

Weekly Highlights

- **USD eases off highs after payrolls**
- **JOLTS data to highlight strong demand for labour**
- **USD/JPY hits 15-month high amid reflation re-assessment**
- **Corporate appetite for overseas investment picking up**
- **ECB minutes, policy review in focus**
- **UK GDP to jump again in May as the re-opening continues**
- **USD strength weighs on RMB**
- **Capital flows retreat after CPC centennial**
- **Indonesia under pressure from a severe Covid-19 outbreak**
- **RBA and BNM to remain on hold, with RBA extending QE**
- **Colombian central bank neutral on rates**
- **Inflation data in focus across LatAm**

Contact details:

Colin Asher
Senior Economist,
European Treasury Department
colin.asher@mhcb.co.uk
Tel: +44 20-7012-5262

Ken Cheung
Chief Asian FX Strategist,
East Asia Treasury Department
ken.cheung@mizuho-cb.com
Tel: +852 2306-3352

Luciano Rostagno
Chief Strategist,
Treasury Banco Mizuho do
Brasil S.A.
luciano.rostagno@mizuhogroup.com
Tel: +55 11 5504-9981

Vishnu Varathan
Head, Economics & Strategy,
Asia & Oceania Treasury
Department
vishnu.varathan@mizuho-cb.com
Tel: +65 6805-4244

Lavanya Venkateswaran
Economist,
Asia & Oceania Treasury
Department
lavanya.venkateswaran@mizuho-cb.com
Tel: +65 6805-4247

US – reflation trade reconsidered boosts USD

Major Events and Data Releases

Date	Event	Survey	Prior
6-Jul	Non-m'fact ISM (DI, Jun)	63.5	64.0
7-Jul	JOLTS job openings (k, May)	9388	9286
	FOMC minutes (16-Jun meeting)	--	--
	Weekly jobless claims (k)	350	364
8-Jul	Consumer credit (\$bn, May)	18.25	18.61

Source: Bloomberg

The greenback firmed steadily through the week into Friday's payrolls report, supported by hawkish Fed speak from the likes of Harker – who is a non-voter this year- who said he would like tapering to begin sooner rather than later. The IMF also raised its US 2021 GDP forecast to 7.0% from 4.6% and noted that rate hikes may be needed by late 2022. The IMF view was predicated on the Biden infrastructure packages being passed as outlined by the administration – which looks unlikely as Biden pushes for bi-partisan support. Republicans are unlikely to support such high spending commitments.

Payrolls were firmer than expected, rising 850k, but the unemployment rate rose from 5.8% to 5.9%. The unemployment rate has only dropped 0.1pp since March making the Fed's 4.5% Q4 target look difficult from here. The mixed messages in the payrolls report saw short-term UST yields edge lower and US stocks push a little higher. It was still a very good week for the US dollar but not quite as good as it looked ahead of the labour market report.

Outlook

The week will start quietly with markets closed on Monday for the Independence Day celebrations as 4 July falls on the Sunday. Indeed, from a data perspective, it will be quiet all week with just the non-manufacturing ISM of real interest. The bias here is for lower rather than higher activity as the re-opening boost fades through the remainder of the year.

The JOLTs data are expected to show a further jump in job openings from already very strong levels, which will only add to the debate around labour supply and a shortage of workers, despite employment still being ~7.7mn lower than before the pandemic. The two major factors hitting labour supply are elevated jobless benefits, which will expire in early September if individual states have not previously curtailed access. Many states ended their programmes in mid-late June – too late to show up in the June employment report. States covering just over 40% of the workforce are ending benefits early. In addition, September sees the start of in person schooling for many, which is expected to boost labour supply, especially in the female section of the labour force. It will be hard to know how labour supply will develop until the autumn when these issues, have been resolved.

