MIZUHO

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WEEK AHEAD

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20-Sep-2024

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Economic Calendar

•Survey results from Bloomberg, as of 20 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
23 Sep	US	Chicago Fed Nat Activity Index	Aug	-0.20	-0.34
24 Sep	US	Conf. Board Consumer Confidence	Sep	102.8	103.3
	US	Richmond Fed Mfg Index	Sep	--	-19.0
	GE	IFO Business Climate/Expectations	Sep	--	86.6/86.8
25 Sep	US	New Home Sales	Aug	698k	739k
26 Sep	US	Initial Jobless Claims		--	219k
	US	Durable Goods Orders/Nondef Ex Air	Aug P	-2.8%/-	9.8%/-0.1%
	US	GDP Annualized QoQ	2Q T	2.9%	3.0%
	US	Kansas City Fed Mfg Activity	Sep	--	-3.0
	JP	Machine Tool Orders YoY	Aug F	--	-3.5%
27 Sep	US	Advance Goods Trade Balance	Aug	-$98.5b	-$102.8b
	US	U. of Mich. Sentiment/Expectations	Sep F	--	69.0/73.0
	US	U. of Mich. 1Y/5-10Y Inflation	Sep F	--	2.7%/3.1%
	US	**PCE/Core Deflator YoY**	**Aug**	**2.3%/2.7%**	**2.5%/2.6%**
	US	Personal Income/Spending	Aug	0.4%/0.3%	0.3%/0.5%
	US	Wholesale Inventories MoM	Aug P	--	0.2%
	EZ	Consumer Confidence	Sep F	--	--
	JP	Coincident Index/Leading Index CI	Jul F	--	117.1/109.5

Asia

Date	Country	Event	Period	Survey*	Prior
23-30 Sep	IN	BoP Current Account Balance	2Q	-$10.25b	$5.70b
25-30 Sep	KR	Retail Sales YoY	Aug	--	6.3%
23 Sep	**SG**	**CPI/Core YoY**	**Aug**	**2.1%/2.6%**	**2.4%/2.5%**
	MY	**CPI YoY**	**Aug**	**2.0%**	**2.0%**
	TW	Unemployment Rate	Aug	3.3%	3.3%
24 Sep	**AU**	**RBA Cash Rate Target**		**4.35%**	**4.35%**
	KR	PPI YoY	Aug	--	2.6%
	TW	Export Orders YoY	Aug	7.3%	4.8%
25 Sep	**AU**	**CPI/Trimmed Mean YoY**	**Aug**	**3.7%/--**	**3.5%/3.8%**
	KR	Consumer Confidence	Sep	--	100.8
	PH	Budget Balance PHP	Aug	--	-28.8b
	TW	Industrial Production YoY	Aug	9.5%	12.3%
	CH	1-Yr Medium-Term Lending Facility Rate		2.30%	2.30%
26 Sep	SG	Industrial Production YoY	Aug	8.9%	1.8%
27 Sep	CH	Industrial Profits YoY	Aug	--	4.1%
	KR	Business Survey Mfg/Non-Mfg	Oct	--	73.0/71.0

