MIZUHO

DAILY MARKET REPORT

21-Aug-2023 Monday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	145.30	145.39	▼0.45	+0.43
EUR	1.0874	1.0873	+0.0001	▼0.0076
AUD	0.6400	0.6406	+0.0002	▼0.0090
SGD	1.3579	1.3572	▼0.0012	+0.0050
CNY	7.2869	7.2845	▼0.0021	+0.0449
INR	83.11	83.11	▼0.04	+0.27
IDR	15313	15285	+2	+70
MYR	4.6440	4.6488	▼0.0055	+0.0608
PHP	56.17	56.17	▼0.60	▼0.16
THB	35.38	35.37	▼0.07	+0.29

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.255%	▼1.9 bp	+10.2 bp
JPY (10YR)	0.635%	▼1.1 bp	+5.1 bp
EUR* (10YR)	2.622%	▼8.7 bp	▼0.1 bp
AUD (5YR)	3.960%	▼8.4 bp	+9.8 bp
SGD (5YR)	3.136%	▼1.3 bp	+13.7 bp
CNY (5YR)	2.360%	▼0.8 bp	▼6.2 bp
INR (5YR)	7.199%	▼4.1 bp	+1.7 bp
IDR (5YR)	6.217%	+7.5 bp	+16.6 bp
MYR (5YR)	3.633%	▼3.3 bp	+3.9 bp
PHP (5YR)	6.097%	▼0.5 bp	▼6.1 bp
THB (5YR)	2.499%	+3.6 bp	+6.6 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	34,500.66	+0.07%	▼2.21%
N225 (JP)	31,450.76	▼0.55%	▼3.15%
STOXX 50 (EU)	4,212.95	▼0.35%	▼2.51%
ASX (AU)	3,961.94	▼0.77%	▼3.51%
STI (SG)	3,173.93	▼0.71%	▼3.65%
SHCOMP (CN)	3,131.95	▼1.00%	▼1.80%
SENSEX (IN)	64,948.66	▼0.31%	▼0.57%
JSE (ID)	6,859.91	▼0.59%	▼0.29%
KLSE (MY)	1,446.09	▼0.13%	▼0.76%
PSE (PH)	6,290.27	▼1.17%	▼1.81%
SET (TH)	1,519.12	▼0.63%	▼1.04%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	275.48	+0.40%	▲1.52%
COPPER (LME)	8,213.75	+0.16%	▲0.51%
IRON ORE (CN)	107.25	+0.67%	+2.27%
GOLD	1,889.31	▲0.01%	▲1.28%
OIL (WTI)	81.25	+1.07%	▼2.33%

Three Take-aways:
1) Equities, USD and USTs while calmer remains cautious before Jackson hole's Structural Shifts .
2) Beijing stepped up on stimulus/economic backstops, urging banks to lend; and more cheaply at that.
3) This may alleviate imminent pressures/risks but does not distract from underlying policy conflicts.

