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MIZUHO

DAILY MARKET REPORT

18-Aug-2023 Friday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	146.22	145.84	▼0.51	+1.09
EUR	1.0880	1.0872	▼0.0007	▼0.0109
AUD	0.6396	0.6404	▼0.0020	▼0.0111
SGD	1.3611	1.3584	▼0.0014	+0.0090
CNY	7.3061	7.2866	▼0.0119	+0.0678
INR	83.09	83.15	+0.19	+0.43
IDR	15282	15283	+0	+98
MYR	4.6488	4.6543	+0.0250	+0.0838
PHP	56.76	56.78	+0.27	+0.52
THB	35.48	35.44	+0.07	+0.33

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.274%	+2.4 bp	+16.9 bp
JPY (10YR)	0.646%	+1.6 bp	+6.2 bp
EUR* (10YR)	2.709%	+5.9 bp	+18.1 bp
AUD (5YR)	4.044%	+8.1 bp	+24.0 bp
SGD (5YR)	3.149%	+6.4 bp	+17.8 bp
CNY (5YR)	2.368%	+0.2 bp	▼6.4 bp
INR (5YR)	7.240%	+5.5 bp	+10.4 bp
IDR (5YR)	6.142%	+0.0 bp	+9.5 bp
MYR (5YR)	3.666%	+0.9 bp	+7.5 bp
PHP (5YR)	6.102%	▼0.6 bp	▼6.7 bp
THB (5YR)	2.463%	+2.0 bp	+3.8 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,474.83	▼0.84%	▼1.99%
N225 (JP)	31,626.00	▼0.44%	▼2.61%
STOXX 50 (EU)	4,227.83	▼1.32%	▼3.56%
ASX (AU)	3,992.88	▼0.71%	▼3.92%
STI (SG)	3,196.75	▼0.52%	▼3.80%
SHCOMP (CN)	3,163.74	+0.43%	▼2.79%
SENSEX (IN)	65,151.02	▼0.59%	▼0.82%
JSE (ID)	6,900.54	+0.00%	+0.11%
KLSE (MY)	1,447.98	▼1.06%	▼0.75%
PSE (PH)	6,364.97	▼0.70%	▼1.31%
SET (TH)	1,528.81	+0.61%	▼0.30%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	274.39	+0.34%	▲1.99%
COPPER (LME)	8,200.85	+1.05%	▲1.77%
IRON ORE (CN)	106.54	+2.57%	+2.80%
GOLD	1,889.43	▲0.13%	▲1.21%
OIL (WTI)	80.39	+1.27%	▼2.93%

Three Take-aways:
1) Risk off sentiments with sliding equities and rising long-end yields favour a strong USD.
2) Consequent CNY and JPY intervention risks notable. But impact also notably different over time.
3) EM Asia FX likely on the back foot with Malaysia's Q2 GDP soft spots likely to up MYR sensitivity.

