MIZUHO

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WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 4 Oct 2024; The lists are not exhaustive and only meant to highlight key data/events

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Date	Country	Event	Period	Survey*	Prior
07 Oct	US	Monthly Budget Statement	Sep	--	-$380.1b
	EZ	Retail Sales MoM	Aug	0.2%	0.1%
	EZ	Sentix Investor Confidence	Oct	-14.0	-15.4
	JP	**Coincident Index/Leading Index CI**	**Aug P**	**113.6/107.0**	**117.2/109.3**
08 Oct	US	Trade Balance	Aug	-$71.3b	-$78.8b
	JP	BoP Current Account Balance	Aug	¥2979.1b	¥3193.0b
	JP	Eco Watchers Survey Current/Outlook SA	Sep	49.2/50.5	49.0/50.3
	JP	Labor/Real Cash Earnings YoY	Aug	3.0%/-0.5%	3.4%/0.3%
09 Oct	JP	Machine Tool Orders YoY	Sep P	--	-3.5%
	US	FOMC Meeting Minutes			
10 Oct	**US**	**Initial Jobless Claims**		**--**	**225k**
	US	**CPI/Ex Food, Energy YoY**	**Sep**	**2.3%/3.2%**	**2.5%/3.2%**
	US	Real Avg Weekly Earnings YoY	Sep	--	0.9%
	JP	PPI YoY	Sep	2.3%	2.5%
11 Oct	US	U. of Mich. Sentiment/Expectations	Oct P	70.0/--	70.1/74.4
	US	U. of Mich. 1Y/5-10Y Inflation	Oct P	--	2.7%/3.1%
	US	PPI Final Demand/Ex Food, Energy MoM	Sep	0.1%/0.2%	0.2%/0.3%

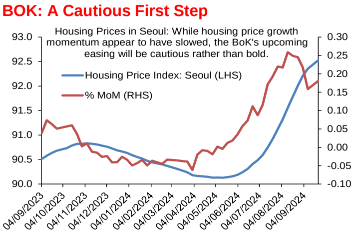
Asia

Date	Country	Event	Period	Survey*	Prior
11/14 Oct	**SG**	**MAS Monetary Policy Statement**			
	SG	**GDP YoY/SA QoQ**	**3Q A**	**--**	**2.9%/0.4%**
09-15 Oct	CH	Agg. Financing/New Yuan Loans CNY YTD	Sep	--	21900b/14426b
07 Oct	**TH**	**CPI/Core YoY**	**Sep**	**0.8%/0.7%**	**0.4%/0.6%**
08 Oct	AU	RBA Minutes of Sept. Policy Meeting			
	KR	**BoP Current Account Balance**	**Aug**	**--**	**$9131.8m**
	PH	Unemployment Rate	Aug	--	4.7%
	TW	Exports/Imports YoY	Sep	10.2%/12.9%	16.8%/11.8%
	TW	**CPI/Core YoY**	**Sep**	**2.0%/1.7%**	**2.4%/1.8%**
	TW	PPI YoY	Sep	--	1.4%
09 Oct	**IN**	**RBI Repurchase Rate**		**6.50%**	**6.50%**
10 Oct	PH	Exports/Imports YoY	Aug	-7.1%/-1.9%	0.1%/7.2%
11 Oct	IN	Industrial Production YoY	Aug	1.5%	4.8%
	KR	**BOK Base Rate**		**3.25%**	**3.50%**
	MY	Industrial Production YoY	Aug	5.3%	5.3%
13 Oct	CH	CPI/PPI YoY	Sep	0.6%/-2.5%	0.6%/-1.8%

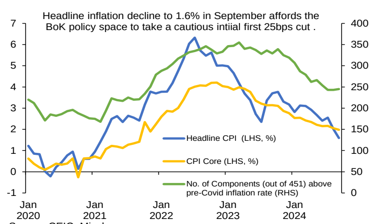
Week-in-brief: Easing Tensions?