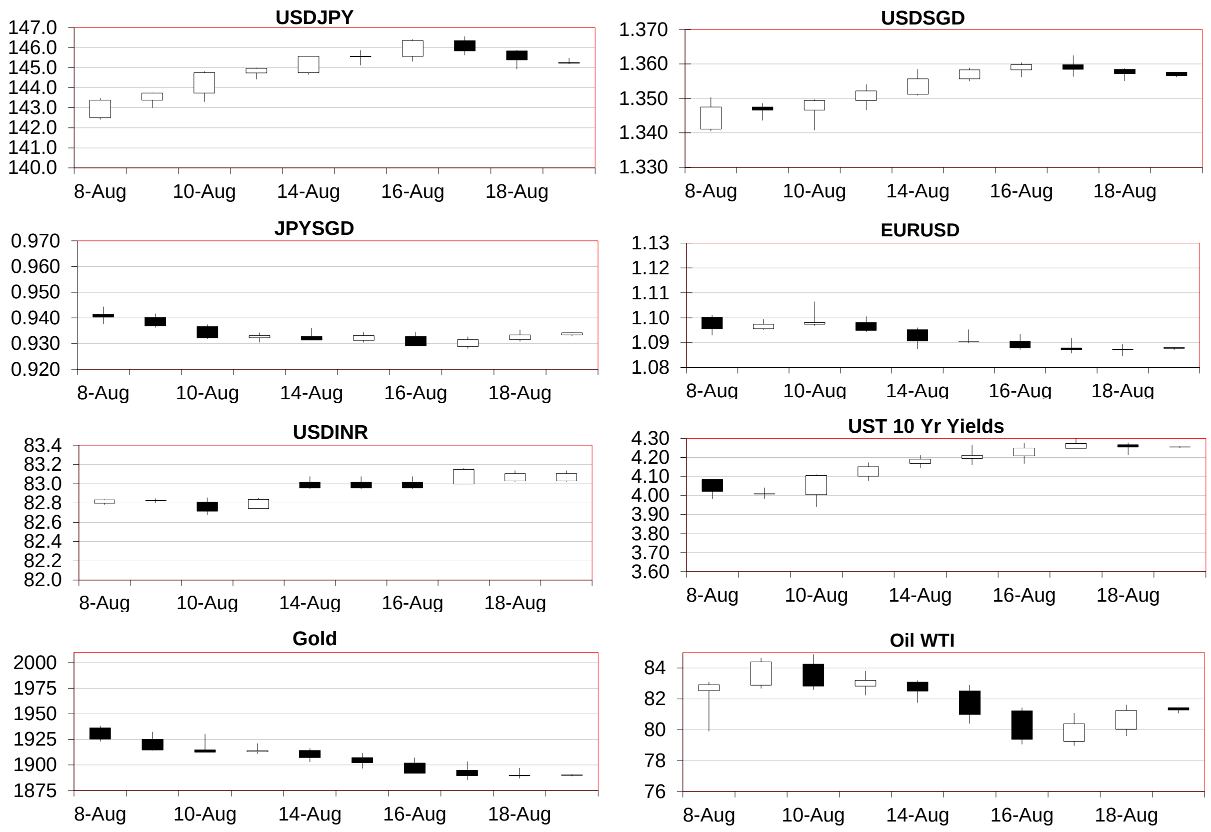
China Pulling Stops

- Over the weekend, **Beijing pulled more stops** as wires reported of PBoC, together with financial regulators, **meeting with banks to urge a ramp-up in lending** to backstop the economy.
- Specifically, financial regulators have asked banks *to cut lending costs* and *step-up policy coordination to check local government debt risks*; so as to mitigate contagion risks.
- Crucially, this is expected to be *in tandem with "adjusted and improved" credit policy for* the flailing *property sector* that threatens to drag the wider economy down with it.
- This **necessarily requires expanding lending capacity** for banks, that could be supported with *further (and deeper) RRR cuts* complemented by *lower repo rates* to induce lending.
- In addition, the **appetite to lend also needs to be boosted**. Sure, **with the state banks**, one can imagine that *"moral suasion" from the authorities* could go a long way. Moreover, this may be further *augmented by* directly or indirectly *boosting collateral quality*.
- The latter could **entail larger state owned enterprises taking over/a share in pledged assets to provide implicit backing** for on-going projects that banks extend lending to.
- **Admittedly, these measures, especially if delivered unwaveringly, will likely alleviate** the on-going housing crisis in China that is deepening the **economic pain**.
- *But* despite the resolve of regulators, desperate attempts to cut credit costs and push credit, **could still fall short of resolving** deep-seated economic woes inherent policy conflicts between; i) property support and "Common Prosperity" and; ii) financial stability and credit stimulus.
- In particular, as *structural headwinds* conspire with *policy tensions* from global monetary divergence, *geo-political challenges*, and conflicting socio-political and economic objectives.
- As we have before (please see Mizuho Flash - China Woes: Signals, Not Solutions, 16 Aug 2023), the **crisis of confidence in China will require more than just credit to be assuaged**.

