MIZUHO

WEEK AHEAD

Mizuho Bank, Ltd. Asia and Oceania Treasury Department
Tel: 65-6805-2000 Fax: 65-6805-2095

Vishnu Varathan | Serena Zhou | Ken Cheung | Tan Boon Heng | Tan Jing Yi

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29-Nov-2024

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Economic Calendar

•Survey results from Bloomberg, as of 29 Nov 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
02 Dec	US	ISM Manufacturing/Prices Paid	Nov	47.6/--	46.5/-54.8
	US	Construction Spending MoM	Oct	0.2%	0.1%
	EZ	**Unemployment Rate**	**Oct**	**6.3%**	**6.3%**
	JP	Capital Spending YoY	3Q	7.0%	7.4%
03 Dec	US	JOLTS Job Openings	Oct	7510k	7443k
04 Dec	US	ADP Employment Change	Nov	165k	233k
	US	Durable Goods Orders/Nondef Ex Air	Oct F	--	0.2%/-0.2%
	US	ISM Services Index/Prices Paid	Nov	55.5/--	56.0/58.1
	US	Factory Orders	Oct	0.3%	-0.5%
	EZ	PPI YoY	Oct	--	-3.4%
	US	Federal Reserve Releases Beige Book			
05 Dec	US	Trade Balance	Oct	-$75.0b	-$84.4b
	US	**Initial Jobless Claims**		**--**	**213k**
	EZ	Retail Sales YoY	Oct	2.2%	2.9%
06 Dec	**US**	**Change in Nonfarm Payrolls**	**Nov**	**200k**	**12k**
	US	U. of Mich. Sentiment/Expectations	Dec P	73.0/--	71.8/76.9
	US	U. of Mich. 1Y/5-10Y Inflation	Dec P	--	2.6%/3.2%
	US	Average Hourly Earnings MoM	Nov	0.3%	0.4%
	EZ	GDP SA YoY/QoQ	3Q F	--	0.9%/0.4%
	JP	Coincident Index/Leading Index CI	Oct P	108.8/117.7	109.1/115.3
	JP	Labor/Real Cash Earnings YoY	Oct	2.5%/-0.1%	2.5%/-0.4%
	JP	Household Spending YoY	Oct	-2.5%	-1.1%

Asia

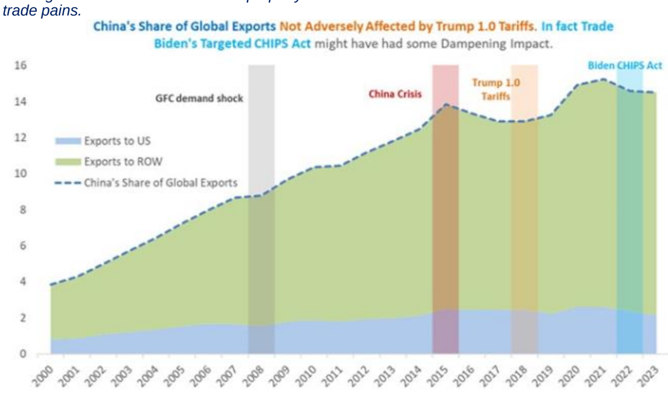
Date	Country	Event	Period	Survey*	Prior
02 Dec	CH	Caixin China PMI Mfg	Nov	50.6	50.3
	SG	Purchasing Managers/Elect. Sector Index	Nov	--	50.8/51.4
	AU	Building Approvals MoM	Oct	1.3%	4.4%
	AU	Retail Sales MoM	Oct	0.4%	0.1%
		PMI Mfg (AU,ID,IN,KR,MY,TH,PH,TW,VN)	Nov	--	--
	ID	**CPI/Core YoY**	**Nov**	**1.5%/2.2%**	**1.7%/2.2%**
03 Dec	AU	BoP Current Account Balance	3Q	-A$10.9b	-A$10.7b
	KR	**CPI/Ex Food, Energy YoY**	**Nov**	**1.7%/--**	**1.3%/1.8%**
04 Dec	CH	Caixin China PMI Services	Nov	52.5	52.0
	AU	**GDP YoY/SA QoQ**	**3Q**	**1.1%/0.5%**	**1.0%/0.2%**
05 Dec	SG	Retail Sales/Ex Auto YoY	Oct	--	2.0%/-1.4%
	AU	Trade Balance	Oct	A$4500m	A$4609m
	KR	GDP YoY/SA QoQ	3Q P	1.5%/0.1%	1.5%/0.1%
	PH	**CPI YoY**	**Nov**	**2.5%**	**2.3%**
	TW	**CPI/Core YoY**	**Nov**	**2.0%/--**	**1.7%/1.6%**
	TW	PPI YoY	Nov	--	-0.7%
06 Dec	**IN**	**RBI Repurchase Rate**		**6.50%**	**6.50%**
	KR	BoP Current Account Balance	Oct	--	$11124.4m
	TH	**CPI/Core YoY**	**Nov**	**1.1%/0.8%**	**0.8%/0.8%**
	VN	Trade Balance	Nov	$1500m	$1987m
	VN	Industrial Production/Retail Sales YoY	Nov	--	7.0%/7.1%
	VN	**CPI YoY**	**Nov**	**3.1%**	**2.9%**