Week-in-brief: Policy - Surprises and Expectations

- Clearly, **risk sentiments this week has been bolstered by the larger than expected rate cut of 50bps by the Fed** as the S&P 500 hit record highs.
- UST bulls though were not as fortunate as 2Y yields remain buoyed. This was on account of the Dot Plot which was hardly more dovish across the policy trajectory over the next 2 years.
- Accordingly, the Greenback has also retained traction with the DXY above mid-100.
- Across the Atlantic, the **BoE held rates as expected** and maintain their current pace of quantitative tightening which boosted the GBP and Gilt yields.
- In Japan, the **BoJ stood pat on policy settings** but dovish Governor Ueda stated diminished upside inflation risks allowing BoJ time to consider policy and the need to observe impact of earlier hikes. In turn, the USD/JPY rose above 143 as JPY led losses for this week.
- In EM-Asia, **Bank Indonesia in a surprise move**, cut policy rate by 25bps as Governor Warjiyo took a pro-growth angle. Undeniably, this move has been enabled by the recent IDR appreciation and further easing also continues to rest on "stable and appreciating rupiah, low inflation, and the need to drive higher economic growth".
- While Bank Indonesia has highighted global monetary policy uncertainty, the **easing bias is retained** given that **they are monitoring opportunities to lower the policy rate**
- Even on a non-rates setting week in the Philippines, the **BSP has moved to cut reserve requirement ratio** by 250bps to lower intermediation costs and promote better pricing for financial services. These moves are reflective of the less threatening Greenback which reduce the associated risks of the liquidity injection.
- Meanwhile, in **Taiwan**, **the CBC kept rates unchanged. Amid rising housing prices and loans, they raised their reserve requirement ratio** and tightened various credit measures to stem the ascending real estate lending to total lending ratio which is approaching record highs fueling concentration risks concerns. These measures are largely aimed at tackling speculative property investments rather than owner-occupied loans.
- For the upcoming week, the **RBA is expected to buck the trend of major peers as they stand pat on 24 September.** Down Under, inflation's decline in July is merely the effect of a drop in electricity cost driven by cost of living measures by the government rather than a signal than underlying price pressures have abated. Furthermore, resilient labour market employment gains also allow the RBA to focus on the inflation side of their dual mandate rather than being focused on both.
- On that note, while the headline CPI which is released on Wednesday will likely decline on petrol prices to slow AUD rallies but yet provide little real comfort for AUD bears given the policy inclination to stand pat for 2024.
- All in, attention remains firmly on growth in the US as risks assets look to the revised US GDP print to affirm the soft landing narrative which will likely be amplified by Fed speakers throughout next week.

Analysis of 2024 'Dot Plot' Evolution

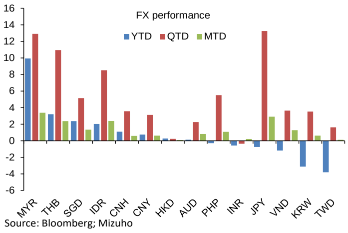
		2024	2025	2026
Sep-24	Fed Fund Rate* (%)	4.375	3.375	2.875
	Implied Cuts (bp)	100	100	50
Jun-24	Fed Fund Rate* (%)	5.125	4.125	3.125
	Implied Cuts (bp)	25	100	100
Mar-24	Fed Fund Rate* (%)	4.625	3.875	3.125
	Implied Cuts (bp)	75	75	75
Additional Cuts vis-à-vis March 'Dot Plot'		25	25	-25
Additional Cuts vis-à-vis June 'Dot Plot'		75	0	-50
Average Additional Dovish Shift		50	12.5	-37.5
Once the "extra" 25bp is backed out		25	-12.5	-62.5

* End-period Fed Fund rates as per FOMC median

50 is Not the New 25

- Not a "go big or go home", high-roller, all-in, dovish game-book.
- Instead, a one-off, "go big, and then go home", insurance plan.
- What the Fed & 'Dot Plot' convey.Powell: not making a habit of 50bp cuts.
- Nov & Dec FOMC: 25bp per meeting pace.
- 2025 FOMC: 12.5bp per meeting pace.Powell's is implying a fairly high pain threshold for 50 to be the new 25. Sets Fed up for potential Dovish impulses, if data disappoint vis-à-vis resilience suggested in the Summary of Economic Projections (SEP).

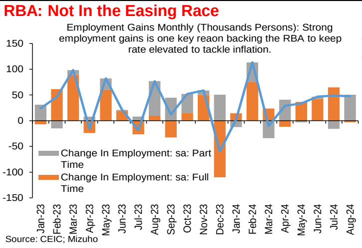
CNH Boost Not Policy Panacea



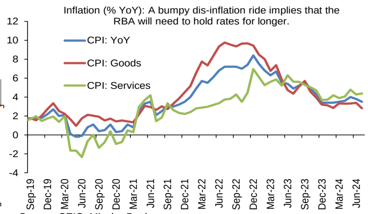
Source: Bloomberg; Mizuho

- More pronounced CNH boost in the aftermath of the Fed's upsized 50bp rate cuts is not unexpected. Afterall, this highlights a pathway for significantly diminished pressures on the CNH from Fed-PBoC rate differentials.
- Moreover, it also significantly alleviates the PBoC's policy dilemma associated with sharp trade-offs between deflation-type dynamics from a confidence deficit on one hand and CNH stability risks on the other (which can also have adverse, destabilising effects on confidence).
- Nonetheless, the relief from the Fed is not a panacea for the PBoC that must still contend with the balance between stimulus (easing) and avoiding a further build-up of financial risks (requiring restraint).
- What's more, even if the Fed's easing path manages a soft-landing that avert external demand shocks detrimental to China's production power houses, Geo-political risks to Chinese production are not resolved.
- If anything, in a world not distracted by recession risks, geopolitical antagonism may pile on.
- So "blue skies" rallies for CNH, and in particular, sustained out-performance may be compromised. And it is telling that the post-FOMC performance in the CNH is more middle-of-the-pack than Asia-leading.

