MIZUHO

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WEEK AHEAD

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13-Sep-2024

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Economic Calendar

•Survey results from Bloomberg, as of 13 Sep 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
16 Sep	**US**	**Empire Manufacturing**	**Sep**	**-4.0**	**-4.7**
	EZ	Trade Balance SA	Jul	--	17.5b
17 Sep	US	Capacity Utilization	Aug	77.9%	77.8%
	US	Retail Sales Advance/Ex Auto MoM	Aug	-0.2%/0.2%	1.0%/0.4%
	US	Industrial Production MoM	Aug	0.1%	-0.6%
	JP	Tertiary Industry Index MoM	Jul	0.9%	-1.3%
	GE	ZEW Survey Current/Expectations	Sep	-/17.5	-77.3/19.2
18 Sep	US	Building Permits/Housing Starts	Aug	1410k/1310k	1396k/1238k
	EZ	**CPI/Core YoY**	**Aug F**	**2.2%/2.8%**	**2.2%/2.8%**
	JP	Trade Balance	Aug	-¥1432.4b	-¥628.7b
	JP	Core Machine Orders MoM	Jul	0.7%	2.1%
	US	**FOMC Decision (Lower/Upper Bound)**		**5.00%/5.25%**	**5.25%/5.50%**
19 Sep	US	Initial Jobless Claims		--	230k
	US	Leading Index	Aug	-0.3%	-0.6%
	US	Philadelphia Fed Business Outlook	Sep	2.9	-7.0
	US	Current Account Balance	2Q	-$262.0b	-$237.6b
	EZ	ECB Current Account SA	Jul	--	50.5b
20 Sep	EZ	Consumer Confidence	Sep P	-13.4	-13.5
	JP	**Natl CPI/Ex Fresh Food, Energy YoY**	**Aug**	**3.0%/2.0%**	**2.8%/1.9%**
	JP	**BOJ Target Rate**		**0.25%**	**0.25%**

Asia

Date	Country	Event	Period	Survey*	Prior
16-18 Sep	CH	FDI YTD YoY CNY	Aug	--	-29.6%
14 Sep	CH	Industrial Production/Retail Sales YoY	Aug	4.7%/2.5%	5.1%/2.7%
	CH	FAI/Property Investment YTD YoY	Aug	3.5%/-10.0%	3.6%/-10.2%
16 Sep	PH	Overseas Cash Remittances YoY	Jul	2.8%	2.5%
17 Sep	SG	Non-oil Domestic/Electronic Exports YoY	Aug	12.3%/-	15.7%/16.5%
	ID	Exports/Imports YoY	Aug	2.2%/9.3%	6.5%/11.1%
	IN	Exports/Imports YoY	Aug	--	-1.5%/7.5%
	IN	Wholesale Prices YoY	Aug	1.8%	2.0%
18 Sep	CH	1-Yr Medium-Term Lending Facility Rate		2.30%	2.30%
	ID	**BI-Rate**		**6.25%**	**6.25%**
19 Sep	**AU**	**Unemployment Rate/Emp. Change**	**Aug**	**4.2%/25.0k**	**4.2%/58.2k**
	MY	Exports/Imports YoY	Aug	11.5%/20.6%	12.3%/25.4%
	PH	BoP Overall	Aug	--	$62m
	TW	**CBC Benchmark Interest Rate**		**2.00%**	**2.00%**
20 Sep	CH	1Y/5Y Loan Prime Rate		3.35%/3.85%	3.35%/3.85%

