MIZUHO

DAILY MARKET REPORT

18-Oct-2023 Wednesday

MARKET SUMMARY

FX	CLOSE(Asia)	CLOSE(NY)	Daily Δ*	Wkly Δ
JPY	149.60	149.81	+0.30	+1.10
EUR	1.0549	1.0577	+0.0017	▼0.0028
AUD	0.6358	0.6365	+0.0023	▼0.0067
SGD	1.3695	1.3683	+0.0007	+0.0052
CNY	7.3146	7.3157	+0.0047	+0.0217
INR	83.25	83.26	▼0.02	+0.01
IDR	15721	15715	▼5	▼20
MYR	4.7344	4.7360	▼0.0020	+0.0080
PHP	56.74	56.75	▼0.05	▼0.12
THB	36.39	36.40	+0.10	▼0.35

*compared with previous day CLOSE(NY)

Yields	CLOSE	Daily Δ	Wkly Δ
USD (10YR)	4.834%	+12.8 bp	+18.1 bp
JPY (10YR)	0.781%	+2.0 bp	▼0.2 bp
EUR* (10YR)	2.882%	+9.7 bp	+10.7 bp
AUD (5YR)	4.195%	+12.6 bp	+15.4 bp
SGD (5YR)	3.279%	▼0.2 bp	▼6.0 bp
CNY (5YR)	2.580%	+2.1 bp	+2.8 bp
INR (5YR)	7.338%	▼1.1 bp	▼5.2 bp
IDR (5YR)	6.676%	+4.2 bp	▼7.9 bp
MYR (5YR)	3.747%	+1.4 bp	▼5.3 bp
PHP (5YR)	6.263%	+0.8 bp	+0.2 bp
THB (5YR)	2.943%	+1.8 bp	+2.4 bp

* German bunds

Equity Indices	CLOSE	Daily Δ	Wkly Δ
DJIA (US)	33,997.65	+0.04%	+0.77%
N225 (JP)	32,040.29	+1.20%	+0.93%
STOXX 50 (EU)	4,152.32	+0.06%	▼1.26%
ASX (AU)	4,137.26	+0.63%	+0.30%
STI (SG)	3,171.83	+0.25%	▼0.85%
SHCOMP (CN)	3,083.50	+0.32%	+0.27%
SENSEX (IN)	66,428.09	+0.39%	+0.53%
JSE (ID)	6,939.62	+0.63%	+0.25%
KLSE (MY)	1,444.13	+0.36%	+0.62%
PSE (PH)	6,280.90	+1.32%	+0.27%
SET (TH)	1,433.40	+0.44%	▼0.07%

Commodity	CLOSE	Daily Δ	Wkly Δ
CRB	283.08	+0.25%	+1.15%
COPPER (LME)	7,902.75	▲0.16%	▲0.53%
IRON ORE (CN)	119.21	+0.09%	+3.65%
GOLD	1,923.18	+0.16%	+3.37%
OIL (WTI)	86.66	+0.00%	+0.80%

Three Take-aways:
1) US retail sales out-run sparks a surge in UST yields as hawkish Fed bets harden. USD backstopped;
2) as Israel-Hamas containment hopes on Biden's visit; tentatively rein in "risk off" and Oil's upside .
3) China's Q3 GDP may surprise to upside of expectations, but doesn't assuage underlying drag.

Consuming Complacency

- Modestly **buoyant oil** (Brent: $91 from ~$90), **backstopped USD** amid **ballistic UST yields** in an extended surge (+11-15bp in a mild steepening but most pronounced in the belly) reflect an odd mix of **US consumer exuberance** (retail sales out-run) and **tentative Israel-Hamas war containment hopes**.
- Admittedly, with the unexpected surge not merely in the headline, but also control/ex-auto& gas retail sales data, there is a **case to be made for US consuming its way to exceptionalism.**
- **But it is sheer complacency** to assume to think that **this comes at no future payback**.
- In fact, *insofar* that further evidence of *consumption out-run fans complacency about a soft landing*, it may *perversely* trigger more hawkish policy response that *set in motion a hard landing*.
- Markets are **consuming** this **complacency** as is revealed in unfazed **US equities** (Dow/S&P 500: No chg; Nasdaq: -0.3%) **effectively shrugging off sharp yield surge** reflecting *hawkish Fed risks*.
- Equally, **Biden's visit to Israel drumming up hopes of Israel-Hamas war containment** *under-accounts for* the *inherent* (even if latent) *uncertainty and embedded adverse tail risks*.
- Fact is, with the boycott by some Arab leaders of a planned meeting for Biden's visit, **far more conflicted views** on the plight of, and tragedy in, Gaza is laid bare.
- This is the context for **Oil's relative buoyancy**; which justifiably reflects **continued threat of conflict spill-over** and **consequent crude disruptions**. And not unchecked US consumer optimism.
- All said, it is **one thing to acknowledge upbeat US consumption**, **but quite another to fall prey to (all)-consuming complacency**; which is **not an option given underlying economic-policy risks**, and ***certainly not for fraught Gaza geo-political risks***.

