MIZUHO

WEEK AHEAD

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19-Jul-2024

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Economic Calendar

•Survey results from Bloomberg, as of 19 Jul 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
22 Jul	**US**	**Chicago Fed Nat Activity Index**	**Jun**	**-0.06**	**0.18**
23 Jul	US	Existing Home Sales	Jun	4.00m	4.11m
	US	Richmond Fed Mfg Index	Jul	-7	-10
	EZ	**Consumer Confidence**	**Jul P**	**-13.8**	**-14.0**
	JP	Machine Tool Orders YoY	Jun F	--	9.7%
24 Jul	US	New Home Sales	Jun	640k	619k
	US	PMI Mfg/Services (US, EZ, JP)	Jul P	--	--
	US	Wholesale Inventories MoM	Jun P	--	0.6%
25 Jul	US	Initial Jobless Claims		--	243k
	US	**GDP Annualized QoQ**	**2Q A**	**1.8%**	**1.4%**
	US	**Personal Consumption**	**2Q A**	**--**	**1.5%**
	US	Durable Goods Orders/Nondef Ex Air	Jun P	0.5%/0.1%	0.1%/-0.6%
	US	Kansas City Fed Manf. Activity	Jul	-6	-8
	GE	**IFO Business Climate/Expectations**	**Jul**	**89.0/89.6**	**88.6/89.0**
26 Jul	US	U. of Mich. Sentiment/Expectations	Jul F	--	66.0/67.2
	US	U. of Mich. 1Y/5-10Y Inflation	Jul F	--	2.9%/2.9%
	US	**PCE/Core Deflator YoY**	**Jun**	**2.5%/2.6%**	**2.6%/2.6%**
	US	Personal Income/Spending	Jun	0.4%/0.2%	0.5%/0.2%
	JP	Coincident Index/Leading Index CI	May F	--	116.5/111.1

Asia

Date	Country	Event	Period	Survey*	Prior
22 Jul	CH	1Y/5Y Loan Prime Rate		3.45%/3.95%	3.45%/3.95%
	TW	Unemployment Rate	Jun	--	3.4%
23 Jul	**SG**	**CPI/Core YoY**	**Jun**	**2.8%/3.0%**	**3.1%/3.1%**
	KR	PPI YoY	Jun	--	2.3%
	TW	Industrial Production YoY	Jun	14.5%	16.1%
	IN	**India Budget**			
24 Jul	AU	Judo Bank Australia PMI Mfg/Services	Jul P	--	47.2/51.2
	KR	Consumer Confidence	Jul	--	100.9
	MY	**CPI YoY**	**Jun**	**2.2%**	**2.0%**
	PH	Budget Balance PHP	Jun	--	-174.9b
25 Jul	**KR**	**GDP YoY/SA QoQ**	**2Q A**	**2.6%/0.1%**	**3.3%/1.3%**
26 Jul	SG	Industrial Production YoY	Jun	0.1%	2.9%
27 Jul	CH	Industrial Profits YoY	Jun	--	0.7%

