MIZUHO DAILY MARKET REPORT

02-Aug-2023 Wednesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	142.71	143.34	+1.05	+2.44
EUR	1.0980	1.0984	▼0.0013	▼0.0071
AUD	0.6643	0.6613	▼0.0104	▼0.0179
SGD	1.3333	1.3366	+0.0070	+0.0091
CNY	7.1655	7.1777	+0.0349	+0.0413
INR	82.29	82.26	+0.00	+0.38
IDR	15116	15116	+36	+118
MYR	4.5135	4.5188	+0.0118	▼0.0445
PHP	54.78	54.78	▼0.12	+0.24
THB	34.19	34.33	+0.09	▼0.15

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.023%	+6.4 bp	+13.9 bp
JPY (10YR)	0.607%	▼0.5 bp	+14.1 bp
EUR* (10YR)	2.557%	+6.5 bp	+16.0 bp
AUD (5YR)	3.743%	▼10.7 bp	▼16.7 bp
SGD (5YR)	2.970%	▼0.7 bp	▼4.2 bp
CNY (5YR)	2.455%	▼0.2 bp	▼1.7 bp
INR (5YR)	7.135%	▼1.9 bp	+4.1 bp
IDR (5YR)	5.974%	▼1.7 bp	+3.9 bp
MYR (5YR)	3.605%	+0.9 bp	+2.9 bp
PHP (5YR)	6.204%	+0.3 bp	+6.7 bp
THB (5YR)	2.359%	+0.0 bp	+0.0 bp

** German bunds*

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	35,630.68	+0.20%	+0.54%
N225 (JP)	33,476.58	+0.92%	+2.43%
STOXX 50 (EU)	4,407.54	▼1.43%	+0.37%
ASX (AU)	4,180.41	▼0.42%	▼0.33%
STI (SG)	3,373.79	▼0.01%	+2.67%
SHCOMP (CN)	3,290.95	▼0.00%	+1.84%
SENSEX (IN)	66,459.31	▼0.10%	+0.16%
JSE (ID)	6,886.50	▼0.65%	▼0.45%
KLSE (MY)	1,451.24	▼0.56%	+1.01%
PSE (PH)	6,593.80	+0.04%	▼1.01%
SET (TH)	1,556.06	+0.00%	+1.95%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	280.85	▲0.47%	▲0.37%
COPPER (LME)	8,594.25	▲2.34%	▲0.54%
IRON ORE (CN)	108.03	▲3.94%	▲4.68%
GOLD	1,944.29	▲1.06%	▲1.05%
OIL (WTI)	81.37	▼0.53%	+2.19%

Three Take-aways:
1) Fitch cuts US credit ratings to AA+, joining S&P's 2011 move to have US a notch below top ratings.
2) This and higher issuances induce long-end led rise in UST yields; USD has slipped, but not slumped.
3) BoT: Another 25bp hike to forestall tourism-driven inflation is fraught with destabilizing debt risks.

