MIZUHO

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

WEEK AHEAD

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Mizuho Bank, Ltd. Asia and Oceania Treasury Department

Tel: 65-6805-2000 Fax: 65-6805-2095

30-Aug-2024

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Economic Calendar

•Survey results from Bloomberg, as of 30 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
02 Sep	JP	Capital Spending YoY	2Q	10.1%	6.8%
		Mfg PMI (EZ, JP)	Aug F	--	--
03 Sep	US	ISM Manufacturing/Prices Paid	Aug	47.5/-	46.8/52.9
04 Sep	US	JOLTS Job Openings	Jul	--	8184k
	US	Trade Balance	Jul	-$76.8b	-$73.1b
	US	Durable Goods Orders/Nondef Ex Air	Jul F	--	9.9%/-0.1%
	US	Factory Orders	Jul	4.7%	-3.3%
	EZ	PPI YoY	Jul	-2.5%	-3.2%
	US	Federal Reserve Releases Beige Book			
05 Sep	US	ADP Employment Change	Aug	148k	122k
	US	Initial Jobless Claims		--	231k
	US	ISM Services Index/Prices Paid	Aug	51.0/-	51.4/57.0
	EZ	Retail Sales MoM	Jul	--	-0.3%
	JP	Labor/Real Cash Earnings YoY	Jul	2.8%/-0.8%	4.5%/1.1%
06 Sep	**US**	**Change in Nonfarm Payrolls**	**Aug**	**165k**	**114k**
	US	Unemployment Rate	Aug	4.2%	4.3%
	US	Average Hourly Earnings MoM	Aug	0.3%	0.2%
	EZ	**GDP SA YoY/SA QoQ**	**2Q F**	**0.6%/0.3%**	**0.6%/0.3%**
	JP	Coincident Index/Leading Index CI	Jul P	116.2/109.4	113.2/109.0

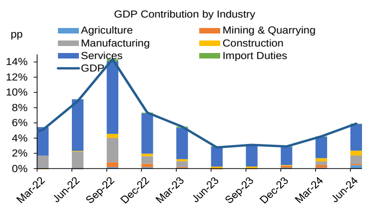
Asia

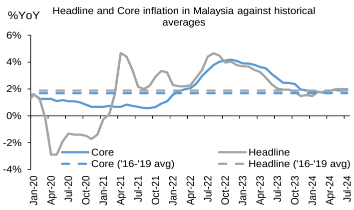
Date	Country	Event	Period	Survey*	Prior
31 Aug	CH	Mfg/Non-Mfg PMI	Aug	49.5/50.1	49.4/50.2
01 Sep	KR	Exports/Imports YoY	Aug	12.6%/6.3%	13.9%/10.5%
02 Sep	CH	Caixin China PMI Mfg	Aug	50.0	49.8
	SG	Purch. Managers/Electronics Sector Index	Aug	-/-	50.7/51.0
	AU	**Building Approvals MoM**	**Jul**	**2.5%**	**-6.5%**
	ID	**CPI/Core YoY**	**Aug**	**2.1%/2.0%**	**2.1%/2.0%**
03 Sep	AU	BoP Current Account Balance	2Q	-A$5.5b	-A$4.9b
	KR	**CPI/Ex Food and Energy YoY**	**Aug**	**2.1%/2.1%**	**2.6%/2.1%**
04 Sep	CH	Caixin China PMI Services	Aug	52.1	52.1
	AU	**GDP YoY/SA QoQ**	**2Q**	**0.9%/0.2%**	**1.1%/0.1%**
05 Sep	SG	Retail Sales/Ex Auto YoY	Jul	-/-	-0.6%/-3.1%
	AU	Trade Balance	Jul	A$4900m	A$5589m
	KR	**GDP YoY/SA QoQ**	**2Q P**	**2.3%/-0.2%**	**2.3%/-0.2%**
	MY	**BNM Overnight Policy Rate**		**3.00%**	**3.00%**
	TH	**CPI/Core YoY**	**Aug**	**0.4%/0.6%**	**0.8%/0.5%**
	PH	**CPI YoY 2018=100**	**Aug**	**3.6%**	**4.4%**
	TW	**CPI/Core YoY**	**Aug**	**2.3%/-**	**2.5%/1.8%**
06 Sep	KR	BoP Current Account Balance	Jul	--	$12259.2m
	PH	Unemployment Rate	Jul	--	3.1%
	VN	Trade Balance	Aug	$3600m	$2120m
	VN	Industrial Production/Retail Sales YoY	Aug	--	11.2%/9.4%
	VN	**CPI YoY**	**Aug**	**4.0%**	**4.4%**