Week-in-brief: Action and Preparation

- This week, even as headlines flash uncertainty over the inflation path in the US with core PCE momentum staying sticky at an uncomfortable 0.3% MoM alongside cautious FOMC minutes, the reality is that the odds of a 25bps Fed cut has in fact risen to 62.8% from last Friday's 52.7%.
- Evidently, markets were already well-prepared for such a cautious tone.
- On that note, **markets appear to be preparing for a live BoJ meeting** as markets raise odds of a BoJ hike in December to 63% and the JPY led gains this week among G10 peers.
- In contrast, the CAD underperformed, caught unprepared by Trump's tweet to impose higher tariffs.
- With markets already only expecting a cut in Q2, the AUD also made little gains even as RBA Governor Bullock said that core inflation is too high amid the trimmed mean inflation printed higher.
- In Asia, the BoK took **pre-emptive action** this week in a surprise 25bp cut to boost growth amid threat of potential tariffs disrupting global trade. 2 out of 6 members (excluding Governor Rhee) dissented as they voted for a rate hold reflecting the difficulties behind this decision.
- In Thailand, revelations of rising NPL ratios came alongside plans to introduce measures help household restructure debt this week. While the THB bulls may have outperformed amid the softer USD this week, bulls may want to prepare for the potential of a rate cut by the BoT in December.
- For the upcoming week, in India, the **RBI is expected to kick the rate cut can down the road and stand pat at their meeting on 6 December.** They will defer potential rate cuts to 2025 on inconvenient of optics of volatile food inflation and uncertainties over Trump 2.0.
- Down Under, Australia Q3 growth which is likely to see momentum bump-up on higher consumption spending. That said, softer external demand will imply that AUD bulls may not see much action.
- In Vietnam, while economic prints are likely to show robust activity levels, the sight of continued corruption trials and a VND in the upper half of the policy band will continued to worry the SBV.
- In the G3 space, the main event next week will be the **NFP print** which could be critical in the debate over a skip or cut at the December FOMC meeting.
- All in, one should brace for swings as the **extent of rebound from the October lows** which were hammered by hurricanes and strikes imply accentuated volatility.

China: Trump 2.0 Tariffs is a Prominent Risk, Not the Greatest Threat

- Admittedly, Trump 2.0 trade assault trained on China is front and center of China macro risks. And justifiably so.Nonetheless, it may that *the intensity of the risk overstates the magnitude of the threat.*
- In other words, and as controversial as it sounds, that fact may be that **tariffs may not be the biggest threat that China faces**.
- For one, the **experience with Trump 1.0 tariffs**, which Biden not only retained but accentuated with targeted sanctions, **reveals little dent to China's exports dominance**.
- In fact, **China has defied tariffs to increase its global share of exports** as *diminished exports to the US* has been *more than offset by exports to ROW* (rest of the world).
- This is testament to **China's unmatched industrial prowess, inextricably woven into global supply-chains** that cannot be efficiently replicated at scale.Even **more so, given** China's **daunting and domineering excess capacity** (and *in some cases technological advantages*) in key, strategic components for global manufacturing. And so, **effectively substituting for**, much less supplanting, **China's industry**/exports is **a tall order**, *requiring more than just tariffs.* The irony then is that *China may not bear the brunt of trade conflicts.*
- Not immediately anyway. But **that said, China's inherent industrial buffer is compromised** as *pre-existing vulnerabilities/trauma from property woes* and *chronic confidence deficit threaten to accentuate trade pains.*