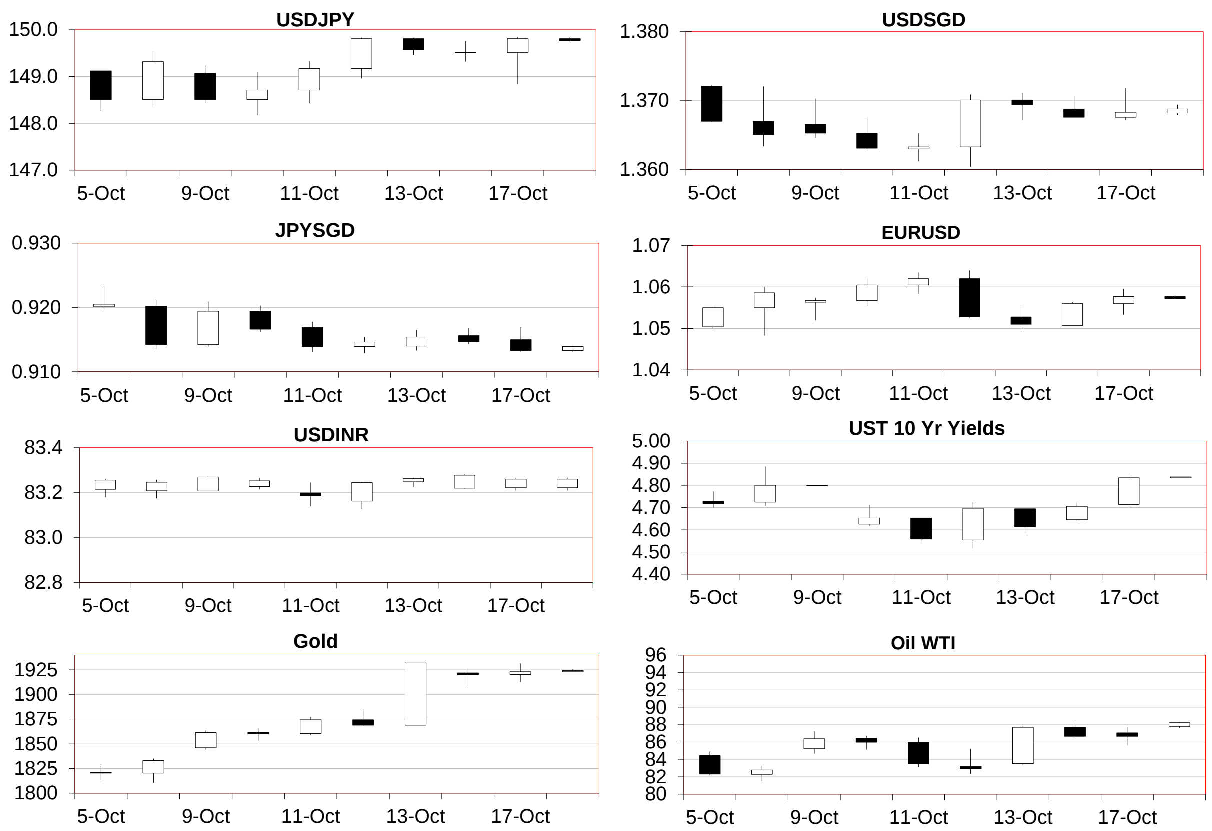
China GDP: Landing, Not Launch

- The consensus is for **China's Q3 growth** to print around 4.5% YoY (Mizuho: -4.4%).