Week-in-brief: Measured

- Following a rally in USTs on Powell's proclamation at Jackson Hole that "the time has come" for rate cuts, the mood was arguably more measured in the past week. Point being, amid mixed indicators on economic activity (i.e. broadly weaker industrial activity amid upwards revision to Q2 GDP and buoyant consumer confidence), the size of cuts at Sep meeting comes into focus. At this juncture, even as dis-inflation progress continues, the Fed is less likely to aggressively cut rates absent a deterioration in growth and/or labour markets.
- Meanwhile, moderating inflation in Germany and Spain, should set the stage for moderating EZ CPI print on Friday night and could plausibly see markets ramping up ECB rate cut bets, even as some ECB officials attempted to temper expectations.
- Down under, RBA is unlikely to be comforted by dis-inflation progress, as the moderation was led by electricity rebates. Concerns over inflation likely overshadowed stagnant retail sales, which saw AUD barely nudging lower even as it provided further evidence of stretched households.
- Bank of Thailand also appears to increasingly ponder the parameters for easing policy to balance against tightening financial conditions and uneven growth.
- On the fiscal front, Philippines looks on track towards a fiscal deficit of 5.6% of GDP in 2024, but the proposed 2025 budget (still under debate) ignites risks of fiscal slippages. Indonesia formalised its intention to implement targeted fuel subsidies, while it was reported that Malaysia is considering re-introducing consumption tax, in replacement of gasoline subsidy rationalisation.
- Looking to the week ahead, BNM is expected to remain on a prolonged hold. Strong growth gives little reason for a cut while managed inflation does not provide any impetus to hike, as policy stance remains supportive of economic fundamentals.
- Australia GDP growth provide little relief insofar as government spending is likely to remain the main driver of growth while household spending remains lacklustre. External sector is also likely to remain a drag on growth as trade balance headed lower in Q2.
- Vietnam's inflation should moderate on lower fuel prices and softer food inflation, even as economic growth and wage growth continue exerting upside pressure. Meanwhile, economic activity is expected to be mixed. While retail sales would be supported by recent salary adjustment and sales, industrial production could moderate on slower inputs imports growth from South Korea.
- All in, signs of growth risks or surprises should continue to dictate markets movements, but caution that growth risks incite "risk-off" sentiments.

