MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 18 Oct 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
21 Oct	US	Leading Index	Sep	-0.3%	-0.2%
22 Oct	US	Richmond Fed Mfg Index	Oct	--	-21
	EZ	Govt Debt/GDP Ratio	2023 F	--	88.6%
23 Oct	US	Existing Home Sales	Sep	3.88m	3.86m
	EZ	Consumer Confidence	Oct P	--	-12.9
	US	Federal Reserve Releases Beige Book			
24 Oct	US	New Home Sales	Sep	713k	716k
	US	**Initial Jobless Claims**		--	241k
		Mfg/Services PMI (US, EZ, JP)	Oct P		
	US	Chicago Fed Nat Activity Index	Sep	--	0.12
	US	Kansas City Fed Mfg Activity	Oct	--	-8.0
	JP	Machine Tool Orders YoY	Sep F	--	-6.5%
25 Oct	US	U. of Mich. Sentiment/Expectations	Oct F	69.5/--	68.9/72.9
	US	U. of Mich. 1Y/5-10Y Inflation	Oct F	--	2.9%/3.0%
	US	Durable Goods Orders/Nondef Ex Air	Sep P	-1.0%/--	0.0%/0.3%
	US	Kansas City Fed Services Activity	Oct	--	-2.0
	JP	**Coincident Index/Leading Index CI**	**Aug F**	**--**	**113.5/106.7**
	JP	PPI Services YoY	Sep	2.7%	2.7%
	GE	IFO Business Climate/Expectations	Oct	86.0/--	85.4/86.3

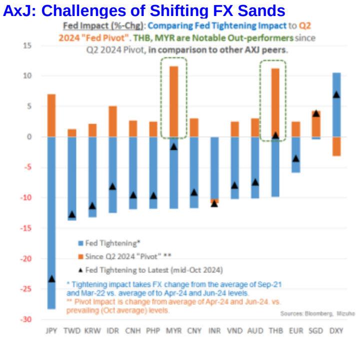
Asia

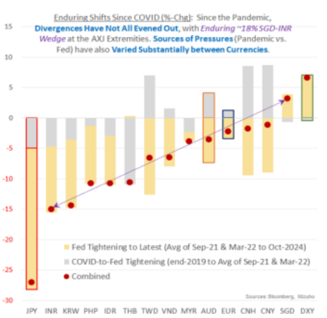
Date	Country	Event	Period	Survey*	Prior
15-25 Oct	CH	1-Yr Medium-Term Lending Facility Rate		2.0%	2.0%
21 Oct	**CH**	**1Y/5Y Loan Prime Rate**		**3.15%/3.65%**	**3.35%/3.85%**
	KR	Exports/Imports 20 Days YoY	Oct	--	-1.1%/-4.5%
	TW	Export Orders YoY	Sep	7.6%	9.1%
	MY	GDP YoY	Q3	5.1%	5.9%
22 Oct	KR	PPI YoY	Sep	--	1.6%
23 Oct	**SG**	**CPI/Core YoY**	**Sep**	**1.8%/2.6%**	**2.2%/2.7%**
	KR	Consumer Confidence	Oct	--	100.0
	TW	Industrial Production YoY	Sep	--	13.4%
24 Oct	AU	PMI Mfg/Services	Oct P	--	46.7/50.5
	KR	**GDP YoY/SA QoQ**	**3Q A**	**2.0%/0.6%**	**2.3%/-0.2%**
	MY	**CPI YoY**	**Sep**	**1.9%**	**1.9%**
	PH	Budget Balance PHP	Sep	--	-54.2b
	TW	**Unemployment Rate**	**Sep**	**--**	**3.4%**
25 Oct	SG	Industrial Production YoY	Sep	2.3%	21.0%
27 Oct	CH	Industrial Profits YoY	Sep	--	-17.8%

