MIZUHO

WEEK AHEAD

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21-Jun-2024

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Economic Calendar

•Survey results from Bloomberg, as of 21 June 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
24 Jun	US	Dallas Fed Manf. Activity	Jun	--	-19.4
	GE	IFO Business Climate/Expectations	Jun	89.3/-	89.3/90.4
25 Jun	US	Conf. Board Consumer Confidence	Jun	100.0	102.0
	US	Richmond Fed Manufact. Index	Jun	--	0
	US	Chicago Fed Nat Activity Index	May	--	-23.0%
	JP	Coincident Index/Leading Index CI	Apr F	--	115.2/111.6
26 Jun	US	New Home Sales	May	650k	634k
27 Jun	**US**	**Initial Jobless Claims**		**--**	**238k**
	US	GDP Annualized QoQ	1Q T	1.5%	1.3%
	US	**Durable Goods Orders/Nondef Ex Air**	**May P**	**0.0%/-**	**0.6%/0.2%**
	US	**Wholesale Inventories MoM**	**May P**	**--**	**0.1%**
	US	Kansas City Fed Manf. Activity	Jun	--	-2.0
	JP	Retail Sales YoY	May	2.0%	2.0%
28 Jun	US	U. of Mich. Sentiment/Expectations	Jun F	--	65.6/67.6
	US	MNI Chicago PMI	Jun	--	35.4
	US	**PCE/Core Deflator YoY**	**May**	**2.6%/2.6%**	**2.7%/2.8%**
	US	Personal Income/Spending	May	0.4%/0.3%	0.3%/0.2%
	JP	Housing Starts YoY	May	-6.2%	13.9%
	JP	Jobless Rate/Job-To-Applilcant Ratio	May	2.6%/1.3	2.6%/1.3
	JP	Industrial Production MoM	May P	-0.1%	-0.9%

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
24-28 Jun	KR	Retail Sales YoY	May	--	10.8%
	IN	BoP Current Account Balance	1Q	$5.1b	-$10.5b
24 Jun	**SG**	**CPI/Core YoY**	**May**	**3.1%/3.1%**	**2.7%/3.1%**
	TW	Industrial Production YoY	May	7.8%	14.6%
	TW	**Unemployment Rate**	**May**	**3.4%**	**3.4%**
25 Jun	**MY**	**CPI YoY**	**May**	**1.9%**	**1.8%**
26 Jun	SG	Industrial Production YoY	May	2.0%	-1.6%
	AU	**CPI YoY**	**May**	**3.8%**	**3.6%**
27 Jun	CH	Industrial Profits YoY	May	2.0%	4.0%
	PH	**BSP Overnight Borrowing Rate**		**6.50%**	**6.50%**
28 Jun	KR	Industrial Production YoY	May	3.9%	6.1%
	TH	BoP Current Account Balance	May	--	-$40m
	TH	Exports/Imports YoY	May	--	5.8%/6.4%
29 Jun	VN	Trade Balance	Jun	--	-$1000m
	VN	Retail Sales/Industrial Production YoY	Jun	--	9.5%/8.9%
	VN	**GDP YoY**	**2Q**	**6.0%**	**5.7%**
	VN	**CPI YoY**	**Jun**	**--**	**4.44%**
30 Jun	CH	Mfg/Non-Mfg PMI	Jun	49.6/-	49.5/51.1

Week-in-brief: Differentiated Calculus

- A slew of central bank decisions in the past week affirmed that the **imminent (or already started) global easing cycle would not be a synchronised one**. Instead, it would be subjected to differentiated calculus of **growth, inflation and currency stability**.

- SNB proceeded with their second 25bps cut on waning underlying inflationary pressures and declining risks of second-round effects. With inflation outlook **downgraded (2024: 1.3%; 2025: 1.1%; 2026: 1.0%),** a weaker CHF could support prices. In contrast, Norges Bank left benchmark interest rate at 4.50% on above-target inflation, remarking that it will probably need to hold rates at current level for the rest of the year with its upgraded inflation and growth outlook.

- The BoE was in the middle of the cut-hike spectrum, standing pat in a 7(hold)-2(cut) vote. The decision to hold rates was "finely balanced" for some, suggesting that the **odds could possibly tilt in favour of a cut in coming months.** While latest inflation print in May touched BoE's 2% target, BoE noted **upside risks to inflation**, citing a still-tight labour market, spillovers from higher minimum wage and second-round effects from services inflation.