- This week, the **Israel-Iran conflict dented risk sentiments** (Nasdaq 1.1% down for the week as at Thu) **and buoyed havens** (e.g. USD) while Brent Crude prices rose in part due to the possibility of Israel targeting Iran's oil facilities in retaliation. Even as risk assets appear to have stabilise later in the week, the weekend may have more installed for markets to digest.
- Front-end UST yields climbed as Fed Chair Powell's alluded to moving policy "over time" and stated that **the Fed was not in a hurry to cut rates fast.** Despite dismal ISM manufacturing print, outrun in ISM services makes it inconvenient for overly dovish Fed response. Odds of a 50bps cut at the next meeting dialled down, as tonight's NFP await. The print is set to reveal if the labour market situation allows for "orderly" cuts by the Fed.
- In China, euphoria on the barrage of stimulus continued, with HSI rising ~10% this week.
- Indonesia inflation printed below expectations to 1.8% YoY in September justifying Bank Indonesia's earlier rate cut, while Philippines inflation printing below BSP's target band could set the stage for a jumbo cut at the October meeting. Food inflation notably moderated in both economies and would likely continue in coming months as **India's** decision over the past weekend to ease export restrictions on rice (e.g. **lifting a ban on non-basmatic white rice) will aid lower food inflation** across the region given that the variety used to consist more than a fifth of India's rice exports. Inventory surplus amid record production are seen as drivers behind their latest move and this perhaps reveal easing tensions between rice exporters and the RBI's concern over food inflation.
- For the upcoming week, US CPI print looking to soften may relief policy tensions for FOMC members who are looking to ease and consequently revive bets for Fed cuts. Even as FOMC minutes are likely to be dated, it remains to be seen if the discussions strike a dovish note or frame their 50bps cut as a insurance move under a soft landing framework.
- In Asia, we expect the **BoK to take a cautious first step of easing with a 25bps cut as significant progress has been made.** While BoK could signal that recent tighter debt servicing ratio have managed to slow housing price growth momentum, still prevalent housing price fears and core inflation sticky at 2% imply that Governor Rhee may lean to the side of calibrated and gradual easing as opposed to outright dovishness.
- On RBI, we are making a non-consensus call for RBI to cut rates as real rates are highly restrictive, inflation is well-contained, sharp slowdown in personal loans mitigates credit/financial stability risks, and record FX reserves ought to backstop the rupee.
- Over in Singapore, bumpy core inflation and mixed growth outlook do not provide a clear case for the MAS to ease, while the current stance is at best slightly above neutral to guide core inflation back towards its long-run trend. What's more, there remains ample room for the S$NEER to move lower in a risk on environment.
- All in, markets remain on tenterhooks as the Middle East conflict and US port strikes throw curveballs at the dis-inflation trajectory and easing tensions on most fronts may end up a mirage.

BOK: A Cautious First Step



Source: CEIC; Mizuho



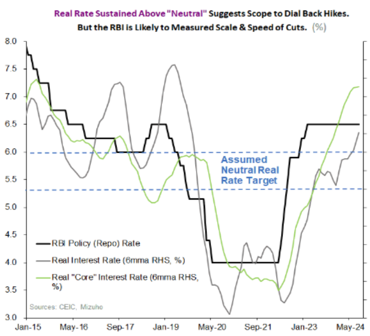
Source: CEIC, Mizuho

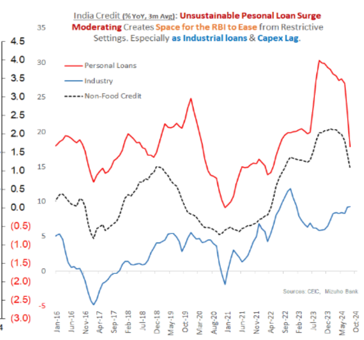
- We expected the BoK to take a cautious first step to ease by 25bps at their meeting next week.
- **This initial step is likely to be framed as the BoK having made significant progress in guiding headline inflation to below 2%** with September's print at 1.6% YoY.
- Nonetheless, the inflation trajectory is not utterly clear for the BoK to envisage a defined rates path for easing with core inflation sticky at 2.0%
- Furthermore, **the urgency to ease is not ubiquitous** as industrial production remains resilient albeit some unevenness. Semiconductor industrial production remains buoyant at 10.3% YoY in August, moderating from the 21.7% growth seen in July. Nonetheless, overall manufacturing industrial production is much weaker at 3.7% YoY. Services sector remain lacklustre as production grew a mere 0.9 YoY. This weakness is also reflected by weak real retail sales which contracted on a QoQ (-2.5%) and also YoY basis (-1.7%) over July and August.
- Consequently, it is perhaps the **weak domestic situation that warrants the BoK to begin a cautious step to ease** even as **they remain highly wary and cognizant of the risk of rising housing debt and still rising housing prices in Seoul**.
- On the macroprudential front, we expect **the BoK to somewhat signal confidence in the recent measures from the second phase of stressed debt servicing ratio (DSR) rules** which imposes stricter limited in the Seoul Metropolitan area by alluding to slowing momentum of housing prices since its implementation from 1 September.
- That said, we expect **the BoK to remain vigilant rather than sound a note of victory over housing prices and debt. In turn, future cuts remain on a calibrated and gradual basis with little explicit forward guidance expected from Governor Rhee**.
- In short, room is available to cut but the opportunity needs to be ripe for the BoK to do so.