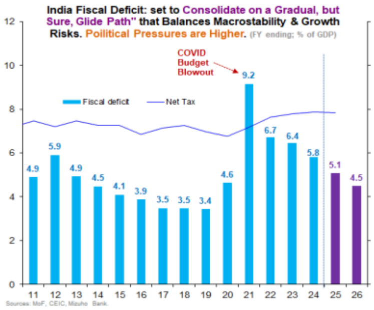
Week-in-brief: Political Flares

- **Political flares dominated markets, throwing them into a state of flux.** Well, a triumphant Trump against a failed assassination attempt at the start of the week set the stage where market movements were driven by political considerations. **US-China tensions bristled** as the Biden administration floated severe trade restrictions if companies kept giving China access to advanced semiconductor technology; and Trump's threats on tariffs.
- That China's growth headwinds both domestically and externally remained was reflected in the JPY-CNY wedge following Trump's warnings against the weak CNY and JPY, especially as there was nothing particularly new to excite markets at China's Third Plenum. Perversely, references to "quality" growth over quantity may imply willingness to stomach slower overall growth. As markets await the Politburo meeting to get more details, sentiments remain cautious.
- Meanwhile, ECB's held rate as expected, but leaving the Sep decision "wide open" on data dependence heightens the risk that **the single mandate central bank may encounter greater risks of costly policy mistakes in navigating the sticky inflation and stumbling growth quagmire**. Point being, downside risks to growth and investments hampered by muted growth and heightened uncertainty amid sticky services inflation and elevated wage inflation could transpire to stagflation.
- That Fed policy had spillovers internationally was plainly demonstrated in **Bank Indonesia's explicit remarks that scope of easing would depend on Fed Funds Rate, UST yields and USD strength, suggesting that any cuts by BI would be after the Fed**. The BI stood pat as expected.
- Meanwhile, Indonesia announced that Prabowo's nephew would be appointed Deputy Finance Minister, which could allude to **shifting power dynamics within the cabinet**, as Prabowo attempts to push for more fiscal spending.
- BNM looks to be the outlier and abstain from the global easing cycle, especially as growth powers up. Following Q1 4.2% outrun, Q2 GDP further accelerated to 5.8% YoY powered by services, manufacturing and agriculture sectors. Nonetheless, resilient services print arguably on the back of huge withdrawals from retirement accounts cast doubts on durability of sustained outperformance.
- Next week, **India's Budget will still retain ambitious fiscal consolidation goals** despite demands for more state spending in the context of more diverse political coalitions in the Modi government. This however falls shorts of catalysing any imminent ratings upgrade for now.
- Elsewhere, South Korea Q2 growth could edge up slightly from Q1 (3.3% YoY) as already-elevated manufacturing output limits further acceleration. Meanwhile, real estate remains robust and services should be supported as financial/insurance and infocomm services offset a contracting of wholesale/retail sales.
- All in, dis-inflation progress achieved thus far could mean that looking forward, growth risks on geopolitical considerations or domestic concerns could increasingly steal more of the limelight.

India Budget: Raising The Bar

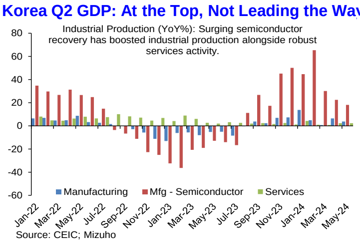
*"Now, here, you see, it takes all the running you can do, to keep in the same place" - **The Red Queen, Though the Looking Glass***

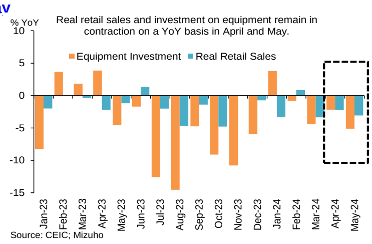
- India is set to **maintain ambitious fiscal consolidation** plans, which have been ***cheered by investors and ratings agencies alike***. But **India *will have to "run" harder***, given political demand for more spending, ***just to maintain its fiscal consolidation goals***. Moreover, it ***may even entail diminished prospects of ratings upgrade.*** For the record, we expect that the FinMin **will maintain the fiscal targets from the preliminary, pre-elections budget**. That's to say, retain the **5.1% (of GDP) deficit for FY25**, which entails a **0.7%-pt deficit reduction plans from 5.8% in FY24***.
- Furthermore, whether the target of **further deficit reduction to 4.5% for FY26** there will also be scrutinized. But **given fiscal positives already baked in**, broad adherence to existing targets alone will



neither impress investors, nor seduce ratings agencies into an upgrade. Especially as the **RBI dividend windfall** of **INR2.11trln** (as opposed to expectations of INR850bn) constitutes **a fiscal bonus of 0.4% of GDP**. And so, maintaining the same consolidation is in effect an **admission of inherent fiscal slippage on the spending side of things.**
- ***Crucially*, politically-induced fiscal strains** that have emerged after the BJP/Modi lost outright Majority points to more elevated, inherent fiscal risks.
- Especially as the Modi 3.0 Administration will now have to deal with, and arguably concede to; i) higher budget demands of coalition partner, and ii) loosen purse strings to assuage on-the-ground disgruntlement about inequalities that have worsened.
- Given these political vulnerabilities, it is even more important to demonstrate the ability to achieve earlier fiscal consolidation plans. Insofar that RBI dividend windfall is one-off, markets/rating agencies will assess if a gentler glide path to fiscal consolidation may be necessitated further out.
- Ratings Impact: In which case, imminent ratings upgrade will be deferred.
- Bond Impact: Accordingly, beyond Bond Index inclusion boost, credit premium reduction will be limited, and term premium may widen at some point.
- FX Impact: Relative rupee out-performance (boost already priced in earlier) may also begin to fade at the margin. *Referring to the year ending March 2024