- Over in Asia, PBoC's announced a planned shift to a single short-term rate and CGB trading. The former could amplify signalling capabilities while improve policy transmission mechanism, but hte latter poses QE-related risks despite potential to lower risk/liquidity premium.

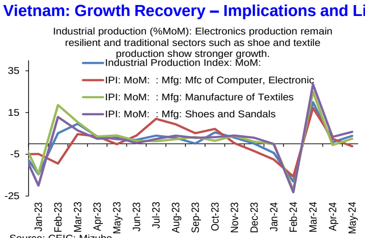
- Down Under, the RBA left the cash rate target at 4.35%, as expected. The statement noted that above-target inflation is proving to be persistent amid continued excess demand. Accordingly, the board discussed the case for a hike (but not a cut). Nonetheless, Bullock pushed back against hawkish interpretations of the statement, noting that being "vigilant" to upside risks to inflation was not a signal for a rate hike. Notwithstanding this, AUD outperformed other Asian currencies.

- Meanwhile, Bank Indonesia stood pat despite the recent sell-off in IDR sparked by concerns over fiscal prudence on a possible increase in government debt trajectory. While acknowledging pressure on the IDR, BI remarked that recent IDR moves were more influenced by sentiment and perceptions, and reiterated that it will intervene into markets as necessary. The IDR weakened following allusions that there was room for rate cuts should fiscal concerns fade.

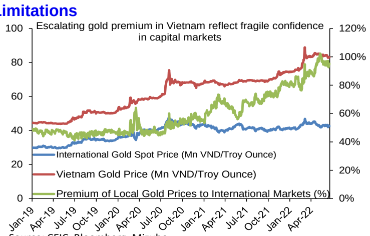
- Next week, **BSP is expected to stand pat amid still-elevated inflation**. However, BSP could tone down on its rate cuts plans to provide some support for PHP on fears of cost- push inflation via import channel. Allusions to a cut as early as August at the May meeting had seen a sell-off in the PHP.

- Elsewhere, Vietnam's Q2 GDP is expected to improve to around 5.9% on resilient industrial production and as domestic demand holds up. However, the moderate nature of growth is unlikely to restore economy wide confidence following the banking-real estate developer scandals. Notably, escalating gold prices suggests that investors may be fleeing for safety. Meanwhile, **inflation for June is expected to cross the SBV's upper limit of 4.5%, and a weak VND will keep the possibility of a SBV hike alive next week**.

Vietnam: Growth Recovery – Implications and Limitations



Source: CEIC; Mizuho



Source: CEIC, Bloomberg; Mizuho

- From the Q1 GDP growth of 5.7% YoY, we **expect Vietnam's Q2 GDP to improve to around 5.9%.** Admittedly, one driver of the moderate nature of this uptick is due to the higher base from a year ago. That said, underlying recovery in the manufacturing base remains steady.

- Specifically, industrial production has remained resilient improving 2.3% MoM on average over April and May on the back of improving electronics and footwear demand. Domestic demand has also held up with average monthly retail sales expanding 1.3% over April and May compared to Q1.

- In turn, we expect inflation in June to remain elevated and **cross the SBV's upper limit of 4.5%**

- Consequently, to keep a lid on prices, the current VAT rate reduction from 10% to 8% which is set to expire at the end of this month was announced in mid-June to be extended to the end of the year.

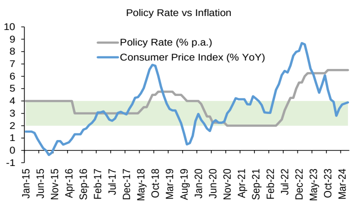
- The authorities have also worked to raise air travel capacity during the summer holidays to restrain costs of tickets. We expect the government to remain vigilant and nimble and keep a close watch on the State regulated adjustments such as education and electricity in the months ahead.

- In addition to inflation risks, the **SBV remains challenged by a VND testing near the top of their trading band** as well as still elevated NPL levels in the financial sector. The financial sector woes are also reflected by **escalating gold prices** which saw the SBV sell gold at fixed prices through state owned banks after ineffective initial attempts to dampen prices via auctions.

- The flight to safety points to wariness among investors after the banking-real estate developer scandals. Furthermore, the VND's depreciation against the Greenback aids the shift to gold.

