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WEEK AHEAD

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23-Aug-2024

Economic Calendar

•Survey results from Bloomberg, as of 23 Aug 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
26 Aug	US	Durable Goods Orders/Nondef Ex Air	Jul P	3.9%/0.1%	-6.7%./0.9%
	US	**Dallas Fed Manf. Activity**	**Aug**	**--**	**-17.5**
	JP	Coincident Index/Leading Index CI	Jun F	--	113.7/108.6
	GE	IFO Business Climate/Expectations	Aug	86.0/--	87.0/86.9
27 Aug	US	Conf. Board Consumer Confidence	Aug	100.0	100.3
	US	Richmond Fed Manufact. Index	Aug	--	-17.0
29 Aug	US	Initial Jobless Claims		--	232k
	US	GDP Annualized QoQ	2Q S	2.8%	2.8%
	US	Personal Consumption	2Q S	--	2.3%
	US	Wholesale Inventories MoM	Jul P	--	0.2%
	EZ	Consumer Confidence	Aug F	--	-13.4
30 Aug	US	U. of Mich. Expectations/Sentiment	Aug F	--/67.8	72.1/67.8
	US	MNI Chicago PMI	Aug	--	45.3
	US	**PCE Deflator/Core YoY**	**Jul**	**--/2.7%**	**2.5%.2.6%**
	EZ	Unemployment Rate	Jul	6.5%	6.5%
	EZ	**CPI Estimate/Core YoY**	**Aug/Aug P**	**2.2%/2.8%**	**2.6%/-**
	JP	Retail Sales YoY	Jul	2.8%	3.7%
	JP	Jobless Rate/Job-To-Applicant Ratio	Jul	2.5%/1.2	2.5%/1.2
	JP	Industrial Production MoM	Jul P	3.6%	-4.2%

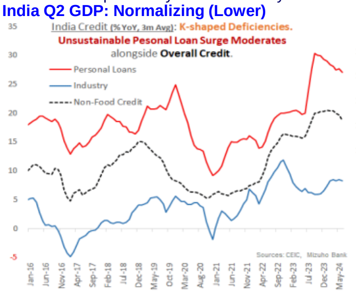
Asia

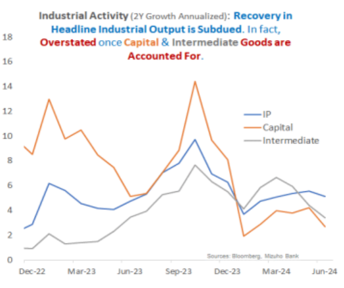
Date	Country	Event	Period	Survey*	Prior
26-30 Aug	KR	Retail Sales YoY	Jul	--	11.1%
26 Aug	CH	1-Yr Medium-Term Lending Facility Rate		2.30%	2.30%
	SG	Industrial Production YoY	Jul	-1.1%	-3.9%
27 Aug	CH	Industrial Profits YoY	Jul	--	3.6%
28 Aug	**AU**	**CPI/Trimmed Mean YoY**	**Jul**	**3.4%/--**	**3.8%/4.1%**
	PH	Budget Balance PHP	Jul	--	-209.1b
30 Aug	AU	Retail Sales MoM	Jul	0.3%	0.5%
	IN	Fiscal Deficit YTD INR Crore	Jul	--	135712
	IN	**GDP YoY**	**2Q**	**7.0%**	**7.8%**
	KR	Industrial Production YoY	Jul	7.6%	3.8%
	TH	BoP Current Account Balance	Jul	--	$1950m
	TH	Exports/Imports YoY	Jul	--	0.3%/-0.1%
31 Aug	CH	Mfg/Non-Mfg PMI	Aug	49.2/50.0	49.4/50.2

Week-in-brief: Easy Come Easy Go?