OVERNIGHT RESULTS

(GE) Zew Exp/Current (Oct): -1.1/79.9 (Mkt: -9.0/-80.8; Sep: -11.4/-79.4)
(US) Retail Sales/Control MoM (Sep): 0.7%/0.6% (Mkt: 0.3%/0.1%; Aug: 0.8%/0.2%)
(US) Ind Prdtn MoM (Sep) 0.3% (Mkt: 0.0%; Aug: 0.0%)

Past Two Weeks Movement



- To be sure, although this ostensibly suggests slowing momentum (from 6.3% in Q2), it **is in fact an acceleration of growth** *once base effects* are accounted for.
- And this may be gleaned off the QoQ pick-up to ~1.0% QoQ (Q2: 0.8%).
- Moreover, given *Beijing's efforts to stimulate consumption* alongside *less severe contraction in manufacturing activity and exports*, actual **Q3 growth may modestly surprise to the upside.**
- ***But*** notwithstanding an upside surprise it is **hasty to declare that China is out of the woods**.
- Fact is, for all the incremental pick-up, the world's second largest economy is still ***attempting to negotiate a soft landing***, ***not revelling in an impending launch***.
- **Apart from** the absence of a convincing plan to offset **persistent property sector drag**;
- what's also worrying is that Beijing is beset with daunting challenges from; i) *inherent credit constraints;* ii) *insidious confidence deficit* and; iii) *intensifying capital outflow risks*.
- All of which **threaten to magnify downside risks** from **adverse feedback** that inevitably *raises the bar* for Beijing *to durably boost growth*.
- Tellingly, persistent pressures on inflation-adjusted **industrial profits suggest chronic drag** crimping underlying **real growth prospects**; *impeding any durable acceleration in growth*.
- Upshot being, exuberance about **managing 5% growth** *in 2023* **misses the issue of** *structural impediments to maintaining* this pace on a slightly longer horizon. Not just that, but it also **glosses over as low base from from 2022** and crucially, **more strenuous stimulus effort for more limited marginal lift**. That's to say, **structural limits are imposing a cyclical bite**.

FX Daily Outlook

- EUR/USD: Strong US retail sales and UST yield surge warn against 1.06+ breach and follow-through.
- USD/JPY: Tensions between higher UST yields and intervention risks buoying, but not breaking 150.
- USD/SGD: Sub-1.37 consolidation as weaker CNH buoys ahead of Q3 China GDP.
- AUD/USD: Less patience for slower dis-inflation buoys at mid-0.63; watch for China GDP volatility.

TODAY'S COMMENTS & FORECAST

Open

USD/JPY	149.77	EUR/USD	1.0573
USD/SGD	1.3687	USD/THB	36.36
JPY/SGD	0.9139	USD/MYR	4.738

Forecast

USD/JPY	148.90	-	150.20
EUR/USD	1.0510	-	1.0620
AUD/USD	0.6290	-	0.6380
USD/SGD	1.3660	-	1.3735
JPY/SGD	0.9095	-	0.9224
USD/CNH	7.3080	-	7.3400
USD/INR	83.15	-	83.50
USD/IDR	15650	-	15760
USD/MYR	4.734	-	4.750
USD/PHP	56.65	-	56.95
USD/THB	36.25	-	36.55

Today's Direction

	Bull		Bear
USD/SGD	2	:	5
USD/JPY	2	:	5

TODAY'S EVENTS

(CH) GDP YoY (3Q): (Mkt: 4.5%; 2Q: 6.3%) | **(CH) Industrial Production YoY (Sep): (Mkt: 4.4%; Aug: 4.5%)**
(CH) Retail Sales YoY (Sep): (Mkt: 4.9%; Aug: 4.6%) | **(CH) FAI/Proprty Inv. YTD Yoy (Sep): (Mkt: 3.2%/-8.9%; Aug: 3.2%/-8.8%)**
(EZ) CPI/Core (Sep F): (Mkt: 4.3%/4.5%; Prelim: 4.3%/4.5%)
(US) Housing Starts/Building Permits (Sep): (Mkt: 1390k/1450k; Aug: 1283k/1541k)
(Central Banks): Fed's Waller, Williams, Bowman, Barkin, Harker & Cook speak | Fed Beige Book

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