OVERNIGHT RESULTS

(MY) GDP YoY (2Q): 2.9% (Mkt: 3.3%; 1Q: 5.6%) | (MY) Current Account Balance (2Q): 9.1b (Mkt: 3.3b; 1Q: 4.3b)
(TW) GDP YoY (2Q F): 1.4% (Mkt: 1.5%; Prelim: 1.4%) | (EZ) CPI/Core YoY (Jul F): 5.3%/5.5% (Mkt: 5.3%/5.5%; Prelim: 5.3%/5.5%)

*** Past Two Weeks Movement ***



TODAY'S COMMENTS & FORECAST

Open

USD/JPY	145.33	EUR/USD	1.0875
USD/SGD	1.3570	USD/THB	35.39
JPY/SGD	0.9338	USD/MYR	4.653

Forecast

USD/JPY	144.80	-	146.40
EUR/USD	1.0800	-	1.0930
AUD/USD	0.6360	-	0.6470
USD/SGD	1.3520	-	1.3640
JPY/SGD	0.9235	-	0.9420
USD/CNH	7.2860	-	7.3500
USD/INR	83.00	-	83.50
USD/IDR	15220	-	15390
USD/MYR	4.635	-	4.660
USD/PHP	56.00	-	56.50
USD/THB	35.20	-	35.65

Today's Direction

	Bull		Bear
USD/SGD	1	:	5
USD/JPY	1	:	5

- Point being, *when a solvency crisis is already underway, flushing the economy with credit* (better suited for nascent liquidity crunch) *ex-post may be a case of too little too late* to arrest balance sheet risks underway. Especially when pre-existing regulatory tightening is not clarified.

Jackson Hole Focus

- Meanwhile, speaking of structural shifts and challenges, all eyes will be on the Fed Chair Powell's address at 'Jackson Hole' this week (24-26 Aug).
- This year, the **topic for the Economic Symposium** is "*Structural Shifts in the Global Economy*".
- And as global central banks hit peak rates, led by the Fed, the question the begs answering may be around **triggers and thresholds around "higher for longer guidance"**.
- Two things that may come across are; i) the decade(s) of ultra-low rates backed by ultra-low inflation may be over, and; ii) global policy-makers may prefer to maintain restrictive real rates for a while, thereby keeping risks from volatile inflation alive.

Calmer?

- After a **very much risk-off week, markets had relatively calmer end**. After three straight sessions of tumbling, US equities was rather mixed and flat. Similarly, UST yield curve had a **deeper inversion but of clamer magnitudes**. (2Y: +1.3bp; 10Y: -2.0bp). Simply put, a **hawkish bias amid overall risk aversion environment heads into Jackson hole which may send more ripples**. While USD was mixed against G10 peers, much traction is maintained. USD/JPY slipped below mid-145. EUR pressured below 1.09 while AUD hovered above 64 cents.

FX Daily Outlook

- EUR/USD: Pressured below 1.09 as UST yields retain hawkish bias.
- USD/JPY: Despite slippage, buoyancy above mid-144 odd to be retain on UST yields and oil prices.
- USD/SGD: CNH recovery may allow slippage below mid-1.35 though outright sub-1.35 is too far.
- AUD/USD: Consolidation above 64 cents possible on further China stimulus but rallies restrain.

TODAY'S EVENTS

(CH) 1Yr/5Yr Loan Prime Rate (21-Aug): (Mkt: 3.43%/4.05; Prev: 3.55%/4.20%)
(TH) GDP YoY (2Q): (Mkt: 3.0%; 1Q: 2.7%) | (TH) BoP Current Account Balance (2Q): (1Q: 19004m)