- At this juncture, the **moderate nature of growth is unable to restore economy wide confidence**. Accordingly, we remain of the view that **should VND depreciation pressures worsen, the SBV could hike rates to ensure macro-financial stability** as the typical costs of a rate hike would be lesser than that of plunging confidence.

BSP: More Hawkish?



Source: CEIC; Mizuho Bank

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- The BSP is expected to stand pat at the upcoming meeting.

- **Recent inflation prints have been encouraging.** Even as May inflation edged higher to 3.9% (Apr: 3.8%), it remains within the 2-4% target range. Previously in Q4'23, BSP had expected inflation to exceed the target range from Apr-Jul'24 due to El Nino and positive base effects. While rice inflation still remains stubbornly high and has been registering double-digit growth since Sep'23, rice inflation contracted by -0.2% on a month-ago- basis, the first such contraction since November 2023.

- We think that still-within target range inflation and downward revision to BSP's risk-adjusted 2024 inflation to 3.8% (prev: 4.0%) are the key reasons behind BSP's "less hawkish" positioning at the previous meeting in May, with Governor Remolona alluding to a cut as early as August. This was despite the statement continuing acknowledge upside risks to inflation.

- However, this "less hawkish" positioning and the possibility of BSP front-running the Fed did not sit well with markets, leading a sell-off in PHP which breached the 58 levels. This subsequently prompted remarks by BSP which still entertained the possibility of one to two cuts this year, but stopped short of stating a timeline. More recently, BSP Board member Recto remarked that BSP was unlikely to frontrun the Fed in cutting rates. The PHP has weakened by ~1.8% since the previous meeting, only performing than the IDR. However, to be clear, we think that BSP is concerned over PHP-stability **insofar as a weak PHP increases the threat of cost-push inflation via the import channel.**

- This is especially so as persistently high rice prices have appeared to be due to insufficient domestic supply which saw a surge in rice imports. Imports of cereals in Jan-Apr are +22.7% higher compared to a year ago, with recent rice tariff reduction from 35% to 15% aimed at further lowering rice prices.

- Furthermore, the improvement in exports (+26.4%) powered by strong growth in electronics products (+33.3% YoY) give more reason for the BSP to be on hold.

- All in, BSP is expected to stand pat and compared to the previous meeting, could exercise more refrain from alluding to "less hawkish" tendencies in its remarks.

The 5Cs of PBoC Shift

- PBoC Chief Pan has flagged monumental shifts to PBoC policy tools and mechanisms. And it is imperative that markets pay attention, even if the changes are not imminent.

The main shifts pertain to;

i. Switching a single, short-term, benchmark interest rate to be used as the policy rate lever and;

ii. PBoC's involvement in secondary market CGB trading to manage liquidity.

The '5Cs' of the PBoC's policy shift blueprint are:

1. Cue Concentration: A single point of policy cue allows the PBoC to concentrate (and arguably, amplify)its signalling capabilities.

2. Clarity: With that comes clarity of policy intent. Especially as tactical, but sometimes opposing, liquidity calibration with a suite of other rates may otherwise obfuscate.

3. Complementarity: And bond trading by the PBoC is not just a liquidity calibration lever, but crucial complementarity to improve the efficacy and efficiency of policy transmission out the curve.

4. Control: Moreover, trading bonds provides the option to exercise a degree of control over the yield curve. With the potential to be a YCC-like/lite tool.

5. Credit (Pricing): Notably, this shift entails PBoC policy moving towards a policy of credit stimulus driven by price rather than quantity; better managing stimulus-stability trade-offs.

Initial Market Advantage But Future QE Elephant (in the Room)

- Devil in the Details: It is arguably premature to ascertain any tangible and durable market impact as the devil is in the details.

- Lower Risk/Liquidity Premiums: But lower risk and liquidity premiums are conceivable from diminished PBoC policy uncertainty and implicit bond market backstop help lift assets more broadly.

- QE Elephant: But the QE elephant in the room will need addressing as markets will over time assess whether PBoC balance sheet expansion from bond trading is sticky and/or upwardly biased.