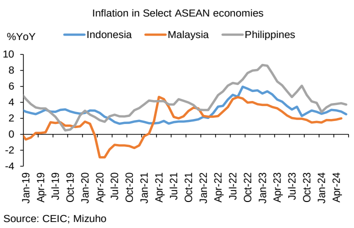
Korea Q2 GDP: At the Top, Not Leading the Wav

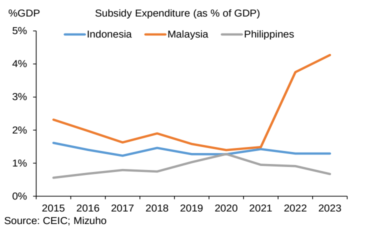




- Admittedly, our expectations for **Korea's Q2 GDP growth to remain firm and edge up to 3.4% YoY** from Q1's 3.3% which was already a significant outperformance **is an above consensus one**.
- That said we still expect that NSA sequential QoQ momentum to inadvertently slow.
- Specifically, given the already elevated manufacturing output, further acceleration is likely limited, with semiconductors production also remaining rather compared to Q1.
- Net exports will continue to be a key contributor to growth though the real impact is slightly less buoyed than the current account surplus which is accentuated by the rise in export prices.
- Despite the semiconductor upturn, **investments is likely to have remained patchy in Q2** with spending on equipment still lower than a year in April and May. Looking ahead, facilities investment may see a pick up given the support from measures such as the loan support package for the semiconductor industry as well as initiatives such as the Opportunity Development Zones.
- Meanwhile, services index showed robust growth of 2.3% YoY over April and May on resilient demand for financial and insurance activities as well as information and communication services.
- It was not all rosy with the likes of wholesale and retail trade contracting in the first two months of Q2 likely on stretched consumer budgets and as such private consumption growth is likely to slow.
- In the real estate services sector, activity appears robust as housing transactions up 7% YoY over April and May. The same though does not apply to the construction sector where output is likely to remain dismal with construction work completed was flat on a YoY basis and a 27% YoY contraction in housing permit issuance over April and May point to a bleak outlook.
- All in, the growth print is likely to tilt marginally towards the BoK's tendencies to hold but **unlikely to be uniformly convincing in its underlying details to lead monetary policy direction especially amid ongoing dis-inflation.**

EM Asia: Of Real Differentials





- **In contrast to rather encouraging dis-inflation progress in the majors, inflation in some EM Asia economies present upside risks.** Inflation in Philippines is still hovering near the top of BSP's 2-4% target range as food (and in particular rice) inflation remains sticky; Malaysia's CPI is set to edge up in June following the reduction in diesel subsidies in June and could move highr further with the forthcoming fuel subsidy rationalisation; while Indonesia's higher fiscal spending plans (if realised) could fuel inflationary pressures, on top of some relaxation in price controls*.
- Consequently, **differentiated policy actions would likely inform relative FX performance of EM Asia currencies**. Afterall, different direction of inflation trajectory would mean that any changes in nominal rates (via monetary policy actions) could amplify changes to relative real rate differentials (vis-a-vis the US). Given BNM's inclination to hold steady, in contrast to BI and BSP having flag impending cuts, MYR may have an advantage against the other two currencies. In particular, prospect of BSP frontrunning the Fed in cutting rates could present further downside volatility.
- But other than monetary policy action, fiscal plans also lead to differentials in FX on two fronts: first, expansionary fiscal spending could fuel price pressures, further depressing rate differentials; and second, excessive fiscal expenditures (and attendant increased borrowings) risks a loss of confidence by investors on fiscal sustainability concerns.
- In this aspect, **MYR remains the bright spot**, insofar as inflation uptick in June is a by-product of the government reducing spending on its subsidy programme - cost of which have been ballooning in recent years. Meanwhile, upside to IDR on plans to reduce fuel subsidies next year remains limited at this juncture as political will for implementation remains a question, and arguably overshadowed by more pressing worries of a possible scraping of the fiscal and debt-to-GDP ceiling. While Philippines still look on tract to a narrower fiscal deficit this year, slow-to-consolidate fiscal the 'twin deficit' situation still weighs on the PHP. All said, MYR could be the outperformer in coming months, with downside volatility accentuated for IDR (on fiscal woes) and PHP (on a dovish BSP).