Week-in-brief: Easing Path - Anything But Easy

- This eventful week simply reinforces that fact that the **expected global monetary policy easing cycle is anything but easy, with each decision filled with a mix of caution and fear.**
- The week started with the **MAS** who in a meeting which maintained all aspects of policy settings, alluded to a distinct case of **easing in the pipeline** as the inflation risks become more balanced. That said, this comes from an elevated S$NNER due to deliberate front loaded policy action from 2021-2022. (See MAS After-Thoughts: Distinctly, Even if Not Obviously, Dovish, 10 October)
- In Thailand, it was the **discomfort of higher NPLs** and slower credit growth which saw the BoT undertake a surprise rate cut. While this is not the start of an easing cycle, an elusive neutral rate imply that credit conditions, NPLs and the THB would still dictate the next move.
- For the BSP, the sight of a weaker PHP may have held back the BSP from a 50bps cut as they opted for a standard 25bps cut. In the same vein, Bank Indonesia stood pat as they remain on the lookout for future opportunities to ease on IDR stability.
- Even **without a policy meeting in Vietnam, the VND ended up the underperformer** this week on SBV officials being open to rate cuts, underscoring that following the Fed is far from easy.
- Looking ahead, we **expect that the market induced warning will restrain the SBV from embarking on policy rate easing.**
- Meanwhile, in the G10 space, the ECB **cut rates by 25bp in a decision that wasn't even signalled at their previous meeting.** Even as ECB President Lagarde **attempts to be non-committal about a December rate cut, markets remain highly sceptical** especially amid weak growth indicators and their rather confident take on being in the process of breaking the neck of inflation. That said, the core inflation neck may prove harder to break.
- Down Under, a **stellar jobs report in Australia informs that the RBA is far from easing** though AUD bulls found it a stretch to extend rallies as China stimulus continue to disappoint alongside dismal economic data.
- For the week ahead, **South Korea's G3 GDP is likely to remain dismal and justify the BoK's decision** to ease the restrictiveness of their monetary policy settings. The mild uneven services expansion will have to shoulder the drag from weak construction and contracting manufacturing activity on a QoQ SA basis.
- Singapore CPI print on Wednesday remains closely watch especially for underlying core inflation as a faster than expected decline may bring forward the projected path towards below the 2% mark which may tempt a December easing. That said, we expect **MAS core inflation to remain buoyed above 2.5%.**
- In Indonesia, President Prabowo will be inaugurated this Sunday and his cabinet selection will be closely watched in the week ahead.
- All in, under the relative lack of tier 1 US data, risk rallies may become more uneasy into earnings and US election thoughts may translate into an uneasy steepening of the UST yield curve.

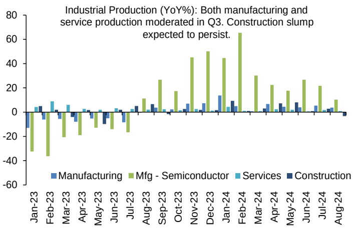
AxJ: Challenges of Shifting FX Sands



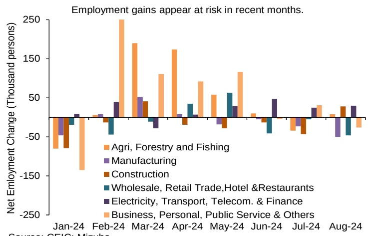


- A **bumpy course for AXJ**, with rapidly shifting volatility, **rather than a smooth upward trend on "pivot USD"**, looks to be par for the course.
- It's the USD: For one, pockets of perkiness in the US economy inducing swings in Fed cut expectations, suggest USD volatility frustrating hopes for unambiguous AXJ grind higher.
- It's the Elections: What's more, with US elections, the risks are tilted to a stronger USD, compromising AXJ. And more acutely so, with Trump 2.0 outcomes.
- It's the Sensitivities: Crucially, **AXJ beta** (to periods of USD decline) are **highly differentiated** and **time-varying**. So, a re-ordering of performance depending on the drivers of risks is notable.
Especially as other **competing factors** such as *China stimulus, US-China trade antagonism* and *domestic political risk premium* evolve and interact.
- It's Complicated (by post-pandemic distortions): Finally, **inherited post-pandemic distortion**s, with the *distinction between cyclical-structural shifts blurred,* shroud AXJ outcomes.
Consequently, **measures of "reversion"** pegged to levels just before the Fed kicked off policy normalization may be **biased, if not flawed**. Hence, through the Fed rate cut cycle, **reactions across various AXJ are set to be very differentiated**, with *varying degrees of incomplete reversion.*