Why Not All Interventions are Created Equal

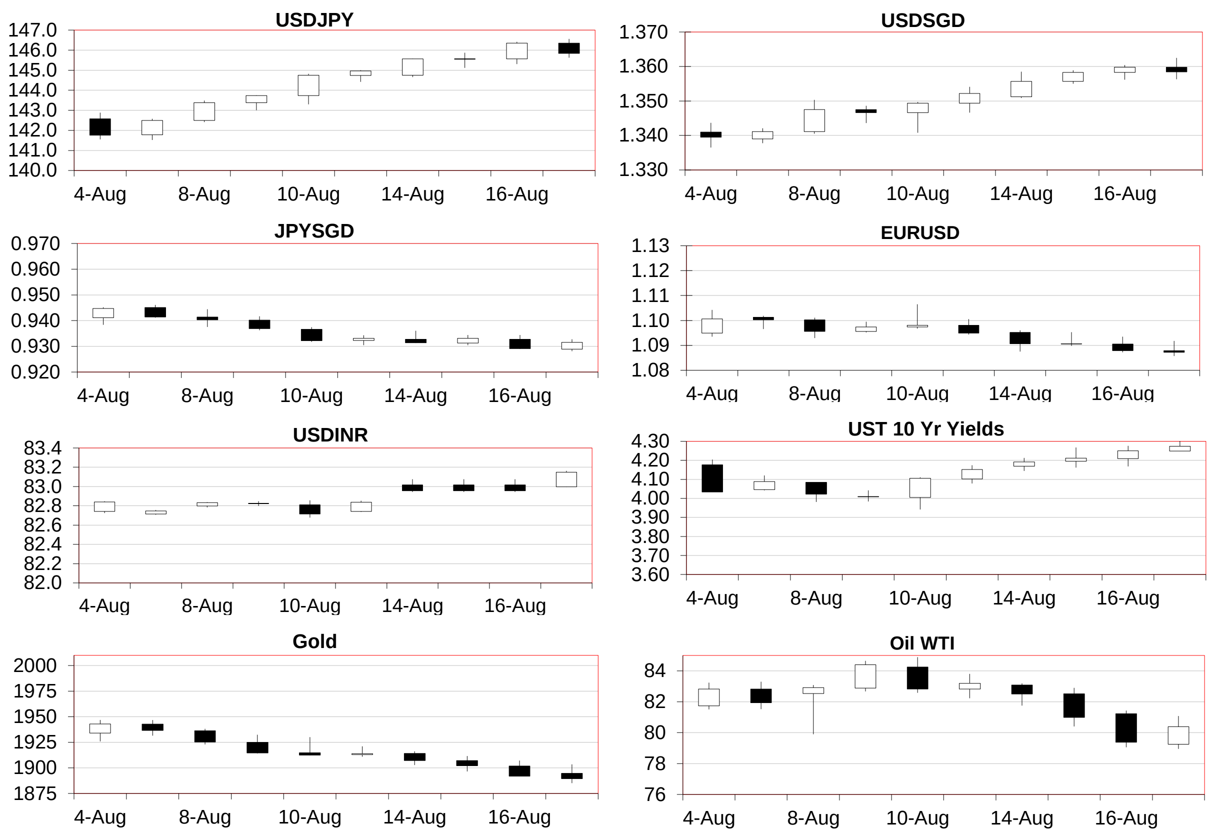
"All ... are equal but some ... are more equal than others." - **George Orwell, Animal Farm**

- The stage is set. *Equities continue tumbling* (a third straight session) amid *rising long-end yields* in an unmistakably a **"risk off" environment**; one which **favours** the **Greenback**.
- Especially **as macro themes correspond to relatively hawkish Fed renditions** backed by US data out-run (Philly Fed surprising to the upside) in contrast to downside risks elsewhere.
- Against this backdrop, **JPY and CNY interventions risks are heightened** amid;
  i) policy divergence expressed in UST-JGB spreads pressuring JPY, and;
  ii) China's sputtering growth and financial risks undermining CNY stability.
- Thing is, while BoJ/MoF and PBoC policy response may appear similar they are not equal.
- Notably, **due to varying exposure to market forces** (from freedom of capital movement), the PBoC may be more effective in supporting CNY than the BoJ in drawing a line under JPY in the near-term. *But* medium-term, CNY may face greater structural headwinds than the JPY.
- Specifically, and in George Orwell's words, PBoC intervention may be "more equal" than BoJ intervention in the near-term given the *influence of PBoC's daily CNY rate fixing* that is *amplified by partial capital controls* **in contrast to** the *BoJ that only has only signal and surprise to complement actual interventions* that using its FX reserves (as deep as they are).
- But *eventually*, the **BoJ's intervention may yield better results**; possibly too good for the BoJ's liking (i.e. overshoot on JPY appreciation). First, the BoJ's policy divergence is in fact less severe on first order difference insofar as YCC limits are upwards while the PBoC is actively easing.
- What's more, *Japan's C/A dynamics are turning positive*, whereas *China's FX reserve accretion is eroding* as resumption of outbound tourism, exports downturn and capital leakage conspire.