*Indonesia raised the price ceiling of cooking oil in June, with plans to reduce fuel subsidies starting 2025.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	157.21	-0.620	-0.39%	152.00	~	161.00
EUR/USD	1.0883	-0.0024	-0.22%	1.078	~	1.099
USD/SGD	1.3444	0.004	0.26%	1.3340	~	1.3580
USD/THB	36.25	0.057	0.16%	35.10	~	36.90
USD/MYR	4.6827	0.0112	0.24%	4.640	~	4.700
USD/IDR	16190	52	0.32%	16,190	~	16,400
JPY/SGD	0.8551	0.005	0.65%	0.878	~	0.843
AUD/USD	0.6692	-0.009	-1.36%	0.663	~	0.684
USD/INR	83.64	0.100	0.12%	83.4	~	83.8
USD/PHP	58.35	-0.035	-0.06%	57.9	~	58.6

^Weekly change.

FX: JPY Surge...

- **Trump's allegations of, and warnings against, competitive JPY and CNY devaluation, dominated FX markets**.
- JPY surged on Trump's comments prompting a rally from mid-158 to sub-156 (1.5-1.6% gains).
- While continued possibility of BoJ interventions and a tightening bias on policy trajectory could have supported the gains, a rachet up in geopolitical tensions could have aided JPY's climb as well, with CHF outperforming G10 peers for the week.
- Meanwhile, NZD and NOK underperformed as cooler inflation bring forwad expectations of policy easing.
- Despite China's growth disappointment, AUD held up better as job markets remain resilient. Nonetheless, a tick-up in unemployment amid higher participation rates is unlikely to meet RBA's “more constrained aggregate supply” threshold for a hike.

EM-Asia: ..underscore China (and CNH) woes

- While **CNY (CNH) similarly gained on Trump's allegations, it was comparatively dismal (+0.3%), reflecting economic and geo-political vulnerabilities**, as bi-lateral trade antagonism and tightening restrictions aimed at China are comparatively more CNY negative.
- Accompanied by China growth disappointment, there was little to inspire EM Asia currencies up, which broadly weakened against the USD.
- KRW and TWD led losses, possibly as more severe semiconductor-related trade restrictions could mean downside risks to growth, while PHP and VND gained possibly on further reshoring hopes.
- In contrast, THB, having higher sympathetic JPY correlations, was comparatively supported.

Bond Yield (%)

19-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.468	1.7	4.198	1.5	Flattening
GER	2.745	-6.5	2.427	-6.5	Steepening
JPY	0.328	0.9	1.027	-2.2	Flattening
SGD	3.127	-6.9	3.041	-2.8	Steepening
AUD	4.113	-3.3	4.282	0.1	Steepening
GBP	3.932	-11.8	4.072	-3.5	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,544.59	-1.26
Nikkei (JP)	40,063.79	-2.74
EuroStoxx (EU)	4,844.46	-3.94
FTSE STI (SG)	3,450.03	-1.37
JKSE (ID)	7,264.13	-0.87
PSEI (PH)	6,791.69	2.16
KLCI (MY)	1,635.45	1.01
SET (TH)	1,318.64	-1.01
SENSEX (IN)	80,924.84	0.50
ASX (AU)	7,971.59	0.15

USTs: Policy vs Politics

- The tussle between policy easing considerations and expectations of greater US debt bloat saw UST yield nudged slightly higher in a flattening move.
- A greater US debt bloat is expected no matter Democrats or Republicans take the top seat, would mean thatn term premium would be supported, especially when compounded with elevated uncertainty and higher structural inflation.
- But for now, this is unlikely to overshadow the broader direction of moderation in yields on impending Fed rate cuts, especially as downside risks to growth (as in Beige book) and labour market have grown.
- Accordingly, we expect steepening to resume. In coming sessions, 2Y UST yields could move further lower to trade around 4.25-4.55% range while 10Y yields could trade around 4.10-4.25% range.

FX Brief:

1) JPY: Two-way volatility risks remain as intervention, potential delays in rinban purchase amounts and geopolitics tussle.