RBA: Not In the Easing Race



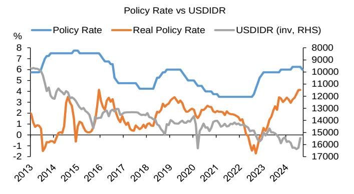
Source: CEIC; Mizuho



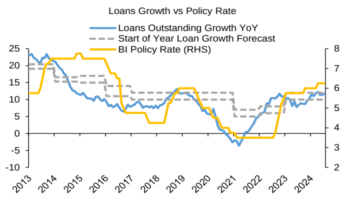
Source: CEIC; Mizuho Bank

- We expect the RBA to stand pat at their monetary policy meeting as inflation remains too far away from their target and a positive output gap diminishes the case for easing at this juncture.
- On first glance, headline inflation print of 3.5% for July appears not too far from their target range of 2-3%. However, it is worth a reminder that **the decline to 3.5%** from 3.8% was largely **on the back of electricity rebates** which saw electricity inflation drop from +7.5% to -5.1% YoY rather than cooling demand. A back of the envelope calculation using the component's CPI weight of 2.4% would imply 0.3%-point decline to CPI inflation, in **essence the entirety of July dis-inflation**. As such, the RBA is unlikely to point to progress on tackling inflation.
- On the growth front, the **Q2 GDP release affirmed our expectations of growth being below trend** as household consumption growth continue to weaken with government spending holding up. To be clear, it is not that the RBA is unconcerned about the softening household expenditure especially with the low household savings ratio hinting at extremely stretched households.
- It is the fact that the RBA continues to focus on the labour market which RBA Assistant Governor Sarah Hunter recently characterise as **still tight relative to full employment**. This focus remains in line with the RBA's mandate to "**keep inflation in the economy to 2–3 per cent and employment at the maximum level that is consistent with maintaining low and stable inflation**".
- Consequently, it is not that the case that the RBA cannot follow the Fed to ease given that both central banks have yet to reach their target, it is that various metrics such as **vacancies to unemployment are still elevated and hours worked remain stable** and unemployment rate has not reached alarmed bells. Employment gains also remain healthy with five consecutive months of gains since May 2024 averaging +41k of jobs each month. On balance, **various labour market and inflation dynamics will need to play out in the coming months before the RBA can join in the global monetary policy easing**.
- Even then there remains a tail risk that should global growth be sustained by the tide of easing, the RBA's subsequent need for easing on growth concerns may be diminish though inflation may also end up bumpier above their target range.

Post-Bank Indonesia Decision: Surprises and Opportunities



Source: Bloomberg; CEIC; Mizuho



Source: CEIC; Mizuho

- On 18 September, Bank Indonesia (BI) delivered a surprise 25bps cut, front-running the Fed.
- The decision was motivated by within-target inflation outlook, stable IDR and a pro-growth angle.
- With current real rates at 4.1% (vs ~2.0% for 2016-2019), this suggests that **barring excessive IDR volatility, there is further room easing**. Notwithstanding this, we think that BI may exercise some restrain insofar that elevated global uncertainty imparts caution.Cautiousness is also perhaps reflected in BI's less committal remarks on future cuts relative to the August meeting where they said the room for cuts was open. But to be clear, the easing bias is still retained in that **they are monitoring opportunities to lower the policy rate**.
- Premised on no "risk-off" sentiments on US recession fears as Fed policy trajectory adjusts, we now think that **BI will cut rates in a staggered fashion – i.e. riding rupiah strength and cutting when IDR is stable, but could pause in the middle of the cycle when IDR faces some volatility**. We expect BI to cut policy rate till around 4.50-5.00% for the following reasons:
- Upside inflation risks: Inflation in 2025 is expected to be biased towards upper half of BI's target range amid infrastructure push.
- Supported growth: Infrastructure push is expected to continue amid the ongoing capital transition, and on higher government spending. In addition, BI sees potential for 2025 growth to be higher than 5.2%. Hence, scope for rates to be higher compared to 2016-2017 lows on weak credit growth of 4.25-4.75% and Covid low of 3.50%.
- Supported IDR: IDR should remain support as scope for cuts by the Fed is arguably larger than BI. Nonetheless, cuation on indications of fiscal risks.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	143.73	2.870	2.04%	140.00	~	145.00
EUR/USD	1.1158	0.0065	0.59%	1.092	~	1.119
USD/SGD	1.292	-0.007	-0.53%	1.2820	~	1.3050
USD/THB	33.073	-0.247	-0.74%	32.90	~	33.70
USD/MYR	4.1972	-0.1063	-2.47%	4.100	~	4.270
USD/IDR	15150	-250	-1.62%	14,800	~	15,350
JPY/SGD	0.8993	-0.023	-2.45%	0.884	~	0.932
AUD/USD	0.6809	0.009	1.34%	0.665	~	0.686
USD/INR	83.53	-0.396	-0.47%	83.4	~	83.8
USD/PHP	55.678	-0.315	-0.56%	54.9	~	55.9

