Vishnu Varathan | Tan Boon Heng | Tan Jing Yi

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16-May-2024

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Economic Calendar

•Survey results from Bloomberg, as of 10 May 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
14 May	US	PPI Final Demand/Ex Food and Energy MoM	Apr	0.3%/0.2%	0.2%/0.2%
	JP	PPI YoY	Apr	0.8%	0.8%
	JP	Machine Tool Orders YoY	Apr P	--	-3.8%
	GE	ZEW Survey Current Situation/Expectations	May	--/--	-79.2/42.9
15 May	**US**	**CPI/Ex Food and Energy YoY**	**Apr**	**3.4/3.6%**	**3.5%/3.8%**
	US	Retail Sales Adv/Ex Auto and Gas MoM	Apr	0.4%/0.1%	0.7%/1.0%
	US	Real Avg Weekly Earnings YoY	Apr	--	0.6%
	US	**Empire Manufacturing**	**May**	**-10.0**	**-14.3**
	EZ	GDP SA YoY/QoQ	1Q P	--/--	0.4%/0.3%
	EZ	**Industrial Production WDA YoY**	**Mar**	**--**	**-6.4%**
16 May	US	Housing Starts	Apr	1435k	1321k
	US	Initial Jobless Claims		--	231k
	US	**Philadelphia Fed Business Outlook**	**May**	**8.0**	**15.5**
	US	**Industrial Production MoM**	**Apr**	**0.2%**	**0.4%**
	JP	**GDP Annualized SA QoQ**	**1Q P**	**-1.6%**	**0.4%**
	JP	**Industrial Production YoY**	**Mar F**	**--**	**-6.7%**
17 May	**US**	**Leading Index**	**Apr**	**-0.2%**	**-0.3%**
	EZ	**CPI/Core YoY**	**Apr F**	**2.4%/2.7%**	**2.4%/2.7%**

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
13-15 May	CH	New Yuan Loans/Agg. Financing CNY YTD	Apr	10035b/13810b	9460b/12930b
11-18 May	CH	FDI YTD YoY CNY	Apr	--	-26.1%
13-15 May	IN	Exports/Imports YoY	Apr	--	-0.7%/-6.0%
13 May	**IN**	**CPI YoY**	**Apr**	**4.8%**	**4.9%**
14 May	IN	Wholesale Prices YoY	Apr	1.1%	0.5%
15 May	**CH**	**1-Yr Medium-Term Lending Facility Rate**		**2.50%**	**2.50%**
	AU	**Wage Price Index YoY/QoQ**	**1Q**	**4.2%/0.9%**	**4.2%/0.9%**
	ID	Exports/Imports YoY	Apr	4.6%/6.3%	-3.8%/-12.8%
	PH	Overseas Cash Remittances YoY	Mar	2.9%	3.0%
16 May	**AU**	**Unemp. Rate/Employment Change**	**Apr**	**3.9%/21.9k**	**3.8%/-6.6k**
	PH	**BSP Overnight Borrowing Rate**		**6.50%**	**6.50%**
17 May	**CH**	**Industrial Production YoY**	**Apr**	**5.5%**	**4.5%**
	CH	FAI Ex Rural/Property Investment YTD YoY	Apr	4.7%/-	4.5%/-9.5%
	CH	Retail Sales YoY	Apr	4.0%	3.1%
	SG	Non-oil Domestic/Electronic Exports YoY	Apr	-7.5%/--	-20.7%/-9.4%
	KR	**Unemployment rate SA**	**Apr**	**--**	**2.8%**
	MY	BoP Current Account Balance MYR	1Q	--	0.3b
	MY	**GDP YoY**	**1Q F**	**3.9%**	**3.9%**

Week-in-brief: Inflated Concerns?

- **This week**, Fed officials continued to **echo Fed Chair Powell,** pushing back the possibility of hikes and **re-iterating the eventuality of rate cuts, effectively dialing back concerns of bumpy inflation necessitating a rate hike response.**

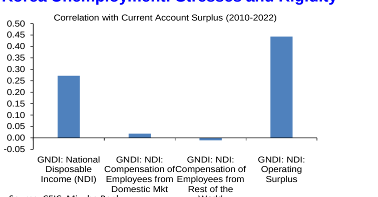
Barkin: "**Optimistic** that **today's restrictive rate** can .... bring inflation back to target"
Kashkari: most likely scenario keep rates for "extended period of time". if inflation starts to tick back down or ... **marked weakening in labour market**... cause us to cut back on interest rates.
Collins: "need more time than previously thought"
Daly: "might take more time to just bring inflation down". If dis-inflation stalls.. **inappropriate to cut rates unless job market falters.**