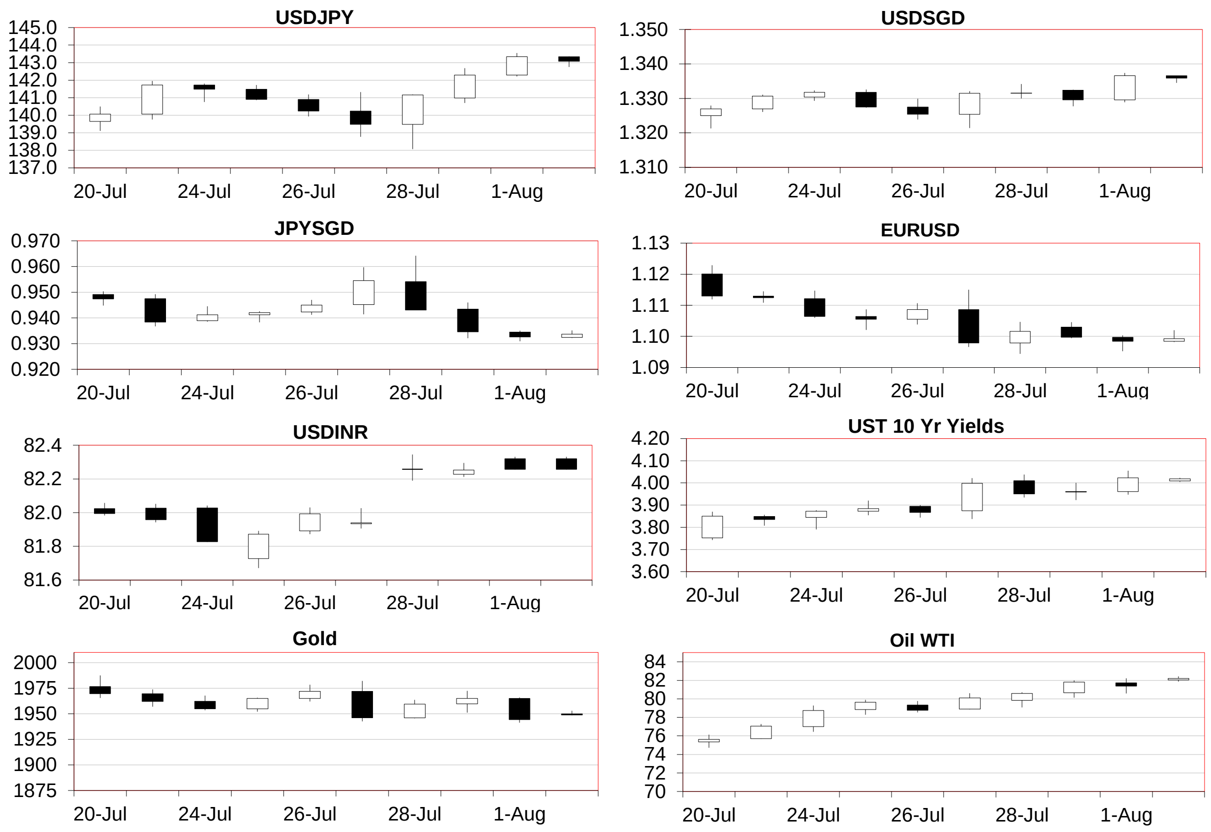
Risky Haven?

- Looking past the torrent of headlines, the **real question** is ***whether US exceptionalism not just survives, but shrugs off, prima facie challenge to haven status***. Short answer is, "*It does!*".
- For the record, **Fitch did a S&P**; only, *with a 12 year lag*. In a move *remniscent of S&P's 2011 US ratings cut*, **Fitch cut US credit ratings one notch from AAA to 'AA+'**. Fitch ratings now align with S&P, and leave Moody's as the only major ratings agency to retain the US at top credit ratings.
- In so doing, it cited "*expected fiscal deterioration over the next three years, high and growing ... debt burden and ... erosion of governance relative to 'AA' and 'AAA' rated peers*".
- **US Treasury Secretary Yellen has condemned the move** as "*arbitrary*" and "*outdated*".
- **Temptation to suggest that Fitch rattled the US bond market**, prompting sharp bear steepening (rising yields led by the long-end) **must be curbed**. Fact is, long-end UST yields squeeze higher on news of significantly higher ($1trln vs. ~$733bn expected) net debt issuances by the US Treasury.
- **Equities softened**, with futures in the red. But 0.3%-0.4% (S&P500 and Nasdaq) with another 0.3-0.4% slippage suggested by Futures reflects caution rather than panic. And it is **not unimaginable that some of this is due to considerations of liquidity drainage higher US debt issuances**.
- The **Greenback has also slipped, but not slumped**; *only partly reversing the week's gains*.
- In fact, at 143 and mid-1.33 USD/JPY and USD/SGD are not even materially softer while AUD at low-0.66 is still licking post-RBA wounds. EUR may be bumped up to 1.10, but only half-heartedly.
- Upshot: Fitch's ratings cut hardly invoked a twitch in the grander scheme. And not because of de-sensitization (from S&P in 2011) or being deemed inherently inconsequential or unsubstantiated.
- Instead, it arguably **reflects perverse realities of global financial architecture**. Specifically, that even if the US is not of the highest credit standing, it *remains the benchmark of the so-called "risk-free" rate*; and above all, retains allure as a haven. The **perversion of a risky haven.**