South Korea Q3 GDP: Justifying the BoK



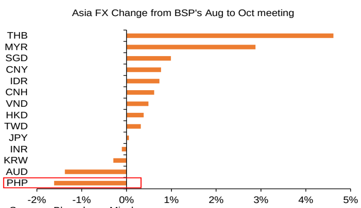
Source: CEIC; Mizuho



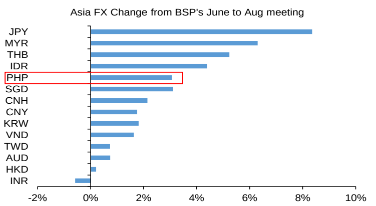
Source: CEIC; Mizuho

- **Q3 GDP release in Korea is likely to languish below** the 2.3% YoY growth posted in Q2 and serves as further justification for the BoK to embark on their 25bps rate cut in early October.
- Over July and August, **semiconductor production growth moderated in line with its exports.** Falling demand is also reflected by declining memory chip prices. The implication is **that overall manufacturing production over the first two months of Q3 contracted relative to Q2. Reflecting so, employment in the manufacturing sector also declined by 73k jobs.**
- In turn, avoiding a technical recession may instead rest on the services sector which showed a mild expansion on a SA basis.
- The services picture is also utterly mixed one with almost half of the sub-sectors showing a decrease in output over July and August relative to Q2. The transportation services sector benefited from higher freight and passenger demand and real estate service buoyed by the renewed transaction activity in Seoul. The latter may slow as recent DSR measures kick in for September.
- **Soft spots persist** as wholesale and retail trade shrank alongside slower accommodation and restaurant services demand despite improving visitor arrivals hinting at domestic consumer weakness.
- The feedback **into labour markets is also evident as Wholesale, Retail Trade, Hotel & Restaurants sector saw 51k loss of employment over July and August**.
- On balance, Q3 GDP growth may instead may be tilted towards further weakness by the construction sector which was the case in Q2. **Completed construction continued to slump in July and August**, contracting around 1% relative to Q2, admittedly hot weather was cited as one of the reason, though the continued trend of declining permits authorised for construction point to prolonged weakness.
- All in, this weak Q3 GDP print is likely to validate the Bok move to ease to alleviate domestic demand weakness even as external demand remain firm for now.

Post-BSP: FX Interdependence



Sources: Bloomberg; Mizuho



Sources: Bloomberg; Mizuho

- Despite BSP Recto flagging a possibility of a 50bps cut, a smaller 25bps have proved to be the better balance at BSP meeting on 16 October.
- Arguably, a downside surprise in September inflation (1.9%) undershooting BSP's 2-4% target band, large cumulative hikes relative to regional peers and growth risks could have motivated a larger cut of 50bps.
- Therefore, to a large extent, it is unlikely a mere concidence that the decision coincided with PHP being the worst performer in EM Asia since the prior meeting. **PHP was 1.6% softer against the USD since the prior meeting,** a marked contrast against regional peers such as the IDR, MYR, SGD and THB, all of which **gained against the USD**.
- Simply put, BSP's easing cycle does not just hinge on growth-inflation risks, but also on PHP. This shouldn't be that surprising, given that PHP and wider macro stability are inextricably linked; and presents a sharp trade-off with growth relief. And in this case, the delta of growth relief from a 50bps vs 25bps may not be sufficiently large to override PHP volatility factor.
- In a similar vein, these arguments could also be put forth that supported PHP provided the opportunistic backdrop for the surprise cut in August cut.
- Looking ahead, with imminent US elections and a non-linear path to US slowdown, volatile Fed expectations and attendant USD volatility could continue to constrain BSP's easing cycle.
- But to be clear, policy rates will still go down, but if the conditions are not right, it may take a longer time; and a 50bps cut may be more elusive barring a synchronised G4 easing cycle.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	150.14	1.460	0.98%	148.00	~	153.00
EUR/USD	1.0842	-0.0109	-1.00%	1.080	~	1.090
USD/SGD	1.313	0.008	0.61%	1.3050	~	1.3230
USD/THB	33.147	-0.153	-0.46%	33.00	~	33.80
USD/MYR	4.3055	0.022	0.51%	4.280	~	4.350
USD/IDR	15465	-115	-0.74%	15,450	~	15,800
JPY/SGD	0.8744	-0.003	-0.38%	0.853	~	0.894
AUD/USD	0.6714	-0.003	-0.40%	0.660	~	0.677
USD/INR	84.07	0.006	0.01%	83.9	~	84.3
USD/PHP	57.525	0.314	0.55%	57.3	~	58.4

^Weekly change.