- **Attention was certainly on jobs markets this week.** A jump in US initial jobless claims has markets twitchy on rate cuts propsects and aided the decline in UST yields and buoyed risks sentiments and US equities. **Subdued real wage gains in Japan** sent JPY weaker with USD/JPY heading back towards 155.
- In Europe, the **Riksbank cut rates** by 25bps and premised on an unchanged outlook, they signalled **two more rate cuts** in H2 2024. The **BoE** kept rates unchanged in a 7-2 decision as Governor Bailey conceded the **possibility of rate cuts in the coming quarters**.
- Amid this backdrop of actual and signalled rate cuts, the **upcoming week** looks poised for US CPI to confront the questions of when should rate cuts take place. That said, slowing retail sales may end up the one to nudge the timeline forward.
- **In EM-Asia**, the **BSP will remain on hold on Thursday** and is unlikely to be afforded the luxury of signalling rate cuts especially as PHP remains weak even after some recovery in recent weeks. What's more, inflation risks remains skewed to the upside and poised to exceed the 4% upper bound.
- On the same day, Australia's job report which was been bumpy thus far may again incite AUD volatility as it swings the pendulum on rate cuts. On friday, **Malaysia current account surplus** looks set for mild widening on the back of BNM encouraged primary income flows as well as smaller services deficit from better tourism revenues.
- All in, even if concerns on inflation were previously inflated, the danger may be ending up with overly inflated risk sentiments which dismisses the odds of faltering growth.

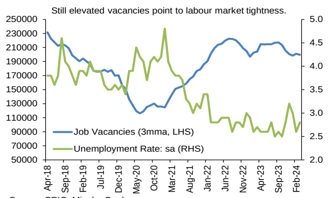
US CPI: Still Confronting "When", Not "If"

- Admittedly, the propensity for upside surprise, and more so "stickiness" in US CPI continues to be a prominent bugbear. But here's the thing. A **closer inspection of the data will reveal that consumer inflation will underpin the "when", not"if" propsects of rate cuts.**
- For one, the slow-moving. and in fact, necessarily lagging, complements such as rentals will be the sticking points. And on these, the evidence on the ground is one of a timing lag that will be reflected as softer rental contributions down the road. Hence, an inconvenient data quirk, not an acutal inflation hot spot that presents a quagmire for policy. What's more, faster moving jobs data such **as quit rates, jobs openings and initial jobless claims all chime in on further cooling in the job market.** Crucially, this is lining up with emerging evidence that wage inflation is set to cool meaningfully, if not significantly.
- What this reveals it aht wage-price spirals risks are far more diminished that they have been made out to be. In other words, **the Fed's response function currently which is deliberately maintaining significantly policy restraint** (with real rates in the ball park of 2.5%-3.5% vs neutral real rate of 0.5%) is set to turn out to be excessively tight in coming months. Possibly sooner rather than later.
- Finally, while US CPI could still be subject to spot of flares in the details, these should not be miscontrued as demand accelerants lifing inflation in another sustained leg up.
- For now, the **Fed's hold is "spectator sport" status quo** that errs on the side of inflation fight. But not jumping the gun on cuts on an abundance of caution is one thing and mischaracterising a bumpy dis-inflation path as a bona fide inflaiton risk warranting response is quite another.
- All said, there is no real inflation show for now. Just intermission before sufficient evidence on non-accelerating inflaiton is gathered for cuts to commence.

