MIZUHO

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WEEK AHEAD

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05-Jul-2024

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Economic Calendar

•Survey results from Bloomberg, as of 5 Jul 2024; The lists are not exhaustive and only meant to highlight key data/events

G3

Date	Country	Event	Period	Survey*	Prior
08 Jul	JP	Trade Balance BoP Basis	May	-¥1186.7b	-¥661.5b
	JP	BoP Current Account Balance	May	¥2350.3b	¥2050.5b
	JP	Labor/Real Cash Earnings YoY	May	2.1%/-1.2%	1.6%/-1.2%
09 Jul	JP	Machine Tool Orders YoY	Jun P	--	4.2%
10 Jul	US	Wholesale Inventories MoM	May F	--	0.6%
	JP	PPI YoY	Jun	2.9%	2.4%
11 Jul	US	Initial Jobless Claims		--	238k
	US	**CPI/Ex Food and Energy YoY**	**Jun**	**3.1%/3.4%**	**3.3%/3.4%**
	US	Real Avg Weekly Earnings YoY	Jun	--	0.5%
	JP	Core Machine Orders MoM	May	0.8%	-2.9%
12 Jul	US	Monthly Budget Statement	Jun	--	-$347.1b
	US	U. of Mich. Sentiment/Expectations	Jul P	67.0/-	68.2/69.6
	US	U. of Mich. 1Y/5-10Y Inflation	Jul P	--	3.0%/3.0%
	US	PPI Final Demand/Ex Food, Energy YoY	Jun	--	2.2%/2.3%
	JP	Industrial Production YoY	May F	--	0.3%

Asia

Yellow highlight indicate actual data

Date	Country	Event	Period	Survey*	Prior
08 Jul	TH	Consumer Confidence Economic	Jun	--	54.3
09 Jul	AU	Business Confidence/Conditions	Jun	--	-3/6
	PH	**Unemployment Rate**	**May**	**--**	**4.0%**
	TW	Exports/Imports YoY	Jun	14.7%/15.0%	3.5%/0.6%
10 Jul	**CH**	**CPI YoY**	**Jun**	**0.4%**	**0.3%**
	CH	PPI YoY	Jun	-0.8%	-1.4%
	KR	**Unemployment rate SA**	**Jun**	**2.8%**	**2.8%**
	PH	Exports/Imports YoY	May	-1.0%/1.5%	26.4%/12.6%
11 Jul	**KR**	**BOK Base Rate**		**3.50%**	**3.50%**
	MY	**BNM Overnight Policy Rate**		**3.00%**	**3.00%**
12 Jul	CH	Exports/Imports YoY	Jun	8.0%/2.7%	7.6%/1.8%
	IN	Industrial Production YoY	May	4.8%	5.0%
	IN	**CPI YoY**	**Jun**	**4.8%**	**4.8%**
	MY	Industrial Production YoY	May	3.7%	6.1%
	SG	**GDP YoY**	**2Q A**	**2.7%**	**2.7%**
09-15 Jul	CH	Agg Financing/New Yuan Loans CNY YTD	Jun	--	14802b/11136b
11-18 Jul	CH	FDI YTD YoY CNY	Jun	--	-28.2%