MAS: Hold, Not Blindly Hop (On the Easing Bandwagon)

- One may be tempted to argue that dis-inflation and gathering global headwinds ought to make a case to ease for the MAS.
- But this is misguided. Fact is, bumpy core inflation and mixed growth outlook do not provide a clear case for the MAS to ease at the upcoming meeting.
- Here it is important to highlight **important asymmetries in tightening policy to tackle inflation and easing monetary policy** as inflation returns to target.
- Earlier inflation shocks in 2021/2022 require upward re-centreing of the S$NEER on 3 occasions from April to October 2022 in addition to their initial increase in slope of the NEER from October 2021 to April 2022. As for the current dis-inflation, it is important not to view it as an opportunity to reverse earlier policy moves.
- First and foremost, any downward recentreing in S$NEER is tailored to address adverse downward inflation and growth shocks. In terms of impact, such a move imparts a stronger near term impulse compared to a slope change, in turn any recentreing of the S$NEER downward risks triggering upside inflationary pressures which may derail the path of core inflation returning to 2%.
- While a slope change is not out of the question, it is worth a reminder that **even at a 2% path of inflation, the MAS' stance would be one of gradual and modest appreciation**. As such, the current stance **(taking into account both the S$NEER level and slope)** is at best slightly above neutral to guide core inflation back towards its long run trend by dampening imported inflation.
- A gentler slope would not serve the broad purpose of price stability. In turn, the current stance continues to be the default.
- Consequently, as the S$NEER remains at the upper half of the policy band, **there remains ample room for the S$NEER to move lower** in a risk on environment even without any official policy tweaks especially as core inflation remains still some distance from target.

The Case for a RBI Cut





- Non-Consensus: When the RBI meets next week, the consensus is for a hold. **Our non-consensus call is for a cut**. This is not an opportunistic exploitation, but **a warranted calibration**.
- Not a Fed Catalyst: First things first. **Despite the timing of our call for this cut** (right after an outsized 50bp Fed cut in Sep) it is **not premised on policy flexibility granted by a Fed pivot**.
- Although it Helps: Admittedly, the *Fed kicking off an emphatic rate cut cycle helps.* Most importantly by **mitigating currency- and macro-stability risks** that may otherwise be prompted (if Fed had held steady).
- With Record Reserve to Boot: Especially as **record high FX reserves** (>$600bn) **fundamentally bolster the rupee** in relative terms, *alleviating unnecessary policy dilemma.*
- Very Restrictive: Above all, the wider point is that the RBI can, and should, ease policy as **real policy rate is highly restrictive** whilst **inflation** is **well-contained**. In fact, ***in real, core inflation terms policy settings are at about the most restrictive it has been in a decade***.
- Corresponding to Sharper Rate Cuts: So much so that the last time (real) rates were this restrictive, the RBI had already embarked on an aggressive rate cutting cycle.
- At Least Some Adjustment: This time, the rate **cutting cycle need not be as aggressive**. Especially **if the RBI gradually starts calibrating lower**. And some calibration at this point is **amply justified**.
- Especially as Headwinds Appearing: **More so, as global headwinds to growth** may **conspire with some slowdown in domestic demand** conditions.
- Sharply Lower Credit Growth: Finally, a **sharp slowdown in personal loans** means that the **RBI need not overcompensate with higher rates**. Instead, **lowering rates could help buoy lagging industrial credit growth** and **incentivise capex**.
- The upshot is that with *inflation well-anchored, real rates exceptionally restrictive, rupee backstopped by record reserves* and *credit/financial stability risks mitigated,* a **more timely (-25bp) calibration lower in rates is compelling**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	146.34	4.130	2.90%	144.00	~	150.00
EUR/USD	1.1029	-0.0133	-1.19%	1.090	~	1.121
USD/SGD	1.2966	0.016	1.22%	1.2900	~	1.3100
USD/THB	32.987	0.584	1.80%	32.70	~	33.60
USD/MYR	4.2285	0.103	2.50%	4.160	~	4.260
USD/IDR	15485	360	2.38%	15,200	~	15,800
JPY/SGD	0.8864	-0.014	-1.60%	0.860	~	0.910
AUD/USD	0.6842	-0.006	-0.88%	0.678	~	0.695
USD/INR	83.97	0.269	0.32%	83.6	~	84.1
USD/PHP	56.285	0.190	0.34%	55.9	~	57.0