- This week, in the lead up to Fed Chair Powell's Jackson Hole remarks tonight, 2Y UST yields softened and USD weakened as Fed officials largely pushed back on outsized cuts while acknowledging the case for a September cut as affirmed by the release of FOMC minutes.
- In Europe, the **Riksbank resume monetary policy easing with a 25bps cut** after first cut in May and a hold in June, and further signalled for 3 cuts for the remainder of the year.
- In EM-Asia, central banks saw widespread relief with FX gains as UST yields decline. Given heightened volatility, one ought to wonder if these gains are of the "easy come easy go" nature.
- While further rallies become increasingly stretched given markets pricing in of 150bps of cut by end Q1-2025, some gains may perhaps be allowed to consolidate. Gains across the spectrum continue to be **along the lines of "No" easing and the "Not yet" easing**. For one, the likes of the THB rose 2% to outperform as the BoT stood pat characterising their policy path as **being neutral (little room for easing)** alongside unofficial reports on the possibility of PM Paetongtarn transforming the **digital wallet program to targeted direct cash handouts which scales by funding needs by more than half.**
- In turn, the outperformance is not entirely unwarranted though heightened FX volatility, worsening credit quality and on-going cabinet appointments implies that uncertainty remains elevated.
- The MYR also continued buoyancy this week with the BNM being in the neutral, no easing camp.
- Down the ladder, KRW gains were smaller with the BoK keeping rates unchanged but hinting at a rate cut in Q4 with a policy statement that **removed "while maintaining a restrictive monetary policy stance for a sufficient period of time"**, despite highlighting ongoing concerns on housing prices and debt. Governor Rhee also added that **4 members were open to a rate cut in the next 3 months** while 2 preferred that rates remain unchanged.
- Nonetheless, it is important to note his caution that the drop in 3yr and 10yr rates were excessive.
- Similarly, with Bank Indonesia being "open to rate cut in Q4", IDR gains were smaller this week especially with **protest over election laws dented the IDR recovery path**.
- Looking ahead, **Australia's July CPI is also likely to decline on administrative measure** such as power bill relief alongside cooling housing market. Nonetheless, beyond this print, buoyant employment and wage growth imply that the extent of dis-inflation ahead may continue to be limited.
- That said, the cost of living measure induced mechanical dis-inflation conspiring with softer retail sales may tempt AUD bears even though the RBA is likely to remain unmoved.
- Meanwhile, India's Q2 GDP is set to normalise lower as election spending fade, industrial production moderate and slower credit growth dampen nominal growth momentum. This sets the stage for measured cuts by RBI in Q4 contingent on macro-stability.
- All in, amid pipeline of US growth and activity indicators in the coming week, the easing vibe may be hard to dismiss and perversely USD bears may find a chance to take some gains.

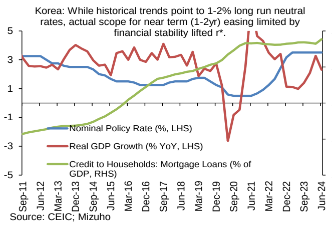
India Q2 GDP: Normalizing (Lower)

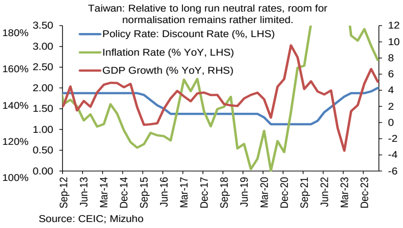




- We expect that Q2 **GDP will moderate substantially to 6.5-6.8%**, but even this may be ***overstated if cyclical headwinds are accounted for.***
- To be sure, the moderation in GDP gels with three dimensions of headwinds for various sectors.
- One is the government/election cycle. **Fade in**, albeit not complete absence of, **election spending** will start to come through. Second, is **slowing industrial sector growth**, in line with *softer IP output on the whole.*
Not only is industrial output historically correlated to aggregated economic growth, but sharper slowdown has also tended to result in softer growth multipliers.
- Third is the **slowdown in headline credit growth**, that tends to **dampen nominal growth momentum**. Trouble is, without a meaningful decline in inflation, dampened credit growth may not be more than offset by consumption boost.
- To be sure, headline **inflation has eased**. ***But*** it is ***only modestly lower from earlier in 2024***. So, *hopes of a substantial and offsetting (real) consumption boost* to be derived may be *overly optimistic.* What's more, implied **GDP deflator ought to be meaningfully higher from exceptionally and unsustainably low levels** in the last few quarters. What this means is that *for the same rates of nominal growth*, **real GDP is likely to be somewhat more constrained**.
- Consequently, the moderation in growth is but an inevitable normalization, further accentuated by cyclical headwinds (albeit fairly gentle). In coming quarters, **amid elevated global uncertainty**, **underlying growth momentum of 6-7% is expected**, *with some pockets of slippage below.*
- Nonetheless, this does not guarantee imminent and pre-emptive rate cuts from the RBI. Instead, ***measured rate cuts***, ***contingent on macro-stability***, to be initiated in Q4 2024 and extended in 2025.