BNM: Prolonged Hold



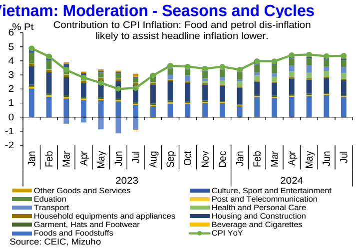


Source: CEIC; Mizuho

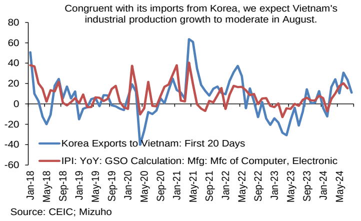
Source: CEIC; Mizuho

- BNM is set to stand pat at the upcoming meeting (5 Sep) amid strong growth and stable inflation.
- Q2 growth outrun was powered by an acceleration in household spending and investments, as well as an expansion of net exports, after contraction in past 4 quarters. From a production perspective, manufacturing and services lifted growth.
- **Upbeat growth prospects give little reason to cut.** Notably, July's statement (which meeting was scheduled before the advance Q2 GDP release) had already acknowledged "upside risks to growth...emanat[ing] from greater spillover from the tech upcycle, more robust tourism activity and faster implementation of existing and new projects". The positive growth outlook have also arguably aided MYR's rally in recent weeks (~6.3% since end-July), with BNM commenting that MYR is moving in the right direction, reflecting the nation's economic fundamentals and strong prospects.
- Meanwhile, **tame inflation does not provide any impetus to hike**. Headline inflation has hovered around 2.0% in recent months, with moderating food inflation offsetting an uptick in services inflation as the rise services tax continue to feed through, as well as higher water tariffs.
- As characterised by BNM, monetary police stance remains "supportive" of the economy. Indeed, real policy rate at 1.0% presently is around the 2010-2019 average of 0.9%, and could set the stage of a prolonged hold by BNM. But we see a slight possibility of a 25bp cut by BNM in 2025 should household spending slows (likely in 1H'25). Point being, the spending power of households is arguably on the back of MYR7.81bn in EPF withdrawals (~0.4% of GDP), and this could dwindle over the quarters.
- All in, BNM's ability to restrain from rate cuts relative to peers, could reduce FX volatility risks, especially as real rate differentials against the US remains negative.

Vietnam: Moderation - Seasons and Cycles



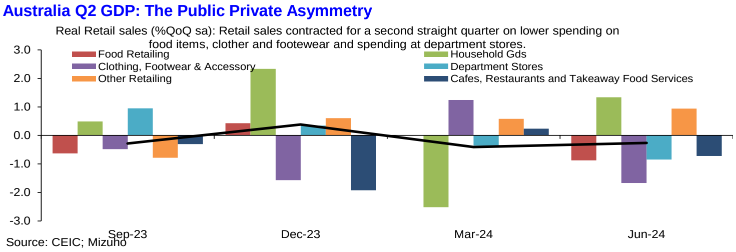
Source: CEIC, Mizuho



Source: CEIC; Mizuho

- On the **inflation** front, while **underlying economic growth and wage growth is likely to underpin buoyancy, we also note some supply side pressures abating.**
- On balance, we expect **Vietnam's CPI in August to edge down from July's 4.4% YoY print** on **lower fuel prices and softer food inflation** as rice prices is likely to continue to decline.
- India's expanded rice cultivation in the new monsoon has continued to **exert downward pressure on global exports prices and sent rice export prices in Thailand and Vietnam lower.**
- On the consumer goods front, durables may see seasonal discounts. While **sales campaigns for autos** during the Hungry Ghost Month are a seasonal norm which drive prices lower to stimulate sales, these **price effects may be more accentuated this year with the excess inventories issues in China spilling over**.
- Nonetheless, softer retail sales is not a foregone conclusion. In fact, given **the economic recovery and recent salary adjustments, we expect retail sales to stay buoyant** around the 9.4% print in August as **consumers take advantage of the discounts**. This was also observed in 2022.
- Meanwhile, **tourism sector is likely to remain robust** with arrivals performing above pe-covid level for most part of this year except for July and February. As such, we expect a snap back in arrivals for August.
- Turning to the manufacturing base, **industrial production growth is likely to moderate** from the 11.2% YoY growth in July as growth of imported inputs from Korea show signs of slowing. That said, this mild moderation is no cause for any easing with the SBV's policy rate just 50bps above pandemic lows, which is reflective of their on-going support for growth.

Australia Q2 GDP: The Public Private Asymmetry



Source: CEIC; Mizuho

- Following Q1's GDP growth of 1.1% YoY, we expect Australia's Q2 GDP to come it at around 1.0% which still represents a rather decent 0.3% QoQ growth.
- Nonetheless, this is not bona fide relief considering that **government spending is likely to remain the main driver of growth as was the case in Q1 as household spending remains lacklustre.**
- The persistent increase of government operating expenses in April and May (19% YoY on average) implies that support from fiscal spending remains outsized.
- In contrast, for the second straight quarter, **real retail sales continued to contract in Q2** on lower expenditure on food items, apparel and at departmental store.
- The **weak private consumption** is unsurprising given the diminished household savings ratio depicting **stretched households** with inflation eroding purchasing power. In addition, the **persistence of below trend savings ratio also imply the need to draw on existing savings.**
- Amid the falling demand for coal and iron ore, the **external sector is also likely to remain a drag on growth as trade balance headed lower in Q2.**
- Consequently, this Q2 GDP print will sound caution for AUD bulls hoping to extend rallies especially after the CPI print last week affirms the difficulty in guiding underlying inflation lower.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	144.9	0.530	0.37%	142.50	~	147.00
EUR/USD	1.1087	-0.0105	-0.94%	1.092	~	1.119
USD/SGD	1.3021	0.001	0.07%	1.2900	~	1.3200
USD/THB	33.92	-0.345	-1.01%	33.80	~	34.30
USD/MYR	4.316	-0.0588	-1.34%	4.290	~	4.360
USD/IDR	15455	-35	-0.23%	15,300	~	15,600
JPY/SGD	0.8988	-0.002	-0.26%	0.905	~	0.898
AUD/USD	0.681	0.002	0.22%	0.672	~	0.686
USD/INR	83.85	-0.046	-0.06%	83.4	~	84.1
USD/PHP	56.138	-0.197	-0.35%	55.9	~	56.8