^Weekly change.

FX: Reversion of USD Strength

- The USD strengthened amid adjustments towards less aggressive Fed rate cuts (i.e. "25, not 50" type calibrations). Compared to a week ago, the DXY is 1.6% stronger (from below mid-100 to around 102 levels as at 3 Oct close).
- JPY led losses as rate hike hopes dimmed on comments by the PM Ishida's preference to defer hikes, while SEK underperformed after September minutes revealed possibility of faster cuts by Riksbank on low inflation and weak economy.
- GBP was in the middle of the pack as the currency softened in the middle of the week as BoE Governor Bailey holding out the prospect of the bank beocming a "bit more aggressive" in cutting interest rates provided that news on inflation continues to be good.
- Meanwhile, commodity currencies (AUD, CAD, NOK) were better supported on higher oil amid geopolitical tensions.

EM-Asia: Paring Back Gains

- EM-Asia FX pared back some of September's gains.
- This is perhaps not surprising given that September's gains were arguably in large part on the back of Fed's first cut being a jumbo one and expectations of further easing; and odds of jumbo cuts in Q4 have been dialled back since.
- MYR led losses after weeks of outperformance, but MYR remains ~2% stronger against the greenback compared to end-August (and ~11% stronger compared to end-July).
- THB was also dragged lower by JPY spillovers.

Bond Yield (%)

4-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.698	13.9	3.840	8.9	Flattening
GER	2.099	2.8	2.165	3.4	Steepening
JPY	0.354	0.8	0.867	3.2	Steepening
SGD	2.531	15.7	2.721	11.4	Flattening
AUD	3.660	3.5	4.071	0.1	Flattening
GBP	3.992	5.9	4.046	7.0	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,699.94	-0.67
Nikkei (JP)	38,635.62	-3.00
EuroStoxx (EU)	4,934.02	-2.63
FTSE STI (SG)	3,578.27	0.14
JKSE (ID)	7,480.86	-2.81
PSEI (PH)	7,467.92	0.53
KLCI (MY)	1,628.35	-1.91
SET (TH)	1,445.26	-0.34
SENSEX (IN)	82,011.26	-4.16
ASX (AU)	8,150.00	-0.76

USTs: Tough Climb

- **UST yields rose across the curve led by the front end** as Fed Chair Powell understandably appeared clam in an attempt to anchor a soft landing narrative by espousing that the FOMC is not in a rush to lower rates.
- Nonetheless, the UST yield retains its upward slope.
- Steepening remains our base case for next week as US CPI looks set to ease further to guide front end yields lower. Furthermore, haven bids at the long end may give way to **longer term energy worries and election led fiscal reminders to buoy the long end and aid further steepening.**
- On balance, we expect 2Y yields to trade in the 3.5-3.75% range with downside bias while 10Y yields trade in 3.70-3.90%

FX Brief:

1) JPY: JPY led losses this week as UST yields edged higher and PM Ishiba's comments that the economy isn't ready for another hike contrast against earlier expectations of his closer alignment with BoJ Governor Ueda.

2) EUR: EUR sank below mid-1.10 as conflict woes rose and both inflation and growth indicators point to looming propsects of another ECB cut in October.