Korea Unemployment: Stresses and Rigidity



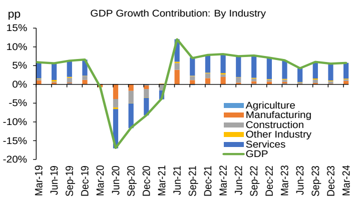
Source: CEIC; Mizuho Bank



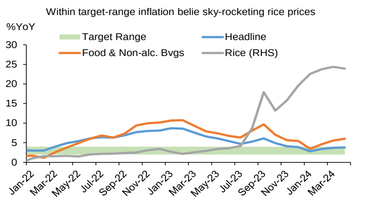
Source: CEIC; Mizuho Bank

- **Despite the trade recovery in Q1, Korea's unemployment rate for April is unlikely to head much lower in a significant manner** given likely impediments of structural skills mismatch and the capital intensive goods led pickup.
- On the supply front, **labour force participation rates may inch higher** as households feel the brunt of the inflationary pains and look for work. That said, these pains have increasingly come through existing workers taking up multiple jobs especially at the older end of the segment.
- On the demand front, hiring is expected to pick up in the wholesale, retail, hotel and restaurants sector after 3 consecutive months of contraction. Manufacturing sector payroll gains is likely to remain modest given the capital intensive nature of the export pick-up.
- Consequently, **wage growth pressures may also not be as pronounced.** Historically, current account improvements exhibit a stronger correlation with operating surpluses rather than compensation of employees.
- Nonetheless, we do not expect a significant moderation in wage growth. Despite a small 2.1% YoY decline in vacancies for Q1, **overall vacancies remain relatively elevated and the unemployment rate is likely to remain near record lows which depicts a still tight labour market**.

BSP: Holding On



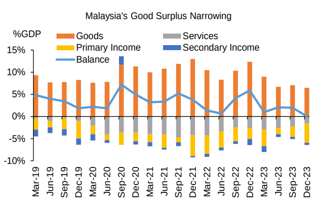
Source: CEIC; Mizuho Bank



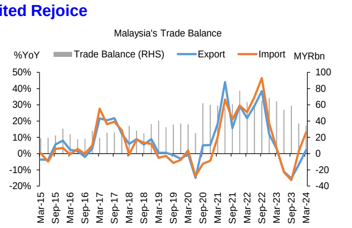
Source: CEIC; Mizuho Bank

- We expect **BSP to remain on hold** at the upcoming meeting on 16 May.
- **Growth has been supportive**, with Q1 growth accelerating to 5.7% YoY (Q4'23: 5.5%) on the back of the improved external sector. Goods exports rebounded to 5.8% YoY (Q4'23: -11.4%) while services exports remained supported at 8.9% YoY (Q4'23: 12.4%).
- Meanwhile, **Inflation** which ticked up to 3.8% YoY in April, remains within target range and is **likely within BSP's tolerance level**. BSP had back in Q4'23 expected inflation to exceed target range in Apr-Jul'24 on El Nino and positive base effects.
- While poor harvests (rice output in Q1 dropped -2%) has seen rice inflation remaining high, this was also in part due to base effects, with MoM increase moderating to 0.4% (Mar: 1.0%).
- While inflation risks still lean to the upside, we are of the view that **inflation expectations would remain anchored** and a pre-emptive move is not required at this juncture. Of note, Finance Minister Recto, who is also part of BSP's 7-member policymaking board, had in late April signalled that policy moves would be dependent on CPI data and baseline expectation prior to April's inflation print was a hold. In addition, monetary action is a rather blunt tool to curb idiosyncratic price increases from particular goods/services and BSP had in early May alluded to backing non-monetary moves to sustain disinflation process. Working with the government to further relax trade restrictions on rice imports to ease price pressures could be one such channel, which President Marcos had recently announced in view of surging rice prices.
- Meanwhile, **a weak PHP is unlikely to move the needle either**. While the PHP has recovered some ground, it remains >57 following the sell-off triggered by a racheting up of geopolitical tensions and hot US inflation in mid-April. Moreover, Governor Remolona had at that time noted that the PHP slide then was not at a level to impact policy, noting the broad USD strength backdrop as Fed cut delays rolls on. Instead, he signalled that adjustment can happen insofar as movements were not "very sharp".
- All in, we expect BSP to stand pat, although a hike in future meetings cannot be discounted if price pressures fail to be tamed. Meanwhile, inflation threats also mean any rate cuts are not on the table for the time being.