- Conditional CNH Backstop: Meanwhile, CNH may be initially supported insofar that CGB market deepening helps pool more hard currency (converted) onshore. But sustaining this is conditional on debasement risks from QE being averted.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	158.78	1.290	0.82%	156.00	~	160.00
EUR/USD	1.0682	-0.0025	-0.23%	1.065	~	1.080
USD/SGD	1.3544	0.002	0.12%	1.3460	~	1.3590
USD/THB	36.665	-0.072	-0.20%	36.00	~	37.00
USD/MYR	4.7153	-0.0007	-0.01%	4.690	~	4.725
USD/IDR	16450	50	0.30%	16,200	~	16,800
JPY/SGD	0.853	-0.007	-0.76%	0.849	~	0.879
AUD/USD	0.6653	0.004	0.56%	0.655	~	0.672
USD/INR	83.55	0.001	0.00%	83.3	~	83.7
USD/PHP	58.815	0.161	0.27%	58.6	~	59.0

^Weekly change.

FX: Policy Direction Dictates

- This week, the **NOK, came up tops** among G10 peers driven by **Norges Bank's hawkish hold on upgraded 2024 growth and 2025 inflation.**
- Even as the **initial reaction of the AUD to the RBA's decision to stand pat was muted**, **AUD also climbed to above mid-66 cents** towards the end of the week as the RBA's discussion of hike and absence of a cut discussion contrasted against the dovish likes of the SNB and BoE.
- While central bank decision are key drivers, NOK and AUD were also supported by **Brent Crude's near 5% rise to test US$86/barrel. Similarly,** CAD appreciated against the Greenback.
- On the other hand, the costlier energy imports and rise in UST yields saw the JPY weaken further as the USD/JPY tested 159. Notably, **the threat of MOF intervention looms large next week**.

EM-Asia: Extended Static Pains

- Aside from the JPY, amid **higher UST yields**, the **KRW** was the notable underperformer among Asian peers as the **MSCI** confirmed Korea's **failure to be reclassified into the developed economy status** which means that the associated foreign capital inflows continue to elude.
- **IDR also ceded ground against the Greenback as Bank Indonesia decided to keep rates unchanged**. Nonetheless, post BI, the **sight of President Jokowi holding an emergency meeting on the IDR backs our case that another hike by BI cannot be taken off the table.**
- For the upcoming week, the **PHP remains at risk** from a resurgent USD as the BSP looks to stand pat with recent inflation prints coming lower than expected.
- Similarly, the SBV will remove watchful on VND depreciation risks and the available room to hike rates to ease pressures on FX intervention needs.

Bond Yield (%)

18-Jun	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.713	0.9	4.234	1.3	Steepening
GER	2.773	1.7	2.380	2.2	Steepening
JPY	0.290	-0.1	0.960	3.4	Steepening
SGD	3.311	3.3	3.148	-0.1	Flattening
AUD	4.006	10.5	4.209	0.1	Flattening
GBP	4.101	-4.2	4.017	-3.7	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,433.74	1.62
Nikkei (JP)	38,814.56	0.34
EuroStoxx (EU)	4,908.68	-2.82
FTSE STI (SG)	3,302.48	-0.85
JKSE (ID)	6,734.97	-2.36
PSEI (PH)	6,383.70	-2.07
KLCI (MY)	1,606.10	-0.73
SET (TH)	1,309.58	-1.74
SENSEX (IN)	76,948.26	0.33
ASX (AU)	7,724.26	-1.73

UST: Correction?

- UST yields rose slightly this week to reverse some of last week's declines but remain lower to levels seen pre-FOMC.
- That the declines came on the back of data releases mostly supportive of rate cuts with FedSpeak mostly affirming that there would be cuts if data was supportive, suggests that the rally in USTs (and sharp decline in yields) was perhaps overdone.
- Data releases in the past week mostly pointed to slowing economic activity and softer labour markets. US retail sales and housing starts both disappointed with April print for both revised downwards. Meanwhile, initial jobless claims came in higher-than-expected with previous print revised upwards.
- While we do not expect yields to return to pre-FOMC levels, 2Y yields could possibly move higher to 4.80% while 10Y yields to 4.35% as correction continues.
- Nonetheless, **volatility is expected for PCE release next Friday**. Suggestions of faster dis-inflation process could move 2Y yields down to 4.50-4.60% ranges while 10Y move down to 4.05-4.15% ranges.

FX Brief:

1) JPY: Resurgent inflation may add to the case for rate hike but not the case for outright rallies for JPY bulls as the rate divergence will continue to overide and impart buoyancy above 156. That said, markets remain wary of approaching the 160 mark as Japan MoF intervention threat looms.