2) EUR: Increasing growth risks unlikely to support any rally above mid-1.09, but cautious view on inflation could backstop declines below mid-1.08.

3) AUD: China woes could lend to softness, but prolonged hold following resilient jobs gains should backstop any declines at 66cents.

4) CNH: Amid cautious optimism on Politburo meeting, any further heating up in geopolitical tensions with US could mean further softness.

5) INR: Slippage risks as (likely) ambitious budget plan may be viewed as difficult to achieve.

6) SGD: Softer CNH and EUR could retain buoyancy above 1.34 handle.

7) IDR: Changing power dynamics within the cabinet would likely accentuate fiscal woes; could possibly rebound back to 16,300 especially if developments in US spark "risk-off" mood.

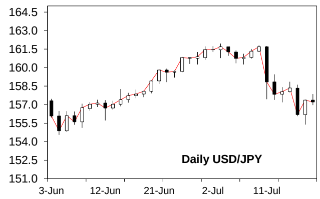
8) THB: Could retrace gains on JPY spillovers given two-way USD/JPY risks; may rebound back above 36.5 levels as details of digital wallet plans await.

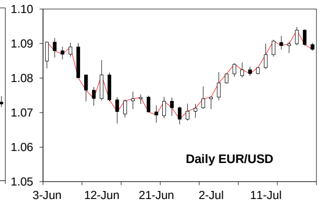
9) MYR: Growth outrun could likely to sustain traction below 4.70, especially as BNM looks abstain from global policy easing cycle.

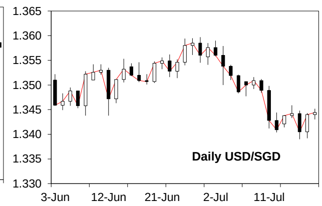
10) PHP: Still unable to move below 58 handle even in bouts of USD weakness; weakness likely to persist as BSP still looks to August for a cut.

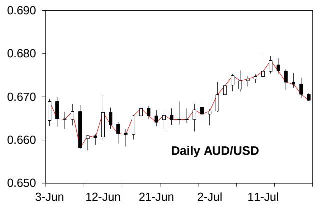
11) KRW: Semiconductor/trade-related news could dampen KRW further amid equity outflows.

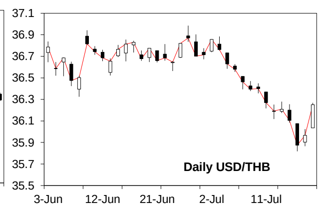
12) TWD: Similar to KRW, could be more vulnerable to China-trade related news.

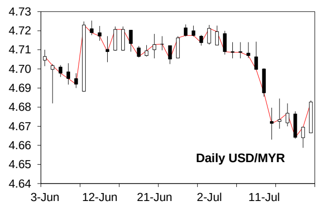


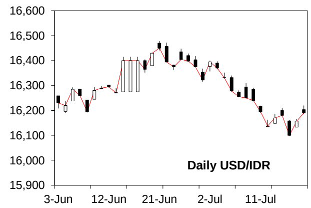


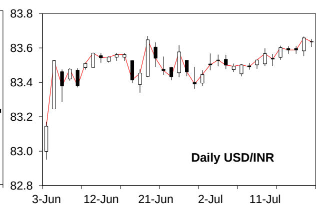


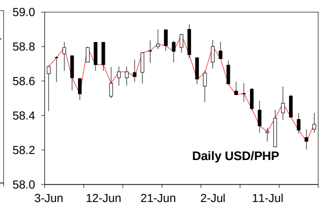


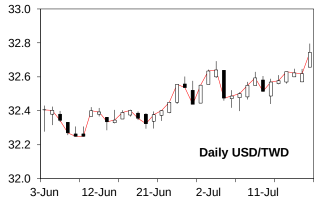


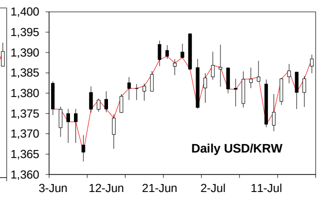


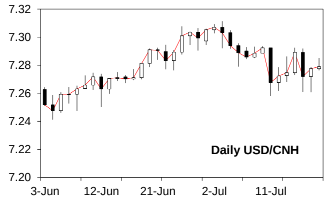












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