MIZUHO

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WEEK AHEAD

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06-Sep-2024

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Economic Calendar

•Survey results from Bloomberg, as of 6 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
09 Sep	US	Wholesale Inventories MoM	Jul F	0.3%	0.3%
	EZ	Sentix Investor Confidence	Sep	-11.0	-13.9
	JP	BoP Current Account Balance	Jul	¥2484.5b	¥1533.5b
	JP	Eco Watchers Survey Current/Outlook SA	Aug	47.8/48.6	47.5/48.3
	JP	**GDP SA QoQ**	**2Q F**	**0.8%**	**0.8%**
10 Sep	JP	Machine Tool Orders YoY	Aug P	--	8.4%
11 Sep	**US**	**CPI/Ex Food, Energy YoY**	**Aug**	**2.6%/3.2%**	**2.9%/3.2%**
	US	Real Avg Weekly Earnings YoY	Aug	--	0.4%
12 Sep	US	Initial Jobless Claims		--	227k
	US	PPI Final Demand/Ex Food, Energy YoY	Aug	--	2.2%/2.4%
	EZ	**ECB Deposit Facility Rate**		**3.50%**	**3.75%**
	JP	BSI Large All Industry QoQ	3Q	--	0.4
	JP	PPI YoY	Aug	2.8%	3.0%
13 Sep	US	U. of Mich. Sentiment/Expectations	Sep P	--	67.9/72.1
	US	U. of Mich. 1Y/5-10Y Inflation	Sep P	--	2.8%/3.0%
	EZ	Industrial Production SA MoM	Jul	-0.3%	-0.1%
	JP	Industrial Production MoM	Jul F	--	2.8%

Asia

Date	Country	Event	Period	Survey*	Prior
09-15 Sep	CH	Agg. Financing/New Yuan Loans CNY YTD	Aug	21970b/14600b	18870b/13523b
09 Sep	**CH**	**CPI YoY**	**Aug**	**0.7%**	**0.5%**
	CH	PPI YoY	Aug	-1.5%	-0.8%
	TH	Consumer Confidence Economic	Aug	--	51.3
	TW	Exports/Imports YoY	Aug	9.0%/19.6%	3.1%/16.2%
10 Sep	CH	Exports/Imports YoY	Aug	6.8%/2.0%	7.0%/7.2%
	MY	Industrial Production YoY	Jul	5.7%	5.0%
	PH	Exports/Imports YoY	Jul	-3.4%/2.6%	-17.3%/-7.5%
11 Sep	KR	Unemployment rate SA	Aug	--	2.5%
12 Sep	IN	Industrial Production YoY	Jul	4.1%	4.2%
	IN	**CPI YoY**	**Aug**	**3.6%**	**3.5%**
13 Sep	IN	Exports/Imports YoY	Aug	--	-1.5%/7.5%
14 Sep	CH	Industrial Production YoY	Aug	4.8%	5.1%
	CH	FAI/Property Investment YTD YoY	Aug	3.5%/-10.0%	3.6%/-10.2%
	CH	Retail Sales YoY	Aug	2.5%	2.7%
	CH	New Home Prices MoM	Aug	--	-0.7%

Week-in-brief: Cooling or Catching the Chills?