FX: Softer Risk Sentiments

- USD was stronger against all G10 peers on higher yields and amid some softness in risk sentiments. S&P500 only managed a ~0.5% gain thus far this week.
- NOK led losses on Brent Crude's decline, while SEK underperformed given Riksbank's remarks that policy rates could be cut at a faster pace to support the economy.
- EUR performed in the middle of pack as ECB's 25bps cut was widely expected.

EM-Asia: Accents of Growth Risks

- THB led gains despite BoT's surprise cut, which could underscore markets' expectations of better growth (and more equity inflows) on easier conditions as the hawkish cut likely mean that the bar for the next cut would be high.
- IDR also outperformed amid BI's hold and reaffirmation of it commitment towards rupiah stability, in addition to markets taking solace on encouraging news that Finance Minister Indrawati was asked to stay in Prabowo's administration, which could suggest that fiscal risks may be contained.
- In contrast, KRW led losses, as BoK Governor Rhee's comments could have sparked some fears on a hard landing. Notably, Governor Rhee dismissed the idea of faster interest rate cuts to boost consumption, as the central bank remained cautious over rising household debt and real estate-related financial risks.
- PHP also underperformed as BSP cut its policy rate by 25bps, in another step towards easing after its first cut in August and RRR cut in September.
- CNH performed in the middle of pack as stimulus announcements over the weekend, housing briefing on Thursday failed to impress markets, even as PBoC remarks on Friday subsequently pared some losses.

Bond Yield (%)

18-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.978	2.3	4.110	1.0	Flattening
GER	2.125	-10.5	2.217	-4.7	Steepening
JPY	0.420	1.8	0.957	1.9	Steepening
SGD	2.653	-5.7	2.775	-0.8	Steepening
AUD	3.890	6.7	4.305	0.1	Flattening
GBP	4.042	-12.3	4.112	-9.4	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,841.47	0.45
Nikkei (JP)	38,981.75	-1.58
EuroStoxx (EU)	4,967.86	-0.72
FTSE STI (SG)	3,642.16	1.91
JKSE (ID)	7,745.93	3.00
PSEI (PH)	7,415.73	1.44
KLCI (MY)	1,646.39	0.79
SET (TH)	1,497.71	1.88
SENSEX (IN)	81,253.88	-0.16
ASX (AU)	8,283.23	0.84

USTs: A Different Climb

- Bear steepening this week was a reflection on US exceptionalism.
- UST yields remain elevated as the late week **strong retail sales and initial jobless claims print reversed** the early week declines on softer oil prices.
- Steepening is expected to persist especially as the US election heats up with polls being too close to call or betting markets leaning towards Trump 2.0.
- With the trajectory of Fed cuts now being reduced to less than 150bps of cuts by end-2025, this is essentially aligned with the Fed's Dot plot. The implication being that the room for a further climb in front end yields may become increasingly constrained.
- Longer end yield may continue to remain buoyed by fiscal proposals of both Presidential candidates.
- All in, 2Y UST yields are to hover in the 3.9-4.1% range while 10Y UST yields estimated to trade between 4-4.25% with upside bias.

FX Brief:

1) JPY: Verbal intervention threat rises as USD/JPY rises above 150. Buoyancy retained for the week ahead as opportunities for effective intervention action may elude in the abscence of major releases.

2) EUR: Languishing as EUR bulls may face the same fate as inflation, in progress of being broken in the neck. Trading expected in the 1.08-1.09 range.

3) AUD: Jobs report while stellar remain an ineffective catalyst for rallies as China stimulus disappoint. Backstopped above mid-66 cents.

4) CNH: Stimulus boosted sentiments tussle with PBoC easing propsects to dull CNH outlook.

5) INR: Mostly buoyant above 84 levels, and should continue trading at similar levels as RBI's reserve accumulation continue.