OVERNIGHT RESULTS

(SG) NODX YoY (Jul): -20.2% (Mkt: -14.3%; Jun:-15.5%) | (JP) Tertiary Ind. (Jun): -0.4% (Mkt: -0.2%; May: 1.2%)
(AU) Emp. Chg/Unemp. (Jul): -14.6k/3.7% (Mkt: 15.0k; 3.6%; Jun: 32.6k;3.5%) | (US) Initial Jobless Claims (12 Aug): 239K (Mkt: 240k; Prev: 250k) | (US) Philly Fed Business (Aug): 12.0 (Mkt: -10.0; Jul: -13.5) | (US) Leading Index (Jul): -0.4% (Mkt: -0.4%; Jun: -0.7%)

*** Past Two Weeks Movement ***



- Finally, **fraught geo-politics amid economic gloom and financial risks may durably stress CNY** in contrast to **inherent JPY upswing potential on "haven" allure** *backed by net assets offshore* once Fed pivot becomes clearer. So, ***intervention risks and results are unequal over time***.

Malaysia Q2 GDP: Subdued Growth

- Malaysia's Q2 GDP will be between Indonesia's resilience and Philippines' slump; with the degree of backstop depending on **private consumption offset to far-reaching external headwinds drag**.
- For a start, a **8.8% drop in trade surplus** sets the stage for **net exports to drag GDP**.
- What's more, **11% drop in Q2 exports revenue underlining industrial output dip** (-2.4% QoQ/-0.3% YoY), the **manufacturing and ancillary (trade services) sector is set to weigh on growth**.
- **The silver lining though is that low unemployment** suggests scope for consumer resilience.
- But this is not cause for unchecked optimism. For one, the runway of cost shocks have probably already have eroded baseline private consumption. More so as **monetary policy tightening comes home to roost amid depleted retirement savings drawdowns previously.**
- And so, **domestic consumers may not have much of a boost left in them**.
- While the **services is arguably a bright spot** on tourism recovery concomitant with **rising expenditure on foreign credit cards**, there are signs the pick-up in April and May are subdued.
- All in, **Q2 GDP growth is set to slow below 4% YoY with a bumpy few quarters ahead**.
- But further out, **FDI commitments** in auto and chip industries alongside the **new economic plan** Madani will be watched on the ability to restructure and boost medium-term growth.

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	145.71	EUR/USD	1.0875
USD/SGD	1.3579	USD/THB	35.48
JPY/SGD	0.9320	USD/MYR	4.642

Forecast

USD/JPY	145.00	-	146.60
EUR/USD	1.0800	-	1.0960
AUD/USD	0.6360	-	0.6470
USD/SGD	1.3520	-	1.3640
JPY/SGD	0.9222	-	0.9407
USD/CNH	7.2860	-	7.3500
USD/INR	83.00	-	83.50
USD/IDR	15220	-	15390
USD/MYR	4.635	-	4.660
USD/PHP	56.45	-	57.00
USD/THB	35.35	-	35.65

Today's Direction

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

FX Daily Outlook

- EUR/USD: Further USD support likely with traction remaining elusive and 1.08 tests on the table.
- USD/JPY: 146 tests are arguably on restrained by intervention risks and "carry" unwind.
- USD/SGD: CNH fixing strength is the main drag, although 1.36 tests remains in range.
- AUD/USD: Traction above 64 cents remains tentative amid softer jobs and China risks.

TODAY'S EVENTS

(JP) CPI/Ex-Fresh Food, Energy (Jul): 3.3%/4.3% (Mkt: 3.3%/4.3%; Jun: 3.3%/ 4.2%)
(MY) GDP YoY (2Q): (Mkt: 3.3%; 1Q: 5.6%) | (MY) Current Account Balance (2Q): (Mkt: 3.3b; 1Q: 4.3b)
(TW) GDP YoY (2Q F): (Mkt: 1.5%; Prelim: 1.4%) | (EZ) CPI/Core YoY (Jul F): (Mkt: 5.3%/5.5%; Prelim: 5.3%/5.5%)