- To state the obvious, cooling weather is great, catching the chills is not.
- After a decline in job openings and lower ADP employment print amid a contrasting backdrop of dire ISM manufacturing dampening still expansionary ISM services, markets approach tonight's NFP print with risk off mood wondering if the labour market is just cooling or has the economy caught the chills.
- Afterall. when **America sneezes, the world catches a cold**.
- In EM-Asia this week, inflation ranged from being appropriately contained to rapidly cooling.
- In Thailand, **headline inflation stayed at 0.4% YoY** as higher food inflation was offset by lower fuel prices. Core inflation inched up to 0.6% YoY from 0.5% YoY backing the case for the BoT to hold rates though their response function may soon tilt towards financial conditions into 2025. Nonetheless, alongside JPY gains, THB outperformed on confirmation of the new cabinet alongside a policy statement due over the coming weekend.
- At the other spectrum, headline inflation in the Philippines cooled significantly from July's 4.4% to 3.3% in August which is also below market expectations of 3.6%. This sets the stage for further BSP easing in Q4 and restrained PHP gains this week.
- In Malaysia, the BNM kept rates unchanged. They also judged that **spillovers from diesel price adjustments have been contained.**
- Down Under, the AUD rally cooled as China's iron ore woes add to domestic growth concerns.
- As expected, **Q2 GDP growth was lacklustre** at 1.0% YoY with government spending being the main driver while support from **household consumption continues to weaken**.
- Furthermore, underlying details **depict stretched household with a 1.1% QoQ fall in discretionary spending led by services while essential spending rose 0.5% QoQ** on rent and dwelling services.
- Notably, household savings ratio stayed at a dismal 0.6% which is significantly below pre-pandemic ratios of above 5% and is a key risk to **a potential further slowdown in services activity**.
- **For the upcoming week**, India's massive dis-inflation wave, **which dragged July CPI down to 3.5%, is likely to abate, if not stall for the August print.** But it remains a silver-lining. In fact any uptick in consumer price pressures, so long as it is within 20-50bp is not only acceptable, but arguably remains consistent with scope for reduction in the RBI's policy rate such as a guarded cut in October.
- In contrast, China's CPI is expected to head higher but this remains largely supply side driven by heat and rainfall rather than by buoyant demand and the inflation heat weighs on demand instead.
- All in, should the **NFP print turn chilly, the upcoming US CPI print which is expected to cool may bring more unwelcomed shivers for markets**.

ECB: Clear-Cut(?)

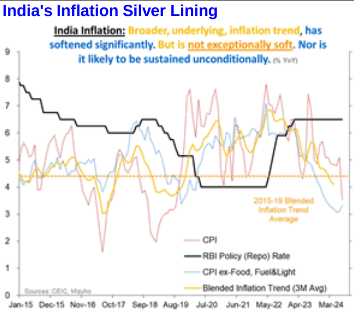
- ECB would likely cut rates on 12 Sep amid continued dis-inflation progress and heightened growth risks, but the focus of the meeting would arguably on ECB's next move. Recent ECB comments already provide a precursor to this. While ECB speakers in the past week have been broadly converging towards consensus around a September cut, trajectory post-September look less clear.
- ECB Simkus noted that an Oct cut was quite unlikely while commenting that there were many compelling arguments for ECB cut in Sep. ECB Muller also opined that confidence in Sep rate cut is growing, but policy path after Sep is less certain.
- Point being, even if inflation at 2.2% in August is just a 0.2ppt shy of the 2% target, stalling dis-inflation in services cautions against proclaiming an early victory over inflation. So it would be a test of ECB's tolerance of growth risks before moving faster with cuts. While ECB Rehn noted that growth outlook is weaker than expected, Schnabel's view that a soft landing looked more likely than a recession could mean more gradual cuts.
- Accordingly, attention (and attendant EUR action) would likely focus on comments and updated forecasts on growth/inflation. In addition, any discussion on the neutral rate would be watched closely for any indication of how much ECB could cut by.
- On balance, EUR bulls ought to take caution as even with slower rate cuts, a longer period of restrictive policy risks impeding growth prospects.

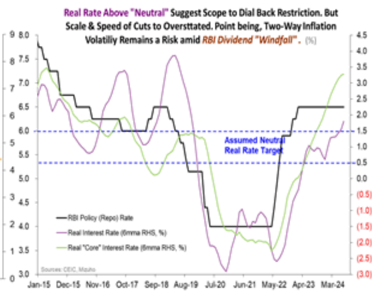
China: A broad-based slowdown expected for August

- China is likely to have experienced a broad-based slowdown in activity growth in August, as weaker sentiment in both the manufacturing and construction sectors has taken hold. Adverse weather conditions, including heat and heavy rainfall, have contributed to this decline, while lagged policy support and elevated real interest rates continue to dampen overall economic confidence.