^Weekly change.

FX: Fed Pivot Play Upset?

- In an upset to Fed pivot play, the USD was broadly stronger against the G10 currencies, despite a small decline in front-end UST yields. This could be due in part to geopolitical flares in the Middle East (prompting some haven flows) as well as volatile week for Brent oil amid supply uncertainty/demand woes.
- Across currency pairs, competitive pivot dynamics was at play, with EUR leading losses following downside surprises to Germany's and Spain's inflation prints, and ahead of the EZ overall number.
- Meanwhile, JPY was weaker as BoJ Deputy Governor Himino's remarks that markets remained "unstable" diminished hopes for a hike next month.
- NZD bucked the trend, leading gains amid improved business sentiment and pushed back expectations of further cuts.

EM-Asia: Fading Exuberance

- The rally in EM Asia FX continued*, albeit a weaker and less broad-based one compared to the previous week.
- MYR led the pack amid strong equity inflows which saw KLCI approaching close to a four-year high.
- THB continued to play catch-up as political uncertainty fades and slight improvement on fiscal outlook continues.
- Meanwhile, IDR was supported on net inflows but KRW underperformed amid weaker economic activity, which could pressure the BoK to cut rates faster.

*MTD, MYR has rallied ~6.4%, followed by IDR (+5.0%), THB (+5.0%) and PHP (+3.9%).

Bond Yield (%)

30-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.894	-2.1	3.858	5.9	Steepening
GER	2.337	-2.9	2.258	3.6	Steepening
JPY	0.349	-0.7	0.880	-0.4	Steepening
SGD	2.504	-13.5	2.685	-2.7	Steepening
AUD	3.664	0.9	3.964	0.1	Flattening
GBP	4.089	43.5	3.993	8.3	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,591.96	-0.76
Nikkei (JP)	38,647.75	0.74
EuroStoxx (EU)	4,972.27	1.28
FTSE STI (SG)	3,436.68	1.44
JKSE (ID)	7,630.78	1.15
PSEI (PH)	6,897.54	-0.93
KLCI (MY)	1,667.60	1.95
SET (TH)	1,362.14	0.54
SENSEX (IN)	82,439.63	1.67
ASX (AU)	8,091.85	0.85

USTs: More Steepening Ahead?

- UST yield curve steepened.
- While front-end yields fell, the decline was rather measured on the back of cautionary notes in FedSpeak. While supporting the need to lower rates, Fed Barkin pointed to risk of iinflatiion plateauing at some level >2% should homebuyers and businesses are awaiting for lower rates to make pucharses and investments. Meanwhile, Fed Bostic cautioned that cutting too early could present the risk of raising rates again.
- Longer-end yields climbed as markets contemplate the outlook for US debt load (and attendant impact on yields) amid election season.
- Looking ahead, we do not expect 2Y yields to dip below 3.70% (barring any sharp deterioration in economic data) on fears that aggressive Fed cuts bets are overextended, especially as September meeting approaches.
- Meanwhile, some upside risks to 10Y yields persist amid campaigning.

FX Brief:

1) JPY: Outperformance unlikely on diminished hopes of a Sep hike, but diverging policy trajectories from the Fed would provide some support. JPY moves should track broad USD moves.

2) EUR: Moderating inflation should set a soft tone for the week ahead, especially as ECB speakers sound mixed views. Could plausibly dip below 1.10 handle.