On the policy front the minutes of the FOMC meeting will be carefully watched to see if the discussions were as hawkish as the Dot Plot that emerged from the meeting. It will also be watched for discussions on tapering and on inflation proving less transient than previously expected.

colin.asher@mhcb.co.uk

Japan – FDI data to show outflows picking up

Major Releases

Date	Event	Survey	Prior
5-Jul	Composite PMI, final (DI, Jun)	--	47.8 (p)
6-Jul	Cash earnings (%YoY, May)	2.1	1.4
	Household spending (%YoY, May)	11.1	13.0
7-Jul	Leading index (May)	102.7	103.8
8-Jul	Bank lending (%YoY, Jun)	--	2.9
	Current account, sa (¥bn, May)	1586.6	1552.8
	Eco watchers' survey, outlook (DI, Jun)	49.5	47.6
	Eco watchers' survey, current (DI, Jun)	41.8	38.1
9-Jul	M2 (%YoY, Jun)	6.0	7.9
	M3 (%YoY, Jun)	5.2	6.9

Source: Bloomberg

USD/JPY traded sideways in the early part of the week only to push up to a 15-month high above 111.50 at the tail end of the week before dropping back a little in the wake of the payrolls report. Japanese data over the week were mostly in the soft side, with a shocking industrial production report not having much impact on currency markets. The yen gained against most G10 currencies early in the week but gave back ground on Thursday and Friday.

Outlook

BoJ Governor Kuroda is scheduled to speak at the regional branch managers meeting on Monday. To the extent that Japanese corporations are concerned about fx rates, it is usually the heads of the Nagoya and Osaka branches that are most vocal about it. Recent regional branch managers meetings have passed without commentary on fx rates and looking at the Tankan fx projections we can see why. The median projected fx rate for USD/JPY is just 106.71, well below the current rate of 111, leaving the corporate sector with plenty of breathing room. The branch managers' meeting also sees the Sakura report released, detailing economic conditions in the regions, which is akin to the Beige Book in the US and is sometimes a pointer to changes in the BoJ board's forecasts which follow a few weeks later.

Data due next week include wages, household spending, the eco watchers survey, bank lending and money supply. Perhaps the most interesting release will be the current account for May and the accompanying International Transactions in Securities data for June, which details which groups have been behind the portfolio flows on the month. Net portfolio outflows in the fiscal year to date are very low, with foreign equity sales and foreign bond purchases roughly equal. On its own the lack of portfolio outflows would suggest a firmer yen but the current account data will contain figures on FDI. Anecdotal evidence suggests that the corporate sector is rapidly recovering its appetite for overseas assets that was evident in 2018 and 2019 before it shrivelled in 2020 amid the Covid shock. We will be looking at the May FDI data for supporting evidence. The recovery in outbound FDI is likely one factor offsetting the very weak outbound portfolio flows in recent months and contributing to recent yen weakness.

colin.asher@mhcb.co.uk

Europe – ECB review coming into focus

Major Events and Data Releases

Date	Event	Survey	Prior
5-Jul	UK – New auto registrations (%YoY, Jun)	--	674.1
6-Jul	GE – Factory orders (%MoM, May)	1.2	-0.2
	GE – ZEW expectations (DI, Jul)	75.0	79.8
	EZ – Retail sales (%MoM, May)	4.2	-3.1
7-Jul	EU Commission forecasts	--	--
8-Jul	ECB minutes	--	--
	UK – RICS house prices (DI, Jun)	78	83
9-Jun	UK – GDP (%MoM, May)	1.9	2.3
	UK – Trade balance (£mn, May)	-1039	-935

Source: Bloomberg

Both EUR and GBP slid steadily against the US dollar through the week only gaining a little respite in the wake of the payrolls report. Both currencies were down just less than 1% on the week, hitting 3-month lows against the US dollar as investors re-assessed the reflation trade in the wake of the recent Fed meeting. Mid-week GBP took a knock when the BoE Governor confirmed that he continues to see the current bout of elevated price pressures as transitory. Commentary from the hawkish Haldane, who has already attended his final MPC meeting was ignored.

Outlook

It is fairly light on the data front with just national industrial production reports, German factory orders, the ZEW survey and eurozone retail sales due. Whilst factory orders are likely to show some improvement as actual orders start to track survey measures of orders sharply higher, the ZEW survey expectations index should come off its high. Expectations have peaked and now it is about delivering on those elevated expectations. The EU Commission will release its summer forecasts, which will contain recent fiscal plans.