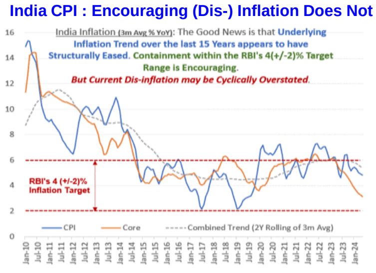
Week-in-brief: Tentative

- Minutes published by the Fed, ECB and RBA in the past week further affirmed that **the future policy trajectories are tentative at best.**
- Details in FOMC minutes confirmed the dovish leanings in the hawkish 'Dot Plot' shift in June - namely, that trimming policy trajectory to one cut (from three in March "Dot Plot") instead of two was a close call to make. With data-dependency remaining key, the odds of more than one cut could possibly shift with incoming data.
- Meanwhile, **ECB minutes revealed some dissenting voices behind the June cut**. In particular, some members noted that stronger wage growth and stickier inflation since the prior meeting was not particularly convincing that dis-inflation was making progress. Accordingly, rate cuts was not "fully in line" with the principle of data-dependence and there was a case for keeping interest rates unchanged. This could forewarn that the next cut may not be as forthcoming should dis-inflation remain bumpy.
- Down under, while **RBA minutes cleared some air that the bar for a hike still appears high, any cuts look to be far out in the horizon**. In particular, the minutes was inconclusive on the drivers behind the upwardly revised consumption, noted that a hike may require much tighter labour market conditions, and did not view some spare capacity as necessary to bring back inflation. Even as this week showed a surge in building approvals to 5.5% (Apr: 1.9%) and higher retail sales, rentals remain high while the increase in retail sales was on the back of sales/discounts campaigns.
- Meanwhile, despite BSP signalling the possibility of a cut at the last two meetings, **this prospect remains tentative as moderating inflation print in June belie a further acceleration of food prices** (the strongest driver of inflation).
- In contrast, **policy adjustments by SBV remains on the table** on a pressured VND near the top of SBV's trading range, even as inflation remains contained and Q2 growth outperformed (Q2: 6.9% vs exp: 6.0%).
- Looking into the week ahead, while **BoK hold rates, the central bank could plot out conditional trajectories for policy pivot with dis-inflation trajectory remaining on track and given that upside growth risks are mostly externally driven**. But prudence would likely be a key theme, insofar as further KRW weakness on pre-mature cuts risks fuelling price pressures.
- **BNM looks on course to stand amid improved growth outlook while inflation remains manageable**, and could be the **outlier abstaining from the global easing cycle** given the relatively less cumulative hikes. While the diesel (and likely forthcoming fuel) subsidy reduction would add to the headline number, PM Anwar had previously assured that the subsidy rationalisation may not excessively burden the majority of the consumers on accompanying handout.
- All in, even as headline US CPI may continue to show moderation next week, Asia FX remains tentative about outright gains with the **KRW and AUD being stark contrasting representatives across the hold spectrum.**

Singapore Q2 GDP: Electronics Upturn, Swift Fades

- **We expect Singapore Q2 GDP growth momentum to pick up** from the 0.1% to 0.3% QoQ on a seasonally adjust basis. Nonetheless, this still represents a slight slowdown to 2.6% YoY from Q1's 2.7% YoY. First, the stronger growth momentum stems from a **recovery in industrial production led by the electronics recovery.**
- Second, on top of the fading effects from the Taylor Swift boost in Q1, we see signs of **falling discretionary spending across** a broad range of categories ranging from recreational goods to apparel and watches and jewellery alongside falling spending at department stores.
- As such, wholesale and retail trade may pose a drag on growth.
- Third, robustness in financial sector intermediation activities is likely to persist as loan growth with loan growth to resident offset the weakness in the non-resident segment.
- Lastly, construction sector output growth may also appeared buoyed as public sector progress payments from projects such as Circle line construction and Changi Airport development offset the more muted private sector activity.
- All in, the firm GDP outturn is likely to continue to back the case for the MAS's prolonged hold.

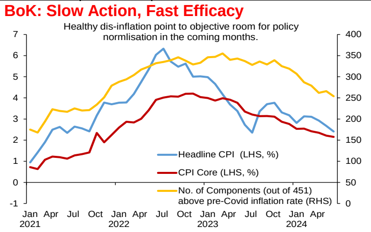
India CPI : Encouraging (Dis-) Inflation Does Not Guarantee Unencumbered RBI Cuts



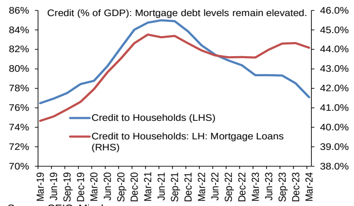
- **India**'s June **inflation** (CPI) is **expected to be subdued at 4.7%**, **entrenching the positive surprise of more emphatic than expected dis-inflation**. In turn, this underscores just how much of a gift **dis-inflation is for the** the RBI.
- **But** it would be **a mistake to extrapolate** encouraging dis-inflation for **unfettered scope for RBI cuts**, ***unencumbered by enduring Fed's hold***.
- **Admittedly**, highly **constructive structural dis-inflation dyn**amics tie back to inflation being tamed back to the RBI's target. But this is a **bumpy progression path**, *obfuscated by volatility,* not a conclusive declaration of the RBI durably having attained target.