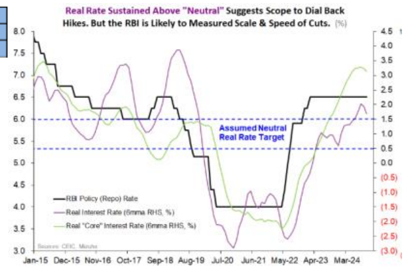
RBI: Kicking the Can, Not Canning the (Policy) Kick (from Cuts)

- Admittedly, the **RBI may be kicking the rate cut can down the road into 2025**. This is however a temporary deferment due to the *inconvenient optics of inflation kicking back up* conspiring with the *uncertainties and volatility associated with Trump 2.0. Whereas* the **base case for lowering the policy rate is solid**.
- To be sure, the **resurgence in headline inflation above 6%** (the top side of the RBI's 4%+/-2%-pts) is a **notable impediment for an imminent cut**. **But** this **does not negate** the **case for rate cuts**, which is more a ***matter of timing*** (when to cut) ***rather than trajectory*** (whether to cut).
- For one, **headline inflation rebound** (to 6.2% in Oct) is **led by volatile food**. Whereas **core inflation remains reasonably contained** (at 3.8%). Crucially, with the policy rate at 6.50%, **real policy rates are well above neutral**. And *more acutely so when gauged in terms of "real core rate*"*.
- The upshot is, *even if cyclically overstated,* there appears to be **compelling evidence that underlying inflation has moderated structurally**. And meaningfully so.
- In which case, the likelihood of **neutral rate around 4.50-5.00%** is **not only plausible, but wholly reasonable**. As such, even as the RBI holds in December, **125-150bp of rate cuts into 2025 to lower the policy rate to 5.00-5.25%** is likely; most of which is **front-loaded by mid-2025**.
- That said, worries of rupee depreciation pressures triggered by wider volatility from Trump 2.0 risks could **restrain speed and depth of cuts**. For now, deferred scope for Q4 2024 is set to culminate in 100bp of cuts in H1 2025, with another 25-50bp of follow-up easing in H2.

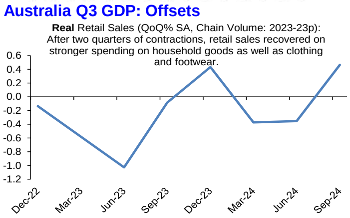
* nominal policy rate discounted for core inflation

Central Bank Policy Outlook

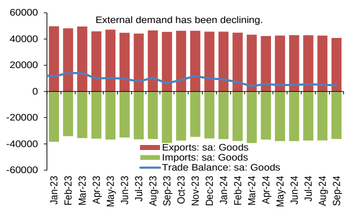
Country	Central Bank	2024	2025			
		Q4	Q1	Q2	Q3	Q4
India	RBI	6.50%	6.00%	5.50%	5.25%	5.00%



Australia Q3 GDP: Offsets



Source: CEIC; Mizuho



Sources:CEIC, Mizuho

- We expect a **slight bump up in growth for Q3 GDP on a QoQ SA basis** to 0.4% from the 0.2% in Q2. On a YoY basis, growth in expected to remain flat at 1.0%. A bump up in domestic demand is likely to be offset by softer external demand.
- Household spending show some signs of recovery with real retail sales volumes rising 0.5%QoQ SA. Nonetheless, we note that **on a per capita basis real retail sales continued contracting** with a 0.1% fall in Q3 and the higher aggregate volumes came on the back of softer price growth.
- The underlying sensitivities to prices point to continued headwinds face by households. That said, resilient wage growth may be assisting marginally with QoQ wage growth of 0.8% which is significantly higher than pre-pandemic trends.
- Government consumption will continue to be supportive in Q3 as operating expenses remain elevated in Q3 though public investments appear more vulnerable as net capital investments by the government softened. **External demand is weakening** on lower export revenue from major commodities such as metal ores, minerals, coal and other mineral fuel. Even as falling prices imply that in volume terms some commodities such as iron ore were higher than in Q2, falling prices in itself reflect the lackluster demand.
- All in, a bump-up in quarterly growth momentum will not convincingly shed doubts on growth risks in 2025 and in turn this print is a backstop for AUD slippages rather than a stage for durable rally.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	150.11	-4.560	-2.95%	147.00	~	154.00
EUR/USD	1.0572	0.0094	0.90%	1.043	~	1.070
USD/SGD	1.3392	-0.006	-0.42%	1.3310	~	1.3520
USD/THB	34.225	-0.385	-1.11%	33.80	~	34.70
USD/MYR	4.4382	-0.0246	-0.55%	4.400	~	4.480
USD/IDR	15845	-30	-0.19%	15,750	~	16,000
JPY/SGD	0.8921	0.023	2.60%	0.864	~	0.920
AUD/USD	0.6512	0.000	0.02%	0.640	~	0.663
USD/INR	84.50	0.007	0.01%	84.2	~	84.8
USD/PHP	58.635	-0.280	-0.48%	58.0	~	59.2