On Thursday the ECB minutes of the 10 June meeting will be released. However, likely of more importance on the policy front is information on the policy review. Only this week Bundesbank chief Weidmann said he would support a symmetric policy target but was against making up for prior undershooting of the inflation target. There are rumours that the ECB will meet in Frankfurt next week to try and tie up some of the outstanding issues. The review is expected to conclude ahead of the 28/29 Sep annual forum, with some speculation it might conclude in coming weeks.

In the UK the main focus will be in the monthly GDP report for May. After a 2.3%MoM jump in April, expectations are for another jump in May as the economy re-opened further. UK GDP for Q2 as a whole will likely be over 5.0%QoQ!

colin.asher@mhcb.co.uk

China – Capital inflows slow after the CPC centennial

Major Events and Data Releases

Date	Event	Survey	Prior
5-Jul	Caixin China PMI Services (DI, Jun)	54.9	55.1
7-Jul	FX Reserves (USD bn, Jun)	3217	3221.8
9-Jul	CPI (%YoY, Jun)	1.3	1.3
	PPI (%YoY, Jun)	8.7	9.0
9~15-Jul	Aggregate Financing (CNY bn, Jun)	2755	1920.5
	New loan growth (CNY bn, Jun)	1850	1500
	Money Supply M2 (%YoY, Jun)	8.3	8.3

Source: Bloomberg

CNH softened towards the 6.49 level from 6.46 on USD buying flow ahead of the US jobs report. Meanwhile, the simulated CFETS RMB Index remained firm above the 98 level, flagging RMB resilience to any Fed taper tantrum. On the equity side, foreign investors trimmed their exposure to China A-shares during the Communist Party of China (CPC) centennial, with Stock Connect recording an outflow over the week. Datawise, the manufacturing PMI for June dropped less than expected to 50.9 (vs. 50.8 expected) from prior 51.0, while the non-manufacturing PMI unexpectedly slid to 53.5 (vs. 55.3 expected) from 55.2 given the pick-up in Covid cases in the Guangdong region.

After the quarter-end, the PBoC scaled down its reverse repo operation back to CNY 10bn and started to net drain liquidity from the market. Over the week, the PBoC net withdrew CNY 20bn of liquidity via Open Market Operations (OMOs). The 7-day interbank repo rate fell back below 2% for the first time since mid-May. In the offshore RMB market, CNH liquidity conditions eased after the quarter-end as well while 3Y CNH-CCS held steady at around 2.6%.

Outlook

The Fed's hawkish shift should keep CNH on the back foot. With a Fed taper tantrum possible, foreign investors may trim their exposures to China A-shares while bond inflows to China's bonds should stay robust given the RMB yield advantage. On the data front, FX reserves for June will likely drop on the unfavourable valuation impact due to the USD rebound (our estimate is around –USD 30bn). The CPI for June is expected to edge up as falling pork prices keep inflation in check. The PPI may be peaking out as Chinese government took action to curb surging commodity prices. Aggregate financing for June will probably jump on increasing local government bonds supply. Overall, money supply M2 growth should hold steady as the PBoC targets stabilizing the macro leverage ratio.

ken.cheung@mizuho-cb.com

EM Asia – Hunkering down and holding

Major Events and Data Releases

Date	Event	Survey	Prior
5-Jul	Singapore Retail Sales (%MoM, May)	--	0.1
	Australia Building Approvals (%MoM, May)	--	-8.6
	India Markit India PMI Services (DI, Jun)	--	46.4
	Thailand CPI (%YoY, Jun)	--	2.4
6-Jul	Australia RBA Cash Rate/ 3-Yr Yield (%)	0.1/0.1	0.1/0.1
	Philippines CPI (%YoY, Jun)	4.2	4.5
7~14-Jul	Singapore GDP, SA (%QoQ, Q2)	--	3.1
7-Jul	Korea Current Account (\$mn, May)	--	1909.9
8-Jul	Malaysia BNM Overnight Policy Rate (%)	1.75	1.75
9-Jul	Philippines Exports (%YoY, May)	--	72.1