Despite expectations for coordinated fiscal and monetary policy support by year-end, the risk of delayed or insufficient implementation by government officials is increasing.
- What is worse, a lack of stabilization in the property sector may further strain local government revenues, limiting their ability to boost domestic demand through investment or subsidies.
- Although the government's reported plan to cut interest rates on existing home mortgages is expected to ease household financial burdens, we doubt it will be a game changer. We believe the actual impact on domestic consumption is likely to be relatively muted or short-lived given China's dented consumer confidence.
- For consumer prices, we expect a faster YoY increase in August, **driven mainly by higher food prices. Fresh vegetable prices surged amid heat and heavy rainfall, and pork prices reached their highest** levels since the end of 2022. Furthermore, higher tourism prices during the summer holiday are also expected to exert upward pressure on inflation.
- Factory prices, however, faced increasing downward pressure, with both the producing and producer price indices in the PMI survey falling to a 15-month low in August

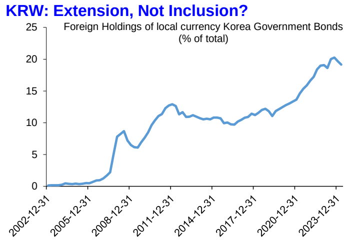
India's Inflation Silver Lining





- India's massive **dis-inflation wave**, which dragged July CPI down to 3.5%, is **likely to abate, if not stall**. But remains a silver-lining.
- Especially as stalled dis-inflation is **not inflation risk re-ignited**.
- Instead, it is **merely** drivers of **emphatic dis-inflation exhausted**.
- This is **not only to be entirely expected, but arguably healthy** for the economy, to ensure a virtuous cycle of demand-supportive price adjustments.
- In fact any **uptick in consumer price pressures**, so long as it is within 20-50bp is not only acceptable, but arguably **remains consistent with scope for reduction in the RBI's policy rate**.
- Point being, with highly restrictive real rates, a backdrop of encouraging dis-inflation, constructive reduction in global energy prices and emerging downside risks to global demand, calibrated cuts are welcome. Hence, we are taking a non-consensus view for the first cut in October **as encouraging dis-inflation meets a less abrasive Fed stance**.
- Nonetheless, what may be overstated.
- For one, dis-inflation has merely met the RBI's 4% (+/-2%) target more symmetrically and by no measure sustained an undershoot. What's more upside inflation volatility is a threat not as yet put to bed. Finally, rupee pressures could linger into an uncertain Q4.
- This would **advise a calibrated approach to rate cuts. And perhaps a guarded cut in October.**

KRW: Extension, Not Inclusion?



Source: CEIC; Mizuho

- As we step into September, one potential announcement to watch for is the potential inclusion of Korea into the FTSE World Government Bond Index (WGBI) coming end-September 2024, exactly 2 years after it was included in the watch list for potential upgrade.
- While Korea has **fulfilled criteria of market size** (at least USD 50 billion, EUR 40 billion and JPY 5 trillion of index eligible debt) and **credit rating** (A- by S&P and A3 by Moody's), the main hurdle has been more qualitative in terms of achieving Market Accessibility Level 2.
- This involves 4 broad categories: 1. Market, Macroeconomic and Regulatory Environment, 2. Foreign Exchange Market Structure, 3. Bond Market Structure and 4. Global Settlement and Custody.

- We note that since the March Review, plan for improving foreign accessibility proceeded smoothly with Korean government bonds **Euroclearable and also via Clearstream** as of late June/early July.
- **FX trading hours have also been successfully extended till 2am** to enhance trading convenience. Admittedly, the fact that the likes of Malaysia being in the WGBI despite limited trading hours for the MYR is reflective of the multi-faceted nature of these qualitative criteria.
- On that note, **inclusion of Korea into the WGBI at this September FTSE review might be a little early**. While the authorities' review of FX reforms implemented in July showed increased volumes and improved bid-ask spreads, market feedback was that **there is a continued need to increase participation and trading of Registered Foreign Institutions (RFIs) and ensuring liquidity in the late night hours.**
- Furthermore, encouraging participation is a tedious process with **RFIs expressing need to observe market liquidity and volatility for at least six months to a year before fully engaging in the FX markets**.
- While efforts have been made to streamline reporting needs for RFIs with monthly task force setup to collect feedback and improve transactions and settlement processes, the **on-going reforms also imply inadvertent hesitancy for FTSE Russell to incorporate Korea** into the index given the potential for large inflows. In turn, the **potential benefits for KRW and improving demand for KGB are more likely to be**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	142.57	-2.330	-1.61%	140.00	~	145.00
EUR/USD	1.1117	0.0030	0.27%	1.092	~	1.119
USD/SGD	1.2982	-0.004	-0.30%	1.2850	~	1.3100
USD/THB	33.577	-0.343	-1.01%	33.00	~	34.00
USD/MYR	4.3305	0.0145	0.34%	4.310	~	4.350
USD/IDR	15365	-90	-0.58%	15,250	~	15,500
JPY/SGD	0.9105	0.012	1.30%	0.886	~	0.936
AUD/USD	0.6735	-0.008	-1.10%	0.670	~	0.686
USD/INR	83.93	0.080	0.10%	83.7	~	84.1
USD/PHP	55.915	-0.223	-0.40%	55.6	~	56.6