3) AUD: Should remain supported amid hawkish tendencies by RBA, especially as dis-inflation was on the back of electricity rebates, while growth is expected to remain decent.

4) CNH: Soft PMI prints would likely set the stage of an uninspired CNH, which could move back to above 7.1 levels.

5) INR: Could see more meaningful gains towards mid-83 as changes to MSCI indexes could see more inflows.

6) SGD: Unlikely to break below mid-1.29 on the back of likely softer CNH and EUR.

7) IDR: Risks increasingly tilted to some reversion IDR after August's stellar perfromance, as markets adjust Fed rate cut bets. Durable break of 15,200 could be difficult.

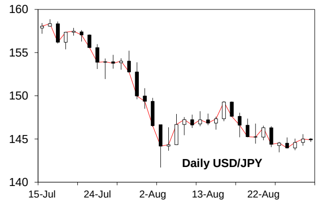
8) THB: A Bot that is increasingly concerned over deteriorating credit quality could limit further rally towards mid-33 levels.

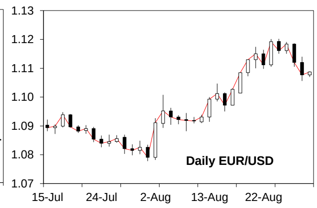
9) MYR: BNM prolonged pause and likely upbeat growth outlook should aid MYR's strength, but a durable break below 4.30 could elude amid risks of reversion.

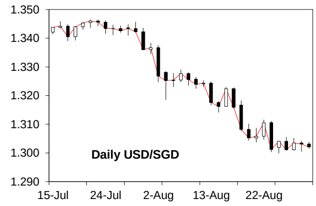
10) PHP: Dovish inclinations by BSP to ease policy could see some sell-off should CPI moderates more than expected.

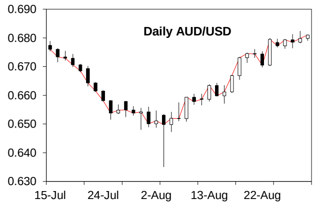
11) KRW: Below-expectations economic activity data following BoK's dovish remarks should temper rallies towards 1310 levels.

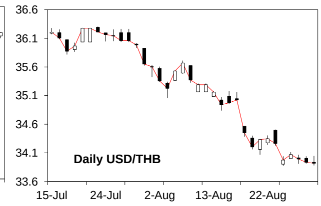
12) TWD: Exuberance on semiconductor counters taking a backseat (as evidenced in daily outflows in the past week) could see sustained trading above 32 levels.

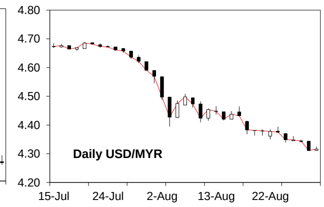


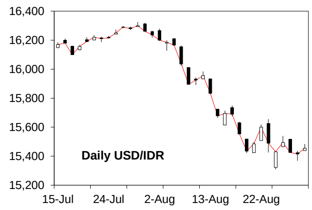


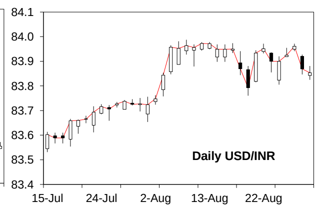


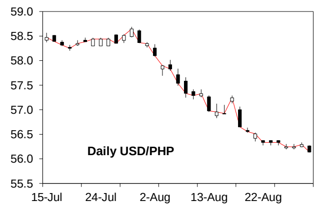


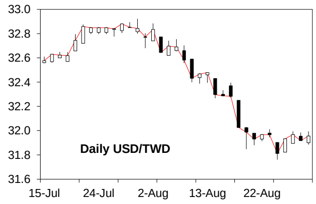


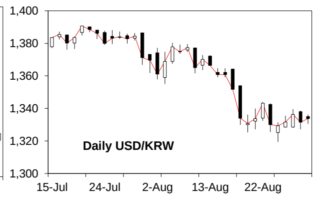


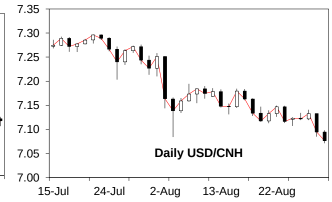












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