- Certainly **not in terms of symmetric variance of in**flation; with ***trend inflation's upside bias*** *within and beyond RBI target band.* Fact is **upside volatility in food**, **unsustainable fuel disinflation** and **lagged price pressures from publick spending** warn of latent future inflation risks.
Upshot: **Welcome structural gains in anchoring inflation** likely **overstate cyclical inflation advantage**. And it follows that **conclusions about inflation conquered are not just liable, but likely, to prove hasty**, **with attendant erosion in relative policy/rupee advantages**.
In turn, the ***RBI will remain justifiably conservative about cutting too soon.***
In the context of a strong USD amid currently "higher for longer" Fed, this aligns with at least waiting till September when the Fed cuts or guidance is less hawkish.

BoK: Slow Action, Fast Efficacy



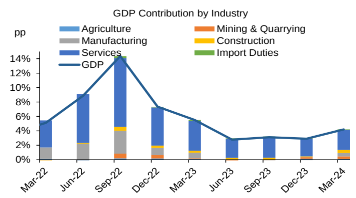
Source: CEIC, Mizuho



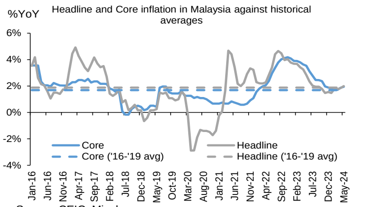
Source: CEIC; Mizuho

- While the BoK is still expected to keep rates unchanged at their next meeting on 11 July, Governor Rhee may begin to plot out **conditional trajectories for policy pivot in the months ahead or at the very least signal the possibility of starting discussions of rate cuts in Q3.**
- Afterall, **headline inflation has declined to 2.4% in June from 2.7% in May.** Our tracking of the CPI basket also showed **continued broadening of dis-inflation with close to half of the items returning to their pre-Covid inflation rates**. Encouragingly, **food prices continued to decline as prices of fruits and vegetables dropped on raised import volumes** amid eased restrictions.
- **Underlying price momentum appear to have slowed** with **core CPI relatively flat** as core inflation stayed at 2.2% YoY.
- With upside growth risks being externally driven, the inflation passthrough is expected to remain relatively muted. As such, the BoK is likely to highlight that dis-inflation remains on track.
- Nonetheless, in terms of policy making, Bok Governor Rhee is likely to stick to his allusion to "Festina Leste", a Latin phrase which imply "**make haste slowly**".
- This seemingly paradoxical principle by Augustus Caesar served to build up his army by slow regular training to get things right so that the enemy is conquered fast.
- In that sense, in this calibration course, Governor Rhee has to wait for a range of factors to be right apart from inflation. Specifically, the KRW's **current weakness may be further worsened by pre-mature cuts.** While the BoK is certainly charting their own policy path, **risk of depreciating KRW from front running the Fed and ensuing imported inflationary pressures will not be ignored**.
- Pre-mature cuts also risk re-igniting the housing market and dials back progress of slowing the pace of mortgage debt growth. All in, the BoK may attempt to **signal the possibility of a rate cut while pushing back against speculation of hasty back to back cuts** in order to provide policy restriction to ensure inflation's defeat.

BNM: Steady



Source: CEIC; Mizuho



Source: CEIC; Mizuho

- BNM looks steady to proceed with a rate hold at the upcoming meeting (11 Jul).
- **Improvement in growth is expected to continue** after the Q1 4.3% (Q4: 3.0%) outrun. The manufacturing industrial production index advanced further by 4.9% in April (Mar: 1.3%) on accelerating growth for both export-oriented cluster and domestic-oriented cluster, even as electronics IP dipped slightly. Meanwhile, continued employment and wage growth (at least for the manufacturing sector) would support household spending. Encouragingly, outstanding household loan growth increased by 6.3% in May while NPL declined. Finally, investment activity would be supported by the ongoing progress of multi-year projects in both private and public sectors.
- Meanwhile, **inflationary pressures is expected to be managed** insofar as policymakers likely have the overall inflation picture at the back of their minds when rolling out the reduction in diesel subsidies, and (likely) forthcoming reduction in petrol subsidies. Headline inflation rose to 2.0% in May (Apr: 1.8%), driven mainly by selected necessities, notably fresh food and utilities (on an increase in water tariffs). Effects of the diesel subsidy reduction would be reflected in June's print.
- With positive growth momentum and managed inflation, it should be a clear-cut hold by BNM given the central bank's emphasis of inflation and growth prospects. BNM Deputy Chief had already explicitly remarked that the central bank will not use interest rates to prop up the MYR.
- FX concerns have also taken a backseat as the **MYR** has gained about 0.4% against the US since the last meeting, **outperforming most Asian peers except the AUD**. We think that MYR could continue outperforming amid improved macrofundamentals, constructive steps taken towards fiscal consolidation and continued efforts by government and BNM to attract inflows.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	160.77	-0.140	-0.09%	159.00	~	162.50
EUR/USD	1.0827	0.0132	1.23%	1.065	~	1.090
USD/SGD	1.3499	-0.007	-0.52%	1.3410	~	1.3640
USD/THB	36.573	-0.232	-0.63%	36.10	~	37.00
USD/MYR	4.7087	-0.0085	-0.18%	4.640	~	4.725
USD/IDR	16278	-97	-0.59%	16,190	~	16,400
JPY/SGD	0.8397	-0.004	-0.43%	0.843	~	0.839
AUD/USD	0.6732	0.010	1.49%	0.663	~	0.684
USD/INR	83.48	0.031	0.04%	83.1	~	83.6
USD/PHP	58.52	-0.091	-0.16%	57.4	~	58.8