3) AUD: Higher oil prices and buoyant detail sales domestically allowed the AUD to restrain slippage against the USD and retain traction above mid-68 cents.

4) CNH: Buoyed back above 7.0 mark this week as propsects of less hurried Fed easing contrast against PBoC easing.

5) INR: RBI engineered INR stability persist even amid higher oil prices and higher UST yields.

6) SGD: Unlikely to dip below mid-1.29 as while CNH could remain supported, another round of stimulus in unlikely with China holidays next week. Meanwhile, growth risks in EZ could drag on the EUR.

7) IDR: Further dial-back in Fed rate cut expectations could see durably buoyancy above 15,500 levels.

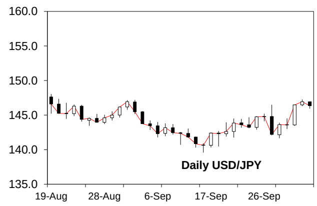
8) THB: Higher oil prices and higher UST yields erased the entirety of last week's THB gains. Continued calls for BoT rate cuts also appear to have shaken THB bulls.

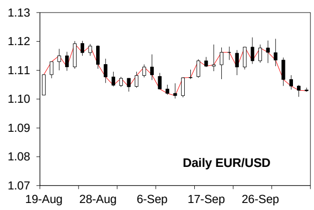
9) MYR: Underperfromed amid stronger USD; but strong macrofundamentals should backstop weakening at around 4.25 levels.

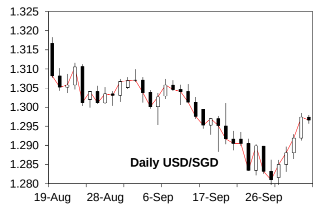
10) PHP: Move back above mid-56 levels appears likely as inflation undershooting BSP's target range would beef up case for a jumbo cut by BSP at October meeting.

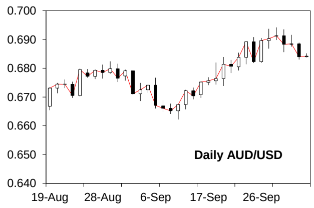
11) KRW: Backdrop of stronger USD saw KRW lose ground amidst net foreign outflows from equities.

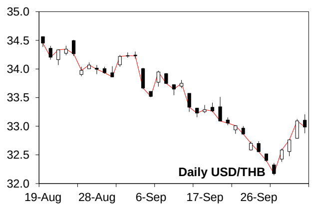
12) TWD: Typhoon impacted trading conditions this week. TWD is set to continue middle of the pack performance.

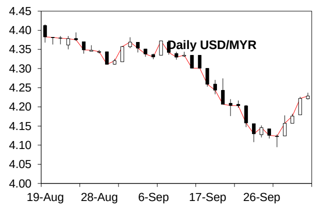


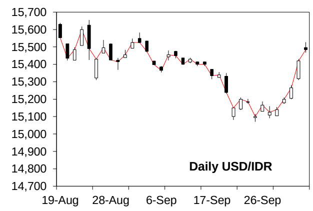


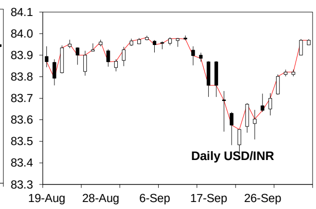


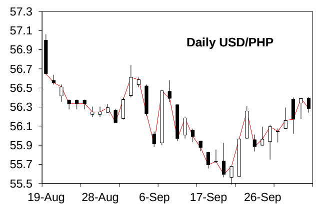


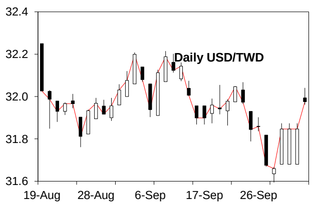


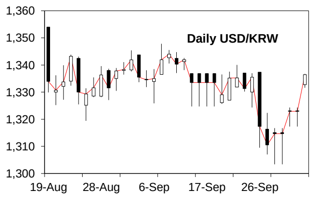


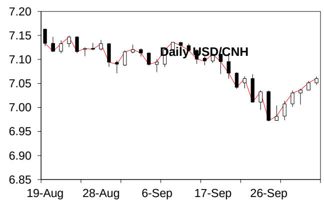












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