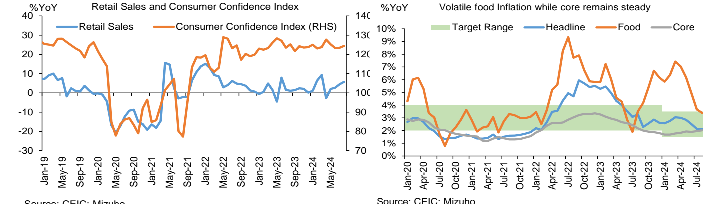
Week-in-brief: Swaying Bets

- The past week was characterised by swaying bets. The US presidential debate swung odds towards Kamala Harris albeit the US election still looking to be a close call. As for the economy, rising core inflation on a month-on-month basis initially led to declines in wagers on a 50bps cut next week, but revised declines on reports that policymakers were contemplating 25bps or 50bps cut.
- In Europe, the ECB proceeded with the widely expected rate cut. "Not satisfactory" dis-inflation progress and slightly higher inflation projections led markets to pare back rate cut bets in Q4 even as EZ growth projects for next three years were downgraded.
- While odds on a hike by BoJ was broadly unchanged, BoJ Board Member Nakagawa's comments that **rate hike remains on course** if **economic outlook is realised** still aided JPY gains. Meanwhile, oil saw sharp swings, dipping below $70/bbl as OPEC slashed demand outlook for the second time in two months, but paring losses on short-term supply shocks on adverse weather in Gulf of Mexico.
- Next week, the long-awaited moment for the Fed to commence its easing cycle has come. The debate is not only about a 25bps or 50bps cut, but also on the longer term policy trajectory as well. In particular, the FOMC is likely to enable the Dot Plot for 2025 to convey measured and controlled easing towards a soft-landing, as aggressive cuts could incite recession fear.
- In contrast, the **BoE is likely to stand pat** though the easing bias given inflation's proximity to target may restrain the GBP while QT modifications imply caution for Gilt bulls.
- Meanwhile, given recent JPY gains, the **BoJ is expected to exercise patience and keep rates unchanged** while awaiting for more data to affirm their outlook.
- In EM-Asia, **Bank Indonesia is expected to hold** (18 September) on stable inflation, easing volatile food inflation, while retail sales remain supported. More importantly, BI is unlikely to be willing to incite unnecessary volatility ahead of FOMC. Nonetheless, BI is likely to reiterate room for rate cuts in Q4.
- In Taiwan, the **CBC is set to prolong their rate hold**, but could **add hawkish communications** amid little progress on inflation and escalating property prices, while economic growth remains robust.
- All in, the focus will be on the upcoming FOMC, and we can expect heightened volatility in FX and rates, especially as swaying bets underscore the uncertainty on the size of cuts and as attention shift towards 2025.

BoJ: Not Rocking the Boat

- Despite the BoJ's recent assertions about maintaining a tightening bias and being below terminal rates, we expect the BoJ to sit in its hands. Point being, scope and despite for further tightening are a matter of a patient, multi-year plan not an urgent project.
- With JPY materially stronger and testing sub-141, the BoJ will not rock the unnecessarily rock the boat and risk self-harm from even sharper appreciation.
- As we have asserted, for the same pace of swings JPY appreciation is more harmful due to its capacity for adverse income (exporter earnings) balance sheet (Nikkei's collapse from negative JPY correlation) shocks.
- And so, the path of least harm for the BoJ now is to stay steady and watch closely.

Bank Indonesia: Not Yet



- We expect **Bank Indonesia to hold at the upcoming meeting on 18 September, and would likely reiterate that room for rate cut seen in Q4**.
- BI had already remarked at the August meeting that **the focus for Q3** is on strengthening the rupiah, while a cut may be possible in Q4. Moreover, with FOMC later in the night which has significant potential for EM Asia FX volatility, BI is unlikely to be willing to incite any unnecessary volatility to the IDR and remove potential for further IDR strength on Fed dovishness.
- Furthermore, there is little case for any moves at this juncture, as Indonesia's macrofundamentals remain stable since the last meeting. Headline and core inflation printed at 2.1% and 2.0% respectively in August, unchanged from a month earlier. On a month ago basis, administered prices in August 2024 recorded 0.2% MoM increase due to non-subsidised fuel price adjustments and producers passing through higher excise duties on tobacco products to consumers.
- Meanwhile, **volatile food registered the fifth consecutive month of MoM decline**, supported by higher supply given ongoing harvesting season. Looking ahead, inflation is well-expected to remain within the 2.5±1% target range. While there have been plans to restrict eligibility to subsidised diesel fuels, the passthrough should to inflation should not be upsized.
- There is also no immediate need to support growth with household consumption still holding up. Consumer confidence have been stable while retail sales growth remain resilient.
- Looking ahead, we think **BI's first cut could come in Q4** on policy normalisation. The pace of policy normalisation is likely to be gradual allowing for IDR appreciation, especially as BI notes that global developments still call for some vigilance.

FOMC - Easing Into the Cut Cycle

- The September pivot will be unequivocal but not panicked. Which squares with alignment of measured (25bp) rate cut, a controlled dovish shift in the "Dot Plot" and a distinctly (but not dramatically) more dovish rhetoric that is open, not committed, to larger rate cuts.