^Weekly change.

FX: Relative Rate Dynamics

- In a central bank heavy week, outlook on relative rate dynamics arguably dominated FX directional cues. DXY retained buoyancy above 100 despite the 50bps, as a less-dovish-than-expected Dot Plot provided a backstop.
- AUD led gains as upside surprise to employment data reflecting still-tight labour markets should see RBA retaining hawkish tendencies. In addition, AUD alongside NZD took support on commodity relief amid US soft-landing hopes and CNH boost.
- GBP gained as BOE stood pat, and omitted details on its guidance for gradual easing; while NOK gained as it stood pat and remarked that no cuts was expected for the rest of the year.
- JPY was the only currency that bucked the trend, weakening against the greenback as hopes of diverging policy trajectories were let down. BoJ stood pat and continued to emphasise patience, while Dot Plot indicated fewer cuts than expected.

EM-Asia: CNH and Commodity Support

- Meanwhile, EM Asia FX was buoyed on continued inflows and a firmer CNH backstop.
- TWD strengthened amid CBC standing pat but increased reserve requirement ratio.
- Commodity currencies (MYR, IDR) led gains, with IDR holding on to gains even as BI delivered a surprise cut although it appeared non-commital on future cuts.
- Meanwhile, INR underperformed on higher oil prices.

Bond Yield (%)

20-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.570	-1.2	3.707	5.6	Steepening
GER	2.207	0.5	2.177	3.1	Steepening
JPY	0.361	-1.6	0.828	-0.4	Steepening
SGD	2.279	5.6	2.451	3.2	Flattening
AUD	3.618	6.3	3.915	0.1	Flattening
GBP	3.913	11.8	3.872	10.5	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,713.64	1.56
Nikkei (JP)	37,723.91	3.12
EuroStoxx (EU)	4,918.45	1.54
FTSE STI (SG)	3,619.82	1.60
JKSE (ID)	7,779.88	-0.41
PSEI (PH)	7,252.32	3.27
KLCI (MY)	1,670.82	1.13
SET (TH)	1,455.41	2.18
SENSEX (IN)	84,431.24	1.86
ASX (AU)	8,209.50	1.35

USTs: Steeper Curves, Higher Bar

- This week, the UST yield curve continued to steepen as the Fed opted for an upsized rate cut and the steepener is typically seen in previous easing cycles as well.
- We retain our case for the return of the term premium espcially ahead of the election in 2 months time. To be clear, the steeper UST yield curve is hardly contingent on the outcomes of Trump vs Harris **but it is an episode providing salient reminders of the burgeoning US fiscal deficit and the rising interest payments which necessitates longer end issuance.**
- Buying on the front end remains in demand and that would continue to weigh on UST yield to trade below 3.65% on the upcoming week.
- That said, it remains a high bar to test 3.45% for 2Y yields given the divergence of market expectations and the latest Dot Plot.
- For the longer end, aside from above mentioned structural factors, oil bounce ahead may backstop long end yields above 3.6%.

FX Brief:

1) JPY: Pushback on excessive Fed cut bets in 2025 alongside a dovish Ueda while BoJ stands pat saw JPY lead losses this week. Buoyancy above 142 retained for next week.

2) EUR: With the Fed out cutting the ECB, softer front end UST yields assisted EUR bulls which will attempt to hold above 1.10

3) AUD: Outperformance this weak as job market remains resilient alongside RBA's continued stance on maintaining policy restriction. CPI decline may incite slippage below 68 cents though RBA's decision to backstop RBA bulls above mid-67 cents.