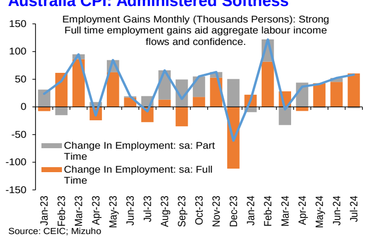
Examining Scope For Cuts: The North Asia Edition





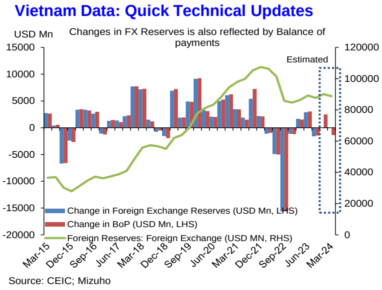
- Looking past the inherent risks of shifting policy expectations, risk sentiments and FX volatility which constrain the scope of EM-Asia central banks to cut (see Mizuho Brief - Can EM Asia Start Cutting Rates Now?), we **turn to examine neutral rates (r*) in EM-Asia to lay out the varying differentials in terms of their room to cuts.**
- In Korea, the BoK has just flagged scope to cut in Q4 (October or November) but pushed back on excessive expectations of sharp rate cuts. In our view, **these expectations are not entirely unwarranted from a long term neutral rate perspective.**
- Specifically, over the decade pre-Covid (2011-19) when GDP growth averaged 2.9%, nominal policy rates average around 2% which is a significant 150bps away from the current rates. That said, in real rates terms, the policy stance is far less restrictive at just 30-50bps above historical trends.
- In fact, by modelling a long term structural perspective and take into consideration unfavourable demographic headwinds and lack of TFP growth, **some studies have put the long run neutral rate at between 1.0% to 2.0%.**
- That said, it is important to remember that the near and medium term policy calculus needs to reflect inflation and also financial stability in the form **of credit risks and housing prices**.
- In turn, in the **1-2 year horizon, r* incorporating these macro concerns is likely to be in the 2.5%-3.0%** region depending on the stage of semiconductor cycles.
- In Taiwan, the similarities persist in terms of current concerns over escalating housing prices with the **CBC asking banks to curb surging real estate loans this week**.
- That said, the **nominal policy rate averaged ~1.6% (2011-19) reveals a much smaller nominal differential of around 50bps to the current policy rate**.
- In inflation adjusted real rates terms, one could even point out that **current policy is only less restrictive than 80% of the period 2011-19.**
- On balance, the Bank of Korea face the reality of 50-75bps of cuts in the **quarters** ahead even though 150bps of cuts is not unwarranted should demand and inflation falter synchronously. Whereas the CBC is likely more restrained with only scope for 25-50bps of easing in **2025**.

Australia CPI: Administered Softness



- Down Under, **strong employment gains (YTD:+318k of which 273k is full time jobs) and robust wage growth (Q2: +4.1% YoY) will underpin inflationary pressures.**
- That said, we expect **dis-inflation process to be intact to see headline inflation decline marginally lower to 3.6% from June's 3.8% Yoy** driven by a combination of administrative measures, cooling housing market and lower energy prices.
- Electricity prices are expected to statistically decline due to the power bill relief, that was introduced in the Budget 2024-25, which provides household with $300 of rebates.
- Meanwhile, monthly rent growth appeared to have slowed and petrol prices also edged lower.
- All in, **the softer CPI on cost of living measure is not real relief for the RBA** who have already leaned hawkishly to push back near term rate cuts and this print is more likely to validate their case to do so.