Rates: Not Front-loading Just Yet

The cut is a forgone conclusion. The debate is whether it is a "25" or "50" (bp). We expect the Fed to ease into its cut cycle with a 25bp cut to start in September.
- While the call is a close one, it predates (and hence isn't premised on) slightly hotter sequential core inflation in August CPI). Nor is it our fundamental resistance to deeper, front-loaded cuts. In fact, our view is for far more aggressive easing than the Fed suggests (200-250bp) by mid-2025.
- Rather, it is a reflection of a more managed transition from messaging "higher for longer" based on "last mile" dis-inflation resistance to an unqualified admission of "too high for too long" that unequivocally braces for harder-than-desired dent in jobs and demand. In other words, the question around Fed cuts in upcoming meetings, which had earlier changed from "if" to "when", has now evolved to "how". Specifically, "how much" and "how fast".
- The reason we lean in favour of starting with a "regular" 25bp (rather than upsized 50bp) cut as the optimal transition that provides relief about rates amid dis-inflation without tipping over into panic about a recession. Scope for 50bp cuts will need to be backed by softer inflation and jobs/demand/sentiments.

"Dot Plot": Faster, Not Frantic, Cuts

- The focus of the "Dot Plot" is likely to shift to 2025 as restoring the cuts for 2024 to (2 or 3 from June's dial back to just one) may be fully anticipated. Whereas the question really is how much the Fed steps up rate cuts for 2025. We bear in mind that with just 8 meetings in a year, a pace which suggests a cut at every meeting (or more) risks being construed as recession fear.
- So 2025 may be remixed to reflect no more than 6-7 cuts. The message will be one of scope for more cuts as inflation cools, leaving real rates still sufficiently (albeit marked less) restrictive.

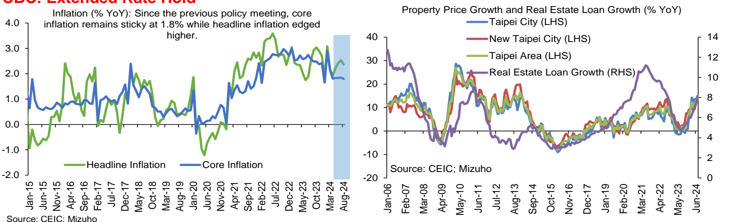
Rhetoric: Distinctly, Not Dramatically, More Dovish

- In tilting to a more dovish shift, the Fed is likely to be careful not to abandon data-dependence and on-going inflation anchor. So "pivot" will be conveyed as a measured shift not an uncontrolled lurch.
- Accordingly, the cut will be framed as a calibration to reflect shifting inflation-jobs balance of risks rather than pulling all stops on protecting jobs.
- Upshot being, given the uncertainty that accompanies long and variable lags of policy transmission the Fed is still stuck with policy tensions entailed in ensuring last mile dis-inflation and averting lagging but hard-to-brake deterioration in jobs.

Pushing Back, But Not Convincing Markets: This is likely to push back somewhat on more aggressive market pricing for cuts. And so a reflexive, short-lived bounce in UST yields and USD may be in the works. But conviction around the Fed keeping to more measured easing may continue to be challenged. So bond bears and USD bulls* may not get too far.

* On the other hand, US elections, Geo-politics and less pronounced relative policy effects (as other Major central banks pile on with cuts) may support the USD preventing significant USD slide.