Malaysia Q1 Current Account: Recovery but limited Rejoice



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- We expect **Malaysia's current account surplus to widen to around 0.9% of GDP** in Q1'24 following its lowest current account surplus in Q4'23 (0.1% of GDP) since data was available in 2005. The dismal print in Q4'2023 can be attributed to increased primary income outflows, which we expect should see signs of moderation in Q1'24 on the back of BNM's efforts to encourage inflows and repatriations.
- Notwithstanding that, **we do not expect the current account surplus to widen by a large margin** as monthly trade data suggests a **narrowing of goods surplus.** In particular, Malaysia has thus far seen limited spillovers from the high-tech led electronics cycle lift. However, this could mean more catch-up in coming quarters, and improved electrical/electronics industrial production numbers in recent months are encouraging.
- Meanwhile, **services deficit is expected to narrow on tourism support,** especially as Malaysia's visa-free entry for Chinese nationals came into effect in Dec'23 and the Lunar New Year period in Q1 would likely mean more tourist inflows. **Looking forward, tourism boost (in revenue terms) could continue but unlikely to outperform regional peers** as recovery of higher-spending Chinese tourists have been relatively better than regional counterparts.
- All in, modest recovery to the electronics cycle and continued tourism should continue to support Malaysia's current account balance, and we expect current account surplus to be around 2.2% of GDP in 2024, up from 1.2% in 2023. However, that the current account surplus still remain below historical average ('16-'19 average: 2.7%) and could mean a softer MYR outlook.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	155.66	2.740	1.79%	153.00	~	157.80
EUR/USD	1.0783	0.0046	0.43%	1.072	~	1.090
USD/SGD	1.3531	0.001	0.05%	1.3450	~	1.3620
USD/THB	36.68	-0.1	-0.27%	36.40	~	37.00
USD/MYR	4.7397	0.0057	0.12%	4.720	~	4.760
USD/IDR	16045	-43	-0.27%	15,950	~	16,100
JPY/SGD	0.8692	-0.015	-1.72%	0.852	~	0.890
AUD/USD	0.6614	0.003	0.53%	0.646	~	0.670
USD/INR	83.49	0.025	0.03%	83.1	~	83.6
USD/PHP	57.432	0.022	0.04%	57.0	~	57.8

^Weekly change.

FX: Where is the Relief?

- **Despite some softer UST yields (on the longer end) this week**, **G3 and EM-Asia FX had barely seen any relief.**
- Admittedly, **after the recent 'intervention',** JPY end at the bottom of the G10 as bears focused on UST-JGB gaps return to buoy the USD back above 155 aided by subdued real wage gains in Japan.
- **Riksbank embarking on rate cuts** this week sent the SEK underperforming just behind the JPY.
- The GBP saw weakness on BoE signals of H2 cuts, though GDP outperformance aid mild recovery.
- The EUR made limited gains to hover around both sides of 1.08 as **non-commitment beyond June merely establishes the impending likelihood of a June cut.**
- **In EM-Asia,** aside from the **UST-EM-Asia yield gaps**, it is perhaps worth nothing that recent **inflation print in the region thus far has been far from friendly**, highlighting the prospects of **diminished real returns**.
- Furthermore, in the face of **more US trade restrictions** on both price(tariffs) and quantity (licenses revoked for semiconductor), the **weakening CNH was a notable drag on EM-Asia FX**.
- The **KRW underperformed being caught in the crosshairs of the semiconductor turbulence, CNH weakness and weighed by the large spread with USTs**.
- In the same "electronics" vein, the likes of VND, TWD and SGD also softened against the USD.
- Consequently, while **USD bears may be tempted to ride a softer US CPI next week**, the **resurgence of US-China tensions amid a still simmering geo-political tensions in the Middle East imply that the journey continues to be a volatile one where EM-Asia finds little relief.**

Bond Yield (%)

13-May	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.811	-0.5	4.445	-6.3	Flattening
GER	2.916	0.0	2.458	-3.6	Flattening
JPY	0.305	2.6	0.904	1.5	Flattening
SGD	3.380	-3.3	3.261	-8.8	Flattening
AUD	4.017	-7.6	4.319	0.1	Steepening
GBP	4.211	-13.0	4.106	-11.4	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,214.08	1.68
Nikkei (JP)	38,229.11	-0.02
EuroStoxx (EU)	5,084.13	3.30
FTSE STI (SG)	3,289.50	-0.10
JKSE (ID)	7,088.80	-0.64
PSEI (PH)	6,511.93	-1.57
KLCI (MY)	1,601.25	0.73
SET (TH)	1,370.07	0.01
SENSEX (IN)	72,567.41	-1.77
ASX (AU)	7,748.96	1.57

US Treasuries: Firm Demand

- Alongside firm demand at auctions this week, the **relief rally for USTs persisted** as Fed speakers echoed Fed Chair Powell's case for staying patient on **eventual rate cuts.**
- This was further assisted by **softer labour market data with the spike in initial jobless claims.**
- Accordingly, **UST yields declined with a bull flattener**.
- For the **upcoming week**, **opportunistic bulls may be tempted to persist** to buy on dips amid tendencies of energy prices to buoy the headline inflation print.
- As such, 2Y yields may find it tough to durably re-take 4.90% while the trend remains appear to crawl towards consolidating around 4.80%.
- That said, we brace for mid-week heightened volatility as the retail sales print may conspire with the softer labour market prints to allow cautious testing of 4.70%.
- On the longer end, the persistence of Brent crude prices hovering below US$85 may aid further mild curve flattening.