Vietnam Data: Quick Technical Updates



- Notably, Vietnam has **pushed back their usual end of month economic data release** of retail sales, industrial production and CPI from almost end of the same month release to the first week of the next month which **aligns with regional peers and international standards**.
- Meanwhile, the lagged FX reserves data release with last release from the IMF only up till November 2023 has **sparked concerns in some quarters**.
- By using the **quarterly change in balance of payments data** which corresponds closely to the change in foreign exchange reserves, we can **estimate the level of FX reserves which stands at about US$88.7bn as of Q1 2024** which remains around the 3 months of import expenditure mark.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	145.88	-3.090	-2.07%	142.00	~	148.40
EUR/USD	1.1119	0.0133	1.21%	1.092	~	1.119
USD/SGD	1.308	-0.012	-0.91%	1.2900	~	1.3200
USD/THB	34.28	-0.775	-2.21%	33.90	~	35.00
USD/MYR	4.3765	-0.0605	-1.36%	4.300	~	4.440
USD/IDR	15490	-200	-1.27%	15,100	~	15,800
JPY/SGD	0.8966	0.011	1.18%	0.908	~	0.889
AUD/USD	0.6724	0.009	1.37%	0.657	~	0.679
USD/INR	83.91	-0.059	-0.07%	83.6	~	84.1
USD/PHP	56.335	-0.908	-1.59%	55.9	~	57.0

^Weekly change.

FX: Reversion Alert

- DXY fell >1% as Fed rate cut bets took hold, as most indicators of economic activity disappointed.
- G10 currencies all gained against the greenback.
- SEK outperformed, despite Riksbank cutting policy rate by 25bps, as they signalled less-than-expected rate cuts in the coming year.
- Meanwhile, AUD saw muted gains despite hawkish tendencies revealed in RBA minutes, likely as RBA's allusion to "holding for longer" as achieving the same restrictive stance as a hike implicitly means that the bar for a hike is high.
- CAD trailed gains as inflation in Canada decelerated, cementing rate cut wagers.

EM-Asia: Amid mixed political considerations.

- Similar to G10, EM Asia FX was buoyed in the last week, supported by some inflows with equity indexes mostly up across the region.
- PHP led gains amid inflows, while THB outperformed most currencies (except the PHP) as the change in digital wallet to cash handouts targeted at low-income households was a postive policy development following the change in the Prime Minister.
- IDR was in the middle of the pack after paring gains on protests sparked by a potential change in electoral law, while Bank Indonesia's expected rate hold saw IDR little moved.
- But caution on getting ahead of the Fed, insofar as overzealous Fed cut bets could be moderated by Powell's comments at Jackson Hole and see a rebound in USD strength.

Bond Yield (%)

23-Aug	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.010	-4.0	3.858	-2.5	Steepening
GER	2.401	-2.5	2.251	0.7	Steepening
JPY	0.356	1.4	0.884	2.1	Steepening
SGD	2.647	-5.6	2.707	-8.9	Flattening
AUD	3.655	-2.9	3.916	0.1	Steepening
GBP	3.706	5.6	3.962	3.8	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,570.64	0.30
Nikkei (JP)	38,364.27	0.79
EuroStoxx (EU)	4,896.85	1.16
FTSE STI (SG)	3,389.51	1.09
JKSE (ID)	7,542.46	1.49
PSEI (PH)	6,961.96	1.67
KLCI (MY)	1,634.95	0.68
SET (TH)	1,350.02	3.61
SENSEX (IN)	81,106.23	0.83
ASX (AU)	8,023.90	0.66

USTs: Growing Concerns?

- Growth concerns did not abate as NFP benchmark revisions continue to affirm on-going worries about the labour market alongside softer manufacturing and services PMI.
- Furthermore, FOMC minutes revealing that some members could already support a cut in July added to inclinations for easing in September and the path ahead to **send 2Y UST yields lower.**
- On the longer end, demand continued to be robust as Brent crude prices declined 3% this week amid growth concerns and plausible Gaza peace talks.
- In turn, we expect UST bulls to continue roaming as yields edge lower. That said, haven flows and risk asset rebalancing on subsiding recession fears may restrain slippage of front end yields.
- All in we expect 2Y UST yields to trade in the range of 3.9-4.1% while 10Y yields trade in the 3.75-3.95% range.

FX Brief:

1) JPY: Governor **Ueda continues to embolden JPY bulls** with openess to adjust rate further if economy moves in line with outlooks.

2) EUR: Buoyant nature retain on USD weakness but EZ growth concerns and ECB willingness to cut imply that consolidation around 1.11 may be the base case for the week ahead.

3) AUD: Inflation set to dampen hope of AUD bulls for further rallies though this may trap AUD bears which may be too eager to rush in even as the RBA is unlikely to be moved on dis-inflation via administrative measures.