OVERNIGHT RESULTS

(CH) Caixin China PMI Mfg (Jul): 49.2 (Mkt: 50.2; Jun: 50.5) | (ID) CPI/Core YoY (Jul): 3.1%/2.5% (Mkt: 3.1%/2.5%; Jun: 3.5%/2.6%) (US) JOLTS Job Openings (Jun): (Mkt: 9600k; May: 9824k) |**(US) ISM Mfg/Prices Paid (Jul): 46.4/42.6 (Mkt: 46.9/44.0; Jun: 46.0/41.8) (US) ISM Mfg-Employment/New Orders (Jul): 44.4/47.3 (Jun: 48.1/45.6) | (EZ) Unemployment Rate (Jun): 6.4% (Mkt: 6.5%; 6.5%)**

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	142.96	EUR/USD	1.1009
USD/SGD	1.3347	USD/THB	34.31
JPY/SGD	0.9337	USD/MYR	4.522

Forecast

USD/JPY	141.60	-	143.80
EUR/USD	1.0970	-	1.1060
AUD/USD	0.6570	-	0.6680
USD/SGD	1.3290	-	1.3370
JPY/SGD	0.9242	-	0.9442
USD/CNH	7.1480	-	7.1960
USD/INR	82.05	-	82.45
USD/IDR	15040	-	15160
USD/MYR	4.496	-	4.536
USD/PHP	54.60	-	55.00
USD/THB	34.10	-	34.55

Today's Direction

	Bull		Bear
USD/SGD	5	:	3
USD/JPY	4	:	4

BoT: Tough Call

- While the BoT is set on further normalisation, **another 25bp step-up is a tough call.**
- Fact is, at historically elevated rates, further hike involves sharp trade-offs amid fragilities.
- Admittedly, the **premise of further normalisation amid economic recovery backed by tourism recovery remains intact**. Specifically, at 67% of pre-Covid levels and substantial receipts.
- The consequent on the services inflation via stronger activity and employment is well noted.
- That said, **political uncertainty has risen significantly**. Apart from budget delays, the tyranny of PM impasse and coalition government stability is a bugbear; at pain of THB instability*.
- The ensuing implication of an adverse spillover onto imported inflation will not be lost on the BoT. What's more, dented confidence amid corporate debt and governance woes are accomplices for THB underperformance and **highlights the perils of the elevated debt burdens.**
- None of which (entailing headwinds and instability) are absolved by tourism recovery alone.
- The BoT has recently resorted to recent multi-year plan (including risk-based pricing guidance and debt servicing ratios) to resolve debt risks. But not until **2024 and 2025**. And necessarily set to gradually alleviate debt burden, not jolt the system into instability with rapid reductions.
- On the **BoT's inflation mandate**, both headline and core are admittedly within target.
- *Nonetheless*, **core inflation's relative elevation** compared historical trend **is worrisome.**
- Especially given risks of **not just sticky, but second-round, tourism-driven price pressures.**
- It in this context that a **fraught decision to take the step of another 25bp hike** presents itself.

FX Daily Outlook

- EUR/USD: EUR struggles to retain gains from Fitch's cut to US ratings.
- USD/JPY: Sub-143 dips have proven not only shallow but fleeting amid higher UST yields.
- USD/SGD: Fizzling China optimism via CNH boost and caution keeping mid-133 elevation intact.
- AUD/USD: Post-RBA weakness weighing; lift-off above low-0.66 looks challenged.

TODAY'S EVENTS

(KR) CPI YoY (Jul): (Mkt: 2.4%; Jun: 2.7%) | (SG) Purchasing Managers/Elect. Sector Index (Jul): (Jun: 49.7/49.0) | (US) ADP Employment Change (Jul): (Mkt: 183k; Jun: 497k)
Central Banks: BoT Benchmark Interest Rate
* See Mizuho Flash: THB: The Political Uncertainty Premium 19, July 2023