FX Brief:

1) JPY: Bear may be further embolded by domestic growth concerns next week. Intervention risks bear reminding near 158.

2) EUR: Growth improvements may end up allowing some consolidation around 1.08 next week. US inflation downside may allow buoyancy.

3) AUD: Return back above 66 cents on non-concession of rate cuts may end up being compromised by a softer jobs report and China inflation woes.

4) CNH: This week, CNH was unable to sustain sub-7.20 traction; softer CNH could get some lift should inflation and producer prices print higher on signs of improved sentiment.

5) INR: Sticky inflation could mean softer INR on diminished real-rate advantage relative to US but equity/bond inflows should restrain rallies towards 84 levels.

6) SGD: Buoyancy above 1.35 handle likely to be retained on softer CNH support; re-test of 1.36 plausible on US inflation data.

7) IDR: Brief test of 16000 at the start of this week point to weak rallies. Gains this week could also be partially reversed on US inflation print next week.

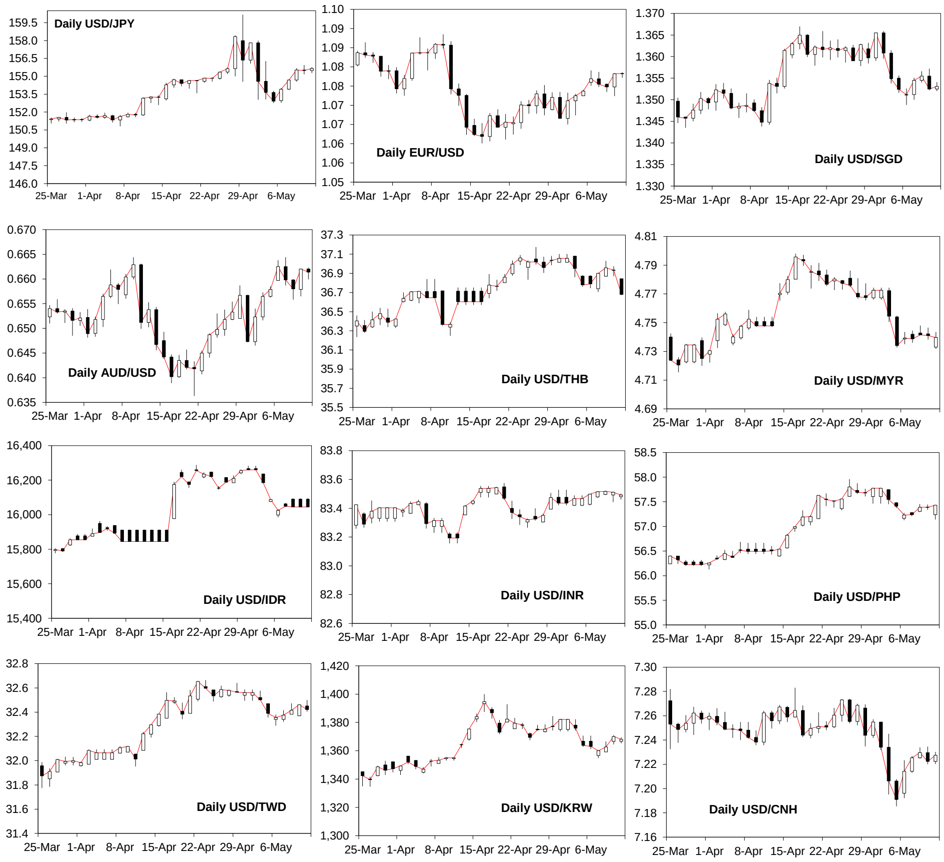
8) THB: Muted gains amid upside CPI surprised making up BoT continued rate hold. Fiscal worries amid renewed fuel subsidies remain a restrain for outsized rallies.

9) MYR: Fairly stable trading below 4.75 levels with muted reaction on BNM's hold. Increased MYR measures to encourage inflows could temper rallies above 4.75.

10) PHP: Some gains although still trading above 57 handle. BSP's expected hold should backstop declines above mid-57.

11) KRW: Semiconductor tensions and CNH weakness saw KRW weakening. Consolidation around 1360-1370 remains the base case.

12) TWD: Similarly, the TWD faces a fraught recovery path especially as softer than expected CPI makes another hike a remote tail end possibility. Slow bumpy crawl lower towards 32.3 on smeiconductor tailwinds



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