^Weekly change.

FX: Same Tide, Different Boats

- With the disappointing US ISM services data, **tide of lower UST yields lifted most G10 peers to gain against the USD.**
- Nonetheless, the NOK being powered by Brent Crude's 3% rise this week to above US$87/barrel led gains. EUR gained alongside ECB's minutes showing continued the underlying concerns around June's cut and enhance a pushback against more than 2 cuts in 2024.
- In contrast, CHF was at the bottom of the pile as headline inflation in Switzerland slowed unexpectedly to 1.3% YoY on lower goods prices. The SNB's task to bring inflation up stands in sharp contrast to regional peers.

EM-Asia: Rough Seas

- In EM-Asia relative to G10 peers, the **magnitude of gains** were **less distinct especially amid firming prospects of Trump 2.0.**
- **KRW underpeformed** as we had flagged last week that the mere confirmation of a moderation of headline CPI would suffice to weigh. Accordingly, the **downside surprise in headline CPI** and flat core inflation sent KGB yields lower and led the KRW lower.
- Similarly, the **TWD was another underperformer** this week, staying rather flat **despite strong foreign inflows into equities. Geo-politics** may have had a hand with Chinese capture of a Taiwanese fishing boat heating up cross Straits tensions.
- Following the softer tide of softer USD after US ISM, AUD lead gains on the back of retail sales outperformance which pushes back expectations for rate cuts in 2024.
- IDR also gained as the government espoused the possibility of lower than expected 2025 fiscal deficit.

Bond Yield (%)

2-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.687	-6.6	4.349	-4.7	Steepening
GER	2.930	10.6	2.595	10.1	Flattening
JPY	0.333	-1.6	1.061	2.0	Steepening
SGD	3.308	2.8	3.210	2.7	Flattening
AUD	4.231	7.3	4.400	0.1	Flattening
GBP	4.148	-2.4	4.173	0.2	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	5,537.02	1.40
Nikkei (JP)	40,912.37	3.36
EuroStoxx (EU)	5,016.33	2.50
FTSE STI (SG)	3,414.05	2.44
JKSE (ID)	7,237.92	2.47
PSEI (PH)	6,492.75	1.26
KLCI (MY)	1,610.06	1.26
SET (TH)	1,308.52	0.58
SENSEX (IN)	79,749.02	0.91
ASX (AU)	7,822.26	0.71

UST: Cooling Economy and Fiscal Woes

- UST yield curve bull flattened in the past week as rate cut expectations and fiscal situation fought for attention.
- While amplified rate cut bets on dovish FOMC minutes were intensified by cooling US economic conditions on a sharp drop in US ISM Services and continued dis-inflation process affirmed in last Friday's PCE print, fiscal worries cast an overhang on the longer-end.
- While a robust NFP report today could dim the rate cut optimism on less reslient ADP print, 2Y UST yields is unlikely to climb above 4.74%. Instead, bias is to lower yields towards 4.60% on continued cooling in inflationary pressures.
- Meanwhile, elevated oil prices and US debt concerns may see 10Y yields trading around 4.25-4.55%.

FX Brief:

1) JPY: UST-JGB yield gap remains a fundamental source of buoyancy above 159. Downside risk in US CPI may restrain climb above 162.