^Weekly change.

FX: Some Recovery

- The USD broadly weakened against the G10 currencies amid lower UST yields.
- JPY was the notable outperformer as odds of Dec hike moved higher. This came on the back off producer prices with high labour cost posting solid increases, PM Ishiba's calls for bigger wage deals, and some possible haven flows on risk aversion as US-China trade conflict plays out.
- EUR and NZD performed in the middle of the pack. EUR was supported by hawkish comments from ECB Schnabel that they may not be far from the neutral rate and warned against moving towards accommodative territory. Meanwhile, NZD was supported despite RBNZ's 50bps cut as RBNZ lowered its ate forecast by less-than-expected.
- Commodity currencies CAD, AUD and NOK underperformed amid lower oil prices, some reprieve of geo-political tensiosn and an announced delay to OPEC+ meeting.

EM-Asia: Modest

- In line with trend, EM Asia FX was stronger against the greenback, albeit having smaller gains compared to G10 currencies.
- This could be attributable to underlying uncertainties with Trump 2.0 tariff threats playing out in the background, with different economies having differentiated exposures along the supply chain.
- THB led gains on JPY spillovers; while KRW still outperformed marginally after paring some gains after Bank of Korea's cut, following the prior week's underperformance.

Bond Yield (%)

29-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.202	-17.1	4.217	-18.3	Flattening
GER	1.983	-0.1	2.109	-13.0	Flattening
JPY	0.576	0.0	1.030	-4.1	Flattening
SGD	2.735	-6.8	2.718	-13.6	Flattening
AUD	3.946	-13.2	4.337	0.1	Steepening
GBP	4.253	-6.2	4.239	-14.5	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,998.74	0.49
Nikkei (JP)	38,208.03	-0.20
EuroStoxx (EU)	4,758.65	-0.64
FTSE STI (SG)	3,728.53	-0.47
JKSE (ID)	7,134.66	-0.85
PSEI (PH)	6,613.85	-2.45
KLCI (MY)	1,599.43	0.61
SET (TH)	1,429.00	-1.20
SENSEX (IN)	79,817.00	0.88
ASX (AU)	8,436.23	0.50

USTs: Rebound?

- It was indeed as we had envisaged " Not So Fast", UST yields dropped as markets start to have second thoughts on the rate cut trajectory and Trump trades.
- Notably, the 10-2Y portion appears at risks of flirting with inversion. Perhaps, the mantra of Not So Fast should also be applied to prospects of a durable inversion.
- While the likes of ISM services may be tempted to reveal robustness which aids further inversions as short end yields remain backstopped, the end of NFP may have the last say.
- Specifically, given the widely expected rebound, the risk is that the print may fall short of loft expected to send front end yields lower and aid some curve steepening.
- All in, we expected to 2Y and 10Y yields to trade in the 4.0%-4.3% region.

<u>FX Brief:</u>

1) JPY: Live BoJ meeting is set to meet real threat from UST yields as NFP print looms. That said, two way volatility may be even more accentuated should a dire NFP print emboldend JPY bulls.

2) EUR: Schnabel's hawkish will need to face continue threats of tariffs and more dovish members such as Villeroy who said that there may be a need to cut to stimulative levels. Buoyancy above mid-1.04 retained.

3) AUD: Stubborn RBA and bumpy GDP to allow consolidation around 65 cents for the week.