2) EUR: The sight of SNB cut and BoE's finely balanced decision saw the EUR struggle to gain traction above mid-1.07.

3) AUD: RBA decision and minutes may allow a backstop around 66 cents especially amid elevated oil prices. That said, climb above 67 cents to struggle.

4) CNH: PBoC's plan to revamp monetary policy instrument not a quick relief for the CNH as mixed activity data and dire housing sales depict a bleak outlook.

5) INR: Could see recovery below mid-83 should USD strength lose steam amid indications (and expectations) of returning inflows.

6) SGD: Soft CNH and EUR could see trading around or above mid-1.35 levels for most of the week.

7) IDR: Uncertainty over fiscal prudence (and attendant debt trajectory) would continue pressuring the IDR. Heightened intervention risks at current levels, but broad USD strength could see a test of 16,500.

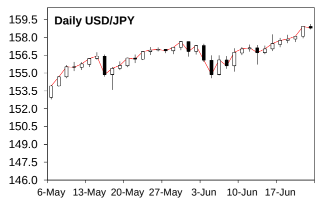
8) THB: THB gains resemble more of mild buonce back rather than outright recovery. Depreciation pressures remain as conflicting objectives between the BoT and Government stay glaring.

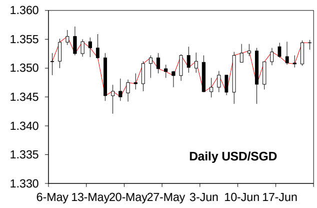
9) MYR: Concrete action taken towards fiscal consolidation and improving external sector should temper rallies above 4.72 levels

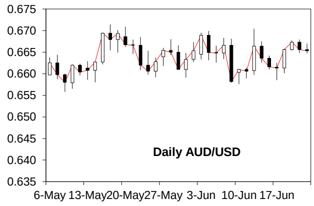
10) PHP: Possible test of 59, especially if BSP sticks to its rate cut inclinations, but excessive weakness likely restrained on heightened intervention risks

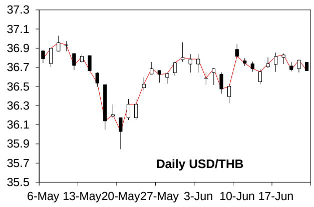
11) KRW: Inability to attain developed economy status by MSCI dours near term outlook especially as UST yields rise.

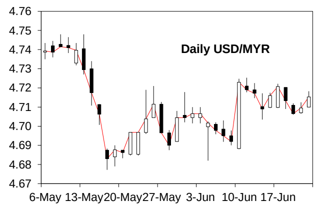
12) TWD: Slight slippage with a middle of the pack performance as exports orders continue to rise to dampen pressures from higher UST yields.

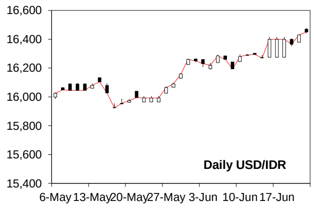


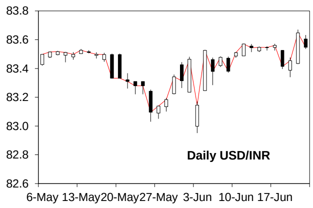


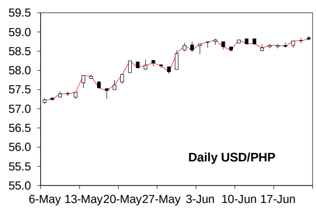


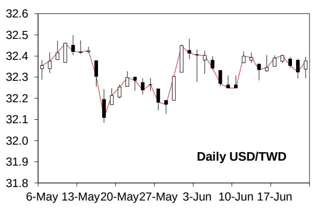


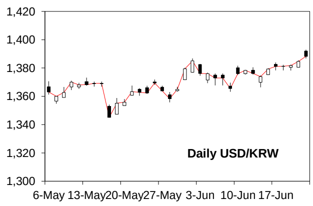


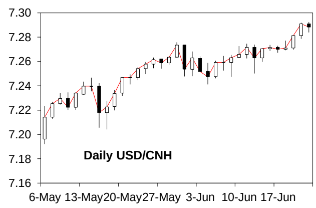












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