6) SGD: Moved above 1.31 handle on MAS' dovish hold. High bar for Chinese authorities measures to impress markets an easing ECB leading EUR softer could mean durabiliyt above 1.31 levels.

7) IDR: BI's hold and some fiscal relief (with Finance Minister Indrawati in helm) could backstop IDR's declines at 15,800, barring any fiscal shocks at Prabowo's swearing-in this weekend

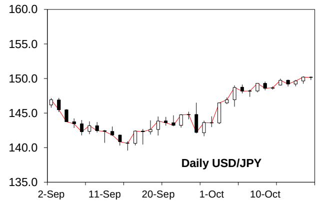
8) THB: BoT rate cut shurgged off though credit conditions and NPL remain concerning with gains coming from sight of lower oil prices. Volatility to persist though buoyancy above 33 retained.

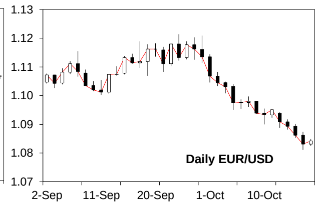
9) MYR: Oscillated around 4.30 levels. Sustained traction under 4.30 would likely require a firmer CNH push.

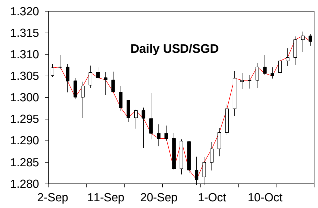
10) PHP: Could see a breach of 58 levels as BSP's easing bias remains.

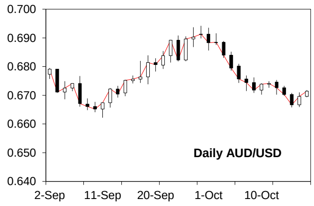
11) KRW: Weakness observed on foreign equity outflows as semiconductor sentiments remain mixed and Korean authories espoused that markets have priced in WGBI inclusion effects. Upcoming GDP print to consolidate weakness rather than provide cause for recovery.

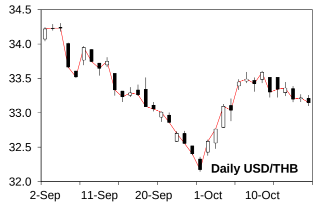
12) TWD: Outperformance this week as CBC Governor expressed concernc over housing prices and that the policy decisions need not follow the Fed. TSMC robust earning likely dampened equity outflows.

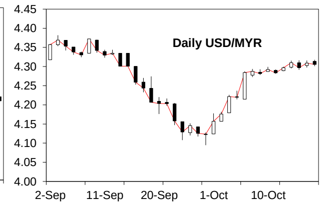


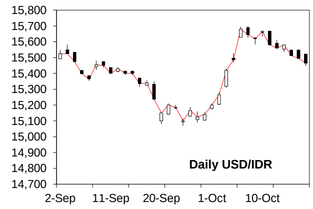


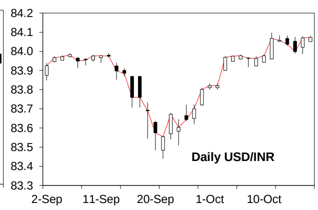


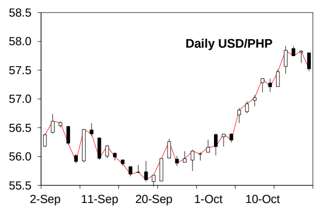


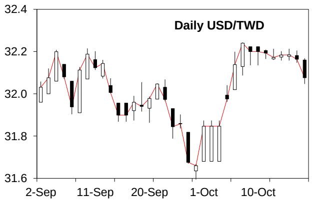


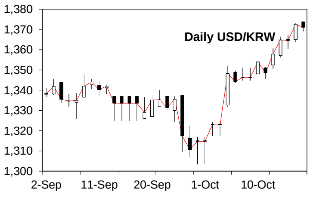


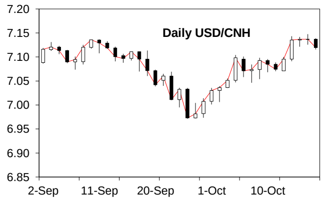












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