^Weekly change.

FX: Broad Resumption of Fed Pivot Play

- DXY moved ~0.6% lower amid a ramp up of bets for a 50bps cut at Sep FOMC.
- JPY led gains on diverging policy path trajectories, as BoJ Governor Ueda reiterated that BoJ will continue to raise interest rates if the economy and prices perform as they expected.
- EUR gained even as conviction grew over a 25bps cut next week, likely as policy trajectory post-Sep looks uncertain.
- CAD was marginally weaker with Bank of Canada cutting rates (as widely expected) and rate cuts was widely expected.
- AUD underperformed as a weak GDP growth dulls hawkish rhetoric by RBA Governor Bullock.

EM-Asia: Mostly stronger

- EM Asia FX was mostly stronger against the greenback.
- THB outperforming on JPY spillovers and higher core inflation which could support a longer hold by BoT, who is closely monitoring credit risks.
- TWD weakened amid continued equity outflows on amid some concerns on the outlook of AI (and attendant demand for semiconductors).

Bond Yield (%)

6-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	3.894	-2.1	3.858	5.9	Steepening
GER	2.337	-2.9	2.258	3.6	Steepening
JPY	0.349	-0.7	0.880	-0.4	Steepening
SGD	2.504	-13.5	2.685	-2.7	Steepening
AUD	3.664	0.9	3.964	0.1	Flattening
GBP	4.089	43.5	3.993	8.3	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	5,591.96	-0.76
Nikkei (JP)	38,647.75	0.74
EuroStoxx (EU)	4,972.27	1.28
FTSE STI (SG)	3,436.68	1.44
JKSE (ID)	7,630.78	1.15
PSEI (PH)	6,897.54	-0.93
KLCI (MY)	1,667.60	1.95
SET (TH)	1,362.14	0.54
SENSEX (IN)	82,439.63	1.67
ASX (AU)	8,091.85	0.85

USTs: Of Upturns and Downturns

- A steeper UST yield curve is widely understood (based on greater front-end sensitivity to policy rates) to be a given as the Fed embarks on a rate cutting cycle.
- To be sure, the case for a steeper curve is even more compelling. Partly because of the coincidence of US elections and the Fed rate cut cycle; given the experience of higher long-end yields in 2016 and 2020.
- In turn, amid a more than 20bps drop in UST yields this week, the sight of the reversion of the 10-2Y part of the yield curve to an upward sloping one has triggered recession fears as well.
- While the structural case for an upward sloping UST yield curve is on the cards in the months ahead given ramped up military spending and social spending pressures, there may be recession fear which trigger long end demand to create two way inversion and reversion dynamics.
- All in, 2Y and 10Y UST yields to trade in the enlarged 3.5-4.0% range.

FX Brief:

1) JPY: JPY gains may face a speed bump in the form of the GDP to get a reality check on household consumption even though revision likelihood remains slip. Given prospects of Fed cuts, JPY bulls may take opportunity to take some profits.

2) EUR: Looming ECB cuts to restrain EUR rallies above 1.11 as growth woes may feature.

3) AUD: AUD bulls face quiet week of domestic data and look to turn focus on China woes which could dampen upside gains even as USD looks to weaken.

