trends.

5) INR: A sustained decay albeit gradual to 84 looks intact and hard to shake off.

6) SGD: Double whammy of soft USD and CNH imply diminished attraction relative to regional peers.

7) IDR: Outperformer this week with appreciation below 16000 levels a welcoming sight for Bank Indonesia. Backdrop of softer USD on CPI may allow traction below 16000.

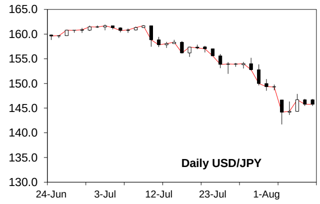
8) THB: As JPY-led tailwinds fade, THB gains may become stretched though consolidation around these improved levels is a firm prospect as inflation upside revealed this wweek backs prolonged BoT hold. Political instability risks retained.

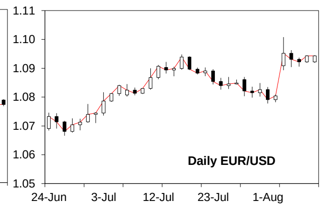
9) MYR: Outperformance indeed continued even though volatility on outsized UST move ought to be retained. Looks to consolidate around 4.40-4.45 amid the softer Greenback.

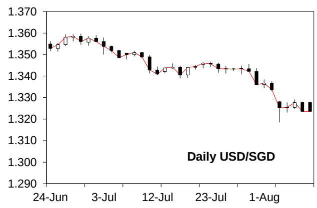
10) PHP: Outperformed on lower UST yields this week as inflation sets stage for BSP to delay their easing bias. Nonetheless, re-iteration of dovish inclination on growth worries imply that buoyancy off 57 can be pondered.

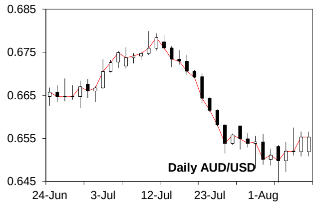
11) KRW: Catch up depreciation on tech sell-off and associated outflows while BoK being on the potential to ease list imply diminished allure.

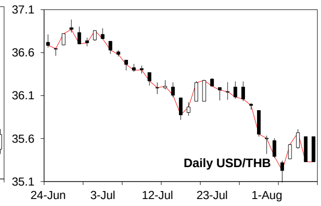
12) TWD: Riding onto weaker USD wave as sticky domestic inflation puts the CBC on course to hold for the rest of the year.

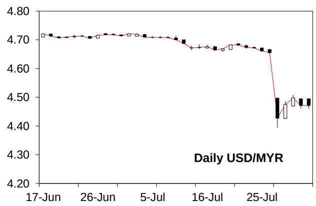


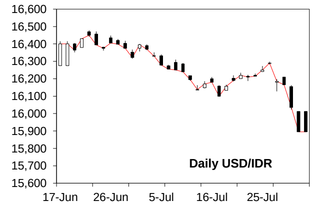


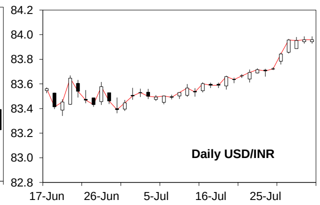


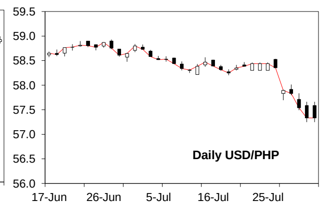


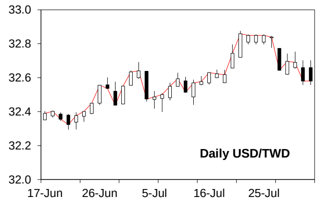


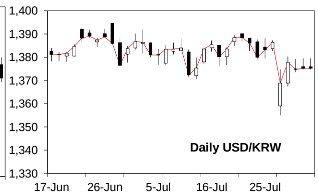


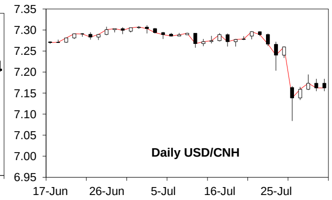












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