4) CNH: Middle of the pack gains this week but growth concerns and policy inadequacy will continue to bite and restrain outperformance.

5) INR: Continued equity inflows supported dip below 83.7; but continued rally in oil prices should restrain a move towards 83.5.

6) SGD: Could see durability below 1.29 handle amid broad-based USD weakness and CNH relief. Meanwhile, EUR should lend some support on ECB's restraint on committing to further cuts.

7) IDR: Despite the surprise cut, BI showing some restraint on further cuts should provide support. Dips below 14900 plausible, but caution on possible reversal given that commodity strength on shaky fundamentals

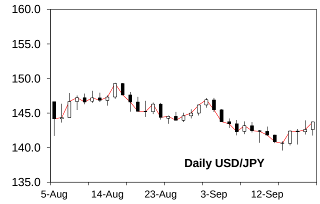
8) THB: USD/THB headed lower to approach 33 levels on weaker USD backdrop from the upsized Fed cut and continued pushback from the BoT signaling indepence.

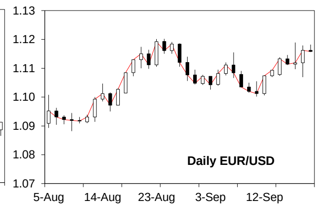
9) MYR: CNH boost and commodity support pushed MYR below 4.20 handle. But CNH boost on the back of a soft USD and not improved sentiments, could mean that further break under 4.15 may be tough

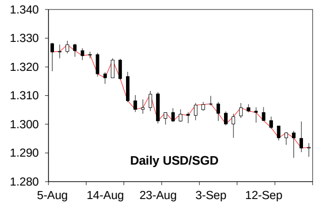
10) PHP: BSP's talk of 50bps cut at October's meeting and RRR cuts tempers move towards 55 handle. In particular, RRR cut was an implicit acknowledgment of BSP's that they are no longer hawkish, as BSP had in May said that they will not ease RRR while they're still "hawkish".

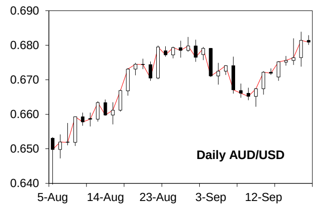
11) KRW: Rate cut bets by the BoK will become increasingly a restain in the near term and restrain KRW gains.

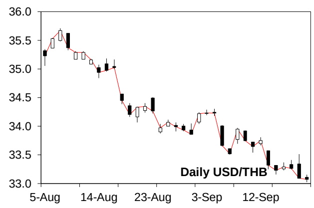
12) TWD: Period of consolidating rather than extending gains as the CBC stood pat even as foreign inflows in equities resume.

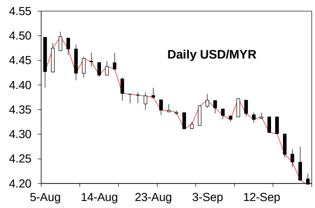


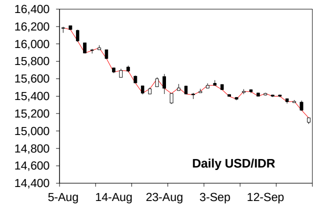


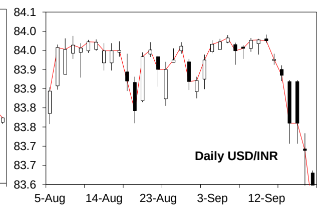


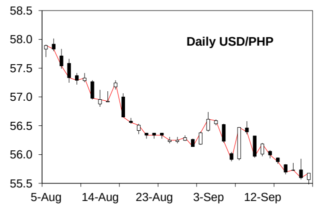


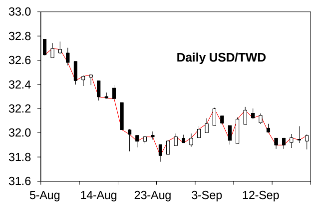


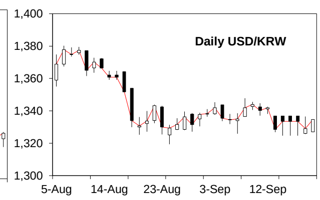


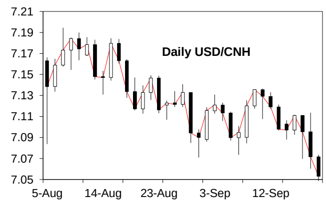












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