4) CNH: Buoyancy of the 7.0 mark as domestic woes continue to feature need for policy easing yet a durable solution eludes.

5) INR: Gains may begin to reveal on softer oil and lower UST yields especially should domestic inflation remain contain.

6) SGD: Durability below 1.30 will be tested amid China woes and likely limited upside for the EUR.

7) IDR: Broad USD weakness led USD/IDR lower below 15,400. But risk of reversion on paring back of a 50bps cut at Sep FOMC.

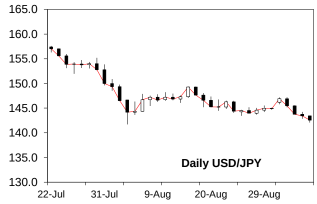
8) THB: Tailwinds for political stability and JPY gains face re-examination around 33 levels.

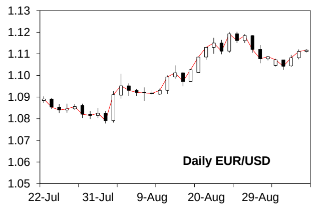
9) MYR: Little moved on a BNM's expected hold. Growth outlook should continue to buoy MYR's strength, but dips below 4.30 could be difficult on risk of some resumption of USD strength on overextended pivot bets.

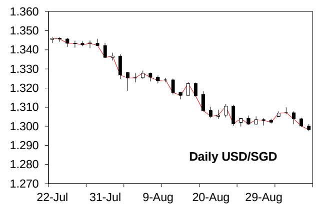
10) PHP: Moderating price pressures strengthening case for further easing could mean diffuclty in sustaining traction below 55 handle.

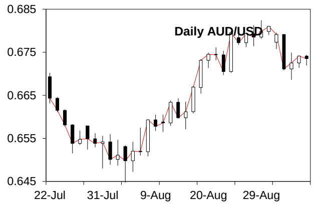
11) KRW: CPI print this week cements case for Q4 cut and KRW gains may be more restrained relative to the JPY.

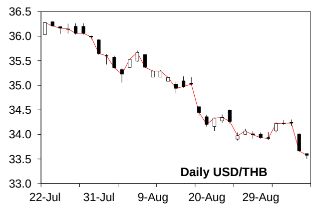
12) TWD: Overwhelming foreign outflow from equities sell-off restrain TWD gains this week. Upcoming exports remain firm.

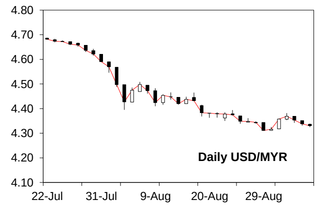


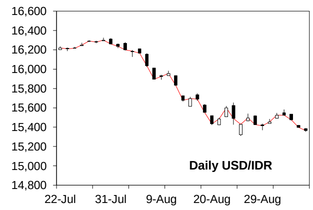


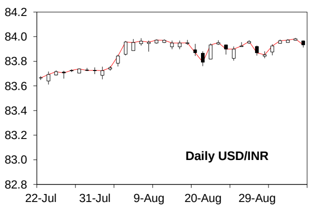


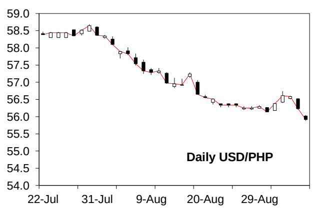


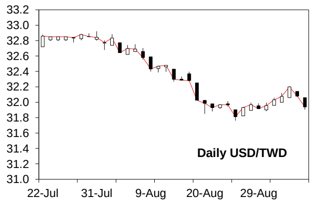


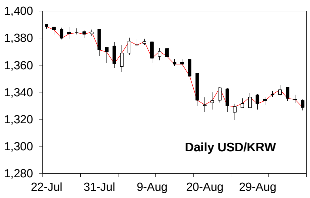


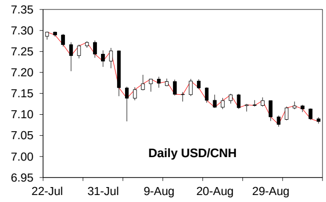












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