2) EUR: Upside above 1.08 rest on UST yields rather than further tailwinds from elections relief especially as French gridlock comes into play with markets already just pricing in one more cut in October.

3) AUD: Consolidation prospects around 67 cents on pushback on rate cuts. Outperformance against regional peers to persist and aid the case for long AUD/AxJ.

4) CNH: Dismal inflation outlook to tamper extent of CNH recovery.

5) INR: Whilst the budget expected to retain deficit target should backstop rupee, higher oil prices and RBI risks dent INR upside.

6) SGD: Sustained strength in CNH and EUR could see durabiility below 1.35 handle.

7) IDR: Dips below 16,300 plausible in weaker USD strength, but fiscal woes should see weak momentum towards 16,200.

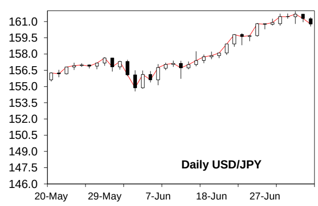
8) THB: BoT Governor Sethaput reaffirming the need to hold rates alongside CPI print which .

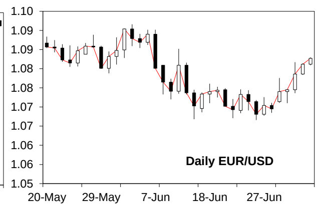
9) MYR: Support from firmer CNH could test 4.7 handle; muted reaction expected on BNM's decision.

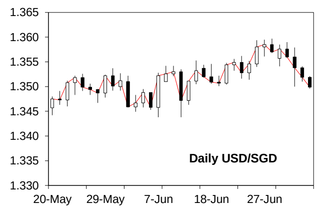
10) PHP: Plausibility of August cut remains in doubt given that food inflation accelerated despite easing headline number; uncertainty could nonetheless restrain rallies below 58 handle.

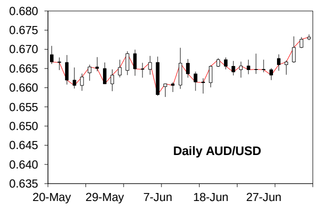
11) KRW: BoK meeting affirm rate cuts to set stage for further underperformance especially among regional peers.

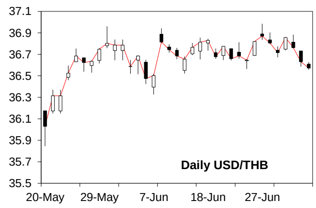
12) TWD: While geo-political tensions saw TWD weakened this week despite strong foreign inflows, catchup recovery could be installed next week especially amid likely affirmation of the strength of the semiconductor upcycle from trade data release.

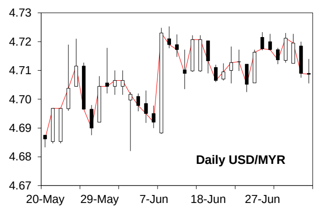


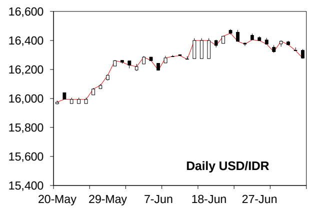


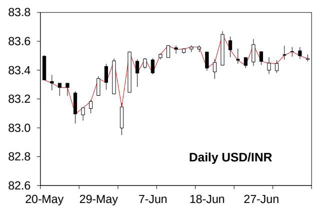


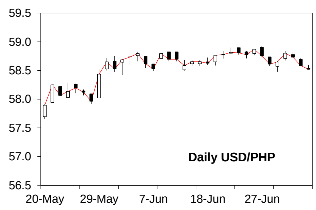


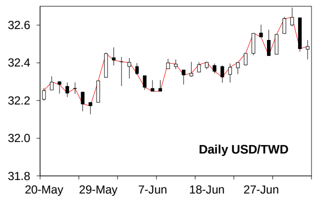


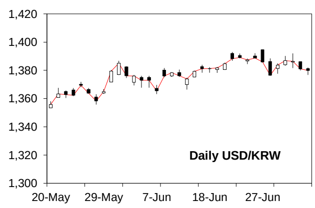


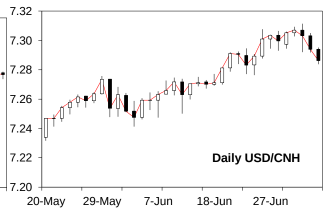












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