4) CNH: Normalise CNH fixing does not imply CNH outperformance but merely sets stage for further policy support and simply allows some capture of USD weakness rather than outperformance on a trade weighted basis.

5) INR: Underperformance in the past with consolidation around 84 levels, could be on the back of positions adjustments as RBI's data showed INR's outperformance on a REER basis as at end-July. Could move back to mid-83 levels as inflows continue.

6) SGD: Limited upside to stronger SGD, as firmer CNH is arguably on the back of a weaker USD.

7) IDR: Risks to weaker IDR more pronounced with extent of Fed rate cuts priced currently and IDR's relatively higher beta; amid potential for policy makers to walk back on appeasements made to protesters.

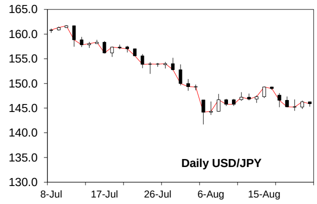
8) THB: THB outperformed on tailwinds on political certainty which make allow consolidation around 34.0-34.5.

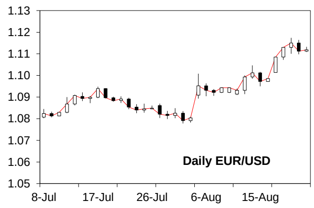
9) MYR: While USD/MYR stayed durably below 4.40 handle, could retest 4.40 handle on paring back of overdone Fed rate cut bets.

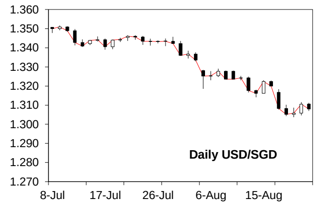
10) PHP: Outperformance on the back of equity inflows could fizzle out in the coming week, amid lack of strong fundamentals (e.g. private consumption contracting) and dovish central bank leanings to support the rally.

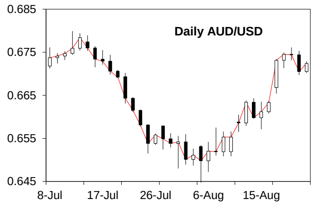
11) KRW: Amid support from increased foreign inflows into bonds, BoK's dovish hold imply more restrained gains.

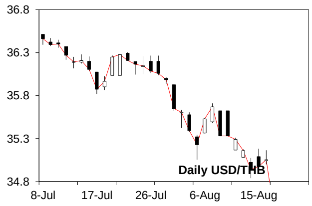
12) TWD: CBC's caution on housing prices imply lack pipeline easing which will buoy the TWD amid improving risks sentiments and equity inflows.

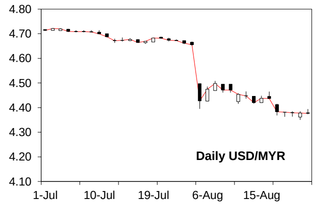


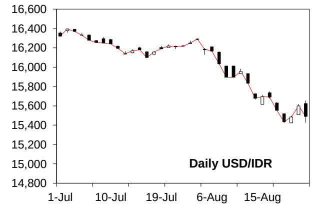


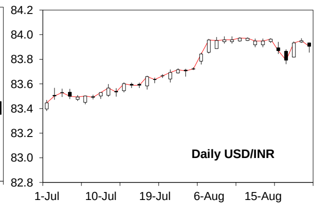


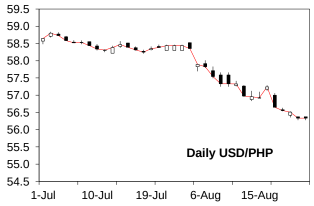


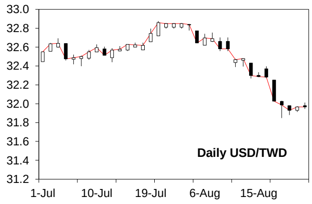


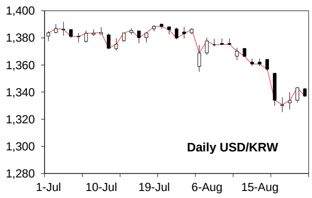


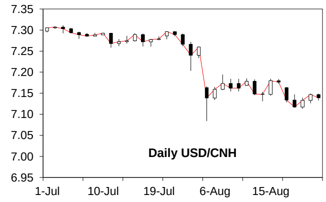












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