CBC: Extended Rate Hold



- In Taiwan, the **CBC will likely prolong their rate hold and our base case is for them to signal a neutral stance** avoiding dovish biases of regional counterpart. In fact, some hawkish communications for an extended rate hold is also very much likely.
- Specifically, there **has been little progress on the inflation front** since their previous meeting in June with headline inflation edging higher. Admittedly, while typhoon Gaemi caused significant increase in vegetable and fruit prices that drove the higher food inflation, core inflation sticking at 1.8% YoY over the past three months reflect the difficulty in guiding underlying inflation lower.
- From a different angle, this is also reflected by **stubborn services inflation** averaging 2.5% over the past year while **inflation on non-durable consumer goods as well as durable consumer goods rose**. Dis-inflation mainly stemmed from semi-durable consumer goods.
- Furthermore, **escalating property prices remain a key concern of the CBC** which saw them raise reserve requirement ratios in June and continuing to keep a close watch on adverse spillovers of speculative real estate investment on first home purchases.
- As such, **the CBC is unlikely to lower rates and conflict their efforts to achieve these macroprudential objectives** especially when **there is little case to be made for easing rate amid robust economic growth**.
- GDP growth remained strong in Q2 at 5.1% YoY (H1: 5.8%YoY) with exports growth at 7.7% YoY in Q2 buoyant on AI related semiconductor shipments.
- While the **extended rate hold by the CBC is a positive for the TWD** amid the impending Fed rate cuts, direct supply chain implications from **geo-political tensions between US-China** are accentuated by looming US elections is still a key impediment to a smooth recovery.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	140.86	-1.440	-1.01%	140.00	~	145.00
EUR/USD	1.1093	0.0009	0.08%	1.092	~	1.119
USD/SGD	1.2989	-0.004	-0.29%	1.2850	~	1.3100
USD/THB	33.32	-0.2	-0.60%	33.00	~	34.00
USD/MYR	4.3035	-0.0267	-0.62%	4.260	~	4.340
USD/IDR	15400	35	0.23%	15,200	~	15,500
JPY/SGD	0.9219	0.007	0.72%	0.886	~	0.936
AUD/USD	0.6719	0.005	0.72%	0.665	~	0.686
USD/INR	83.93	-0.022	-0.03%	83.6	~	84.1
USD/PHP	55.993	0.078	0.14%	55.0	~	56.4

^Weekly change.

FX: Risk On?

- This week, amid lower UST yields, Greenback weakened as the DXY slipped towards 101.
- **JPY gains** perhaps remain the least surprising as BoJ officials re-iterate that hikes remain on the table even if not imminent.
- The risk on tone was underscored by **relative slippage of the CHF** which is also in part due to potential for further rate cuts by the SNB.
- RBA's Hunter espoused optimism stating that there is room for vacancies as well as hours worked to decline without a sharp rise in unemployment. In turn, the **AUD was buoyed** alongside the recovery in Brent crude price later in the week.
- While a Fed cut ought to aid USD bulls on aggregate for the upcoming week, a Dot Plot which is less dovish than market expectations could restrain rallies alongside potential for developed economies central bank easing.

EM-Asia: Extending Hold and Gains

- The duo of **THB and MYR backed by their neutral monetary policy stance** continue to outperformed with the former being further aided by JPY gains.
- In contrast**, IDR underperformed** with Bank Indonesia's decision looming on upcoming Wednesday before FOMC. While expectations are for a continued hold, the odds of a rate cut is also non-negligible.
- The TWD underperformed on equity outflows though the upcoming CBC hold could assist to back the TWD especially should on risk on mood take hold.

Bond Yield (%)

13-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.576	-7.0	3.635	-7.3	Flattening
GER	2.182	-4.0	2.127	-4.1	Flattening
JPY	0.377	1.5	0.832	-0.6	Flattening
SGD	2.250	-14.7	2.429	-10.9	Steepening
AUD	3.555	-6.7	3.814	0.1	Steepening
GBP	3.790	-15.7	3.761	-12.4	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,595.76	3.46
Nikkei (JP)	36,581.76	0.52
EuroStoxx (EU)	4,835.50	2.06
FTSE STI (SG)	3,561.37	3.09
JKSE (ID)	7,799.12	1.00
PSEI (PH)	7,022.85	1.25
KLCI (MY)	1,648.53	-0.28
SET (TH)	1,425.08	-0.18
SENSEX (IN)	82,951.07	2.18
ASX (AU)	8,099.95	1.08

USTs: Done Deal Meets Expectations Gap

- UST yields declined over the past week ahead of the all but certain commencement of the easing cycle at FOMC next week.
- The UST yield curve largely retained its upward slope even as it flattened slightly.
- The question is however, on the size of the cut and attendant shifts in Dot Plot which contrast against market expectations of much sharper rate cuts.
- Accordingly, volatility for front-end USTs would arguably be more outsized with sharp upward spikes for the 2Y on markets closing the gap with the Dot Plot.
- That said, recession fears could see flight to haven if overtly dovish tones incite fears.
- On the longer-end, already low oil prices may see a more restrained scope for a further plunge, thereby backstopping 10Y yields and firming up the term premium especially as US election draw closer.
- On balance amid the Fed's easing bias, continued declines in yields is more likely than not with the 2Y yields remaining below 3.6% while 10Y staying below 3.7% as a base case.
- That said, should a more dovish-than-expected Fed prevail, 2Y UST yields could drop below 3.20% while 10Y yields dip below 3.40%.

FX Brief:

1) JPY: Amid substantial gyration, JPY gained on lower UST yields but bulls appear increasingly cautious as USD/JPY approach approach 140 levels.

2) EUR: As expected, even an upgrade to ECB inflation forecast could not take EUR bulls beyond 1.11 amid falling UST yields. In turn, further rallies for the week rely on a dovish FOMC and its associated Dot Plot.

3) AUD: While AUD bulls can look to the Fed's upcoming rate cut, it needs to overcome start of the week impediment from China data as well as their domestic job report which could put a dent in AUD rally above 68 cents.

4) CNH: Latching onto weaker Greenback tailwinds was rather unsuccessful this week as various data prints continue to hint at growth weakness. Similarly, the situation will be one of relative underperformance even if gains can materialise against a soft USD.

5) INR: Could dip below 83.9 as higher-than-expected inflation could push back RBI easing expectations, while equity inflows continue.

6) SGD: Could retain traction above in 1.29 to mid-1.30 range amid China gloom and likely supported EUR following ECB meeting.

7) IDR: A dovish Fed could impart strength to IDR, and see IDR play catch-up after underperforming this week, possibly on positioning of a more dovish BI.

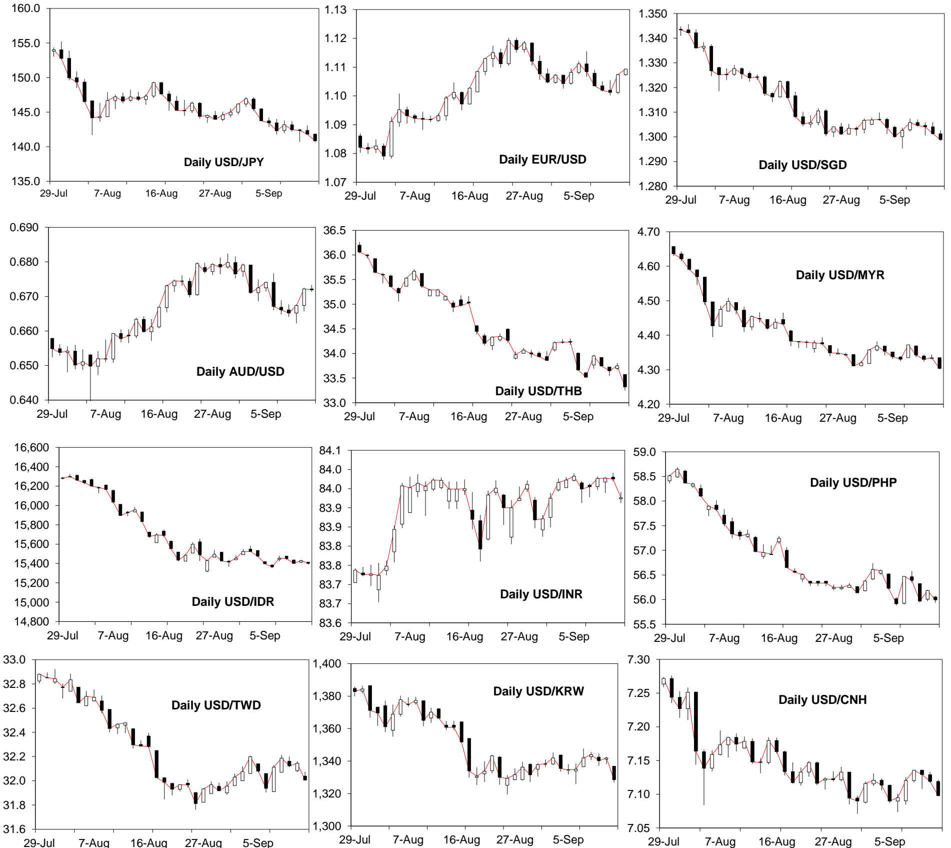
8) THB: JPY spillovers and BoT neutality allow continued gains though sub-33 adventure remains limited by economic woes as consumer confidence falls.

9) MYR: Supportive fundamentals and widening real rate differentials against USTs would support inflows, and could push below 4.27.

10) PHP: Breaking below 55 handle might be tough given BSP's dovish inclinations.

11) KRW: Adverse impact from equity outflows offset by bond inflows as UST yields slipped and rising homes prices in Seoul and rising mortgage loans reduce bets for early Q4 BoK easing.

12) TWD: Underperformance continued on foreign outflow from equities. Looking ahead, CBC hawkish hold next week could serve to restrain losses.



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