4) CNH: Kept stable by strong PBoC fixing this week. Nonetheless, the need for monetary easing and fiscal support imply that bulls may remain cautious even amid activity pick-up.

5) INR: Should still remain in a tight range. Could see some buoyancy above mid-84 levels.

6) SGD: Could continue trading below mid-1.34 levels on suppport from EUR (should ECB speech continue to have hints of hawkish rhetoric) and CNH (on impending stimulus hopes).

7) IDR: Could see some pressure should Prabowo's pick do not win at local elections, especially for key regions like Jakarta and Java. Should retain buoyancy above mid-15,500 levels.

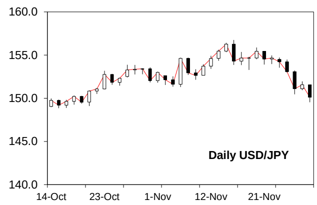
8) THB: Outperformed alongside JPY tailwinds and lower UST yields. Markets could assess potential BoT cut and that could stall the rally.

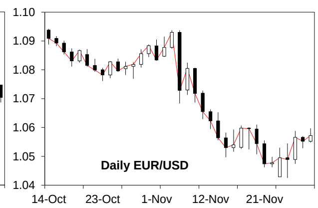
9) MYR: Should continue to move in tandem with UST yields; but support from CNH on stimulus hope could retain traction below 4.45 levels.

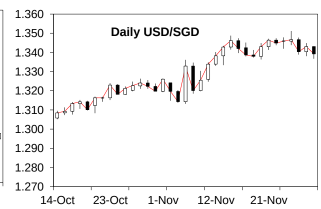
10) PHP: Unlikely to see durable rallies below 58 levels amid political woes. Risks towards a weaker PHP as BSP Governor Remolona's comments suggest some tolerance of weakness above 59 levels. '

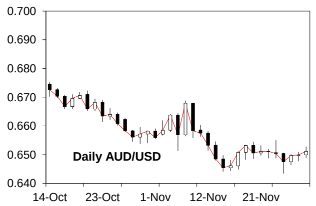
11) KRW: Despite outflows from bond and equities, BoK rate cut impact shrugged off as KRW outperforms amid USD weakness.

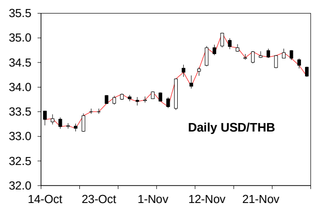
12) TWD: Measured gains as geopolitical threats loom with President Lai Ching-te looks set to stopover in Hawaii.

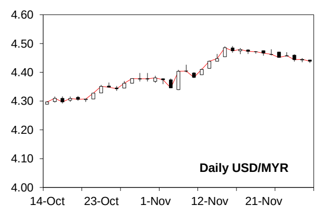


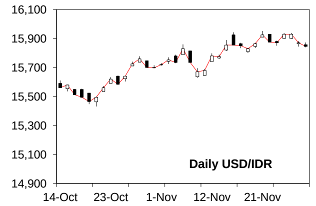


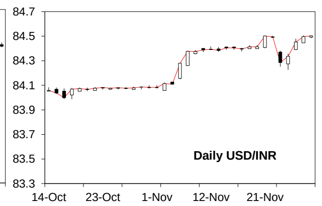


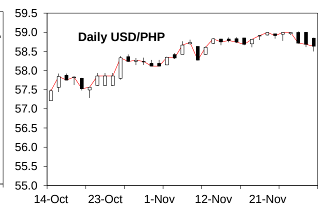


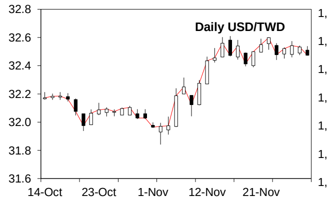


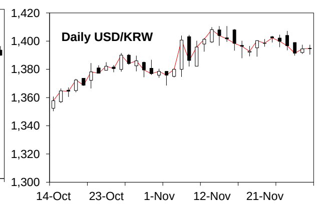


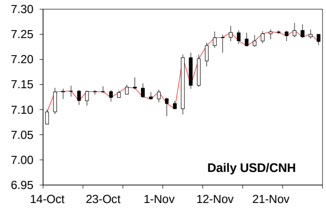












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