Source: Bloomberg

Indonesia will hunker down and deal with the latest and most severe outbreak yet of the COVID-19 pandemic. The delta variant, first detected in India, is being blamed for the rapid spread in infections and pushing healthcare capacity to its limits. After some deliberation and a fair bit of confusion, the Indonesian government finally took some decisive measures on Thursday to introduce more stringent social restrictions for the Java and Bali islands including mandating work from home for 'non-essential' services, limiting domestic air travel to only vaccinated passengers, closing malls, prohibiting religious, cultural or sports gathering and curbing restaurants services to only takeaways. These restrictions will be in place from 3-20 July with the aim of bringing down daily cases to 10,000 from a peak of >24,000 on Thursday.

We see a high chance that these restrictions will be extended not only in terms of duration but possibly to other parts of the country as well. The restrictions to Java and Bali (>60% of GDP) will hurt growth but this is accounted for in our 2021 baseline GDP growth forecast of 3.9%. The risks, however, remain to the downside especially if the chain of virus transmission is not broken.

Outlook

In the coming week, we expect the Reserve Bank of Australia and Bank Negara Malaysia to keep policy rates unchanged. In the case of RBA, even before Australia was hit with a resurgence of COVID across multiple states including Sydney, the RBA was already expected to extend QE. As such, not only is QE extension now validated, but the case for the pace and size not to be scaled back may be made. So, we expect A\$5bn per week in purchases to be maintained, though perhaps not necessarily committed now for a full A\$100bn. In BNM's case, it will remain comfortable deferring policy action to fiscal policy. The introduction of another fiscal stimulus package worth ~0.6% of GDP (in new money) on Monday will be enough to buffer against the immediate extension of lockdown conditions into mid-July.

lavyanya.venkateswaran@mizuho-cb.com

Latin America – CPI data in focus

Major Events and Data Releases

Date	Event	Survey	Prior
7-Jul	Brazil Broad Retail Sales (%MoM, May)	--	3.8
	Argentina Industrial Production (%YoY, May)	--	55.9
8-Jul	Mexico CPI (%YoY, Jun)	--	5.89
	Chile CPI (%YoY, Jun)	--	3.6
	Brazil CPI (%YoY, Jun)	--	8.06
	Mexico Monetary Policy Minutes	--	--
	Peru Reference Rate (%)	--	0.25

Source: Bloomberg

Concerns over a highly infectious coronavirus strain made investors cautious this week, pushing Latin American currencies lower against the US dollar. The Brazilian real was leading the weekly losses, with escalating corruption accusations within the Ministry of Health in Brazil adding pressure to the currency. Looking ahead, however, we expect higher interest rates and improving economic conditions to help the real strengthen. We are bullish on the Mexican peso too for the same reasons.

Meanwhile, on the monetary policy front, the Colombian central bank kept its policy rate unchanged at 1.75% on Monday as expected. But this time the decision was unanimous. Back in April one member of the board voted for a cut. Importantly, the bank kept a balanced tone on inflation risks, acknowledging inflationary pressures but emphasizing that the shocks are likely to be transitory and that inflation expectations remain anchored, and provided no signal that rate hikes are imminent. The neutral tone weighed on the Colombian peso but a new rise in crude oil prices helped cushion the blow to the currency.

Outlook

Inflation data will be in focus in the week ahead in Latin America, as several countries, including Mexico, Chile, and Brazil are scheduled to disclose their rates for June. We expect high commodity prices and unfavorable base effects from last year to continue pushing inflation higher across the region. In Brazil and Mexico, a severe drought will add to inflation pressures. With inflation well above target for several months, the Brazilian and the Mexican central banks will continue hiking rates to prevent second order effects from the recent shocks on prices and the Chilean central bank is expected to follow suit soon. We have witnessed currencies outperforming after rate hikes and we expect the trend to continue in the coming months. The upside for the CLP is more limited though. Public discontent has remained high in Chile since mass protests erupted in late 2019, raising the risk of profound changes in the constitution and a populist candidate emerging victorious in November's presidential election.

luciano.rostagno@mizuhogroup.com

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies’ financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only.

As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you. Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK’s regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

Brazil: Banco Mizuho do Brazil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd