

Economic Calendar

G3

Date	Country	Event	Period	Survey*	Prior
10 Jul	US	Wholesale Inventories MoM	May F	-0.1%	-0.1%
	EZ	Sentix Investor Confidence	Jul	-17.9	-17.0
	JP	BoP Current Account Balance	May	¥1862.4b	¥1895.1b
	JP	Eco Watchers Survey Current/Outlook	Jun	54.7/54.2	55.0/54.4
11 Jul	JP	Machine Tool Orders YoY	Jun P	--	-22.1%
	GE	ZEW Survey Expectations/Current	Jul	-10.5/-62.0	-8.5/-56.5
12 Jul	US	CPI/ Ex Food and Energy YoY	Jun	3.1/5.0%	4.0%/5.3%
	JP	PPI YoY	Jun	4.4%	5.1%
	JP	Core Machine Orders MoM	May	1.0%	5.5%
13 Jul	US	Initial Jobless Claims		250K	248K
	US	PPI/Ex-Food & Energy YoY	Jun	0.4%/2.6%	1.1%/2.8%
	EZ	Industrial Production MoM	May	0.3%	1.0%
14 Jul	US	U. of Mich. Sentiment	Jul P	65.5	64.4
	US	U. of Mich. 1/5-10 Yr Inflation	Jul P	3.1%/3.0%	3.3%/3.0%
	EZ	Trade Balance SA	May	--	-7.1b
	JP	Industrial Production MoM	May F	--	-1.6%

Week-in-brief: Surer Footing?

That was the phrase used to describe US-China ties after Yellen's visit. Trouble is, **even if on a surer footing**, one cannot shake off the feeling that **US-China relations remain on the wrong foot**.

- Admittedly, the silver lining is that candid conversations, resulted in **common ground on**:
i) **ensuring there is no dis-engagement** (keeping channels of communications open), and;
ii) **not allowing diplomatic spats to usurp economic ties**, with adverse spillover.

- But here's the thing. The **surer footing on what both parties don't want**, in terms of inadvertent worse case economic outcomes and/or geo-political unintended miscalculations, is the **lowest common denominator on averting imminent crisis**; and not something that reinvigorates global confidence.
- Whereas, that **does not** (by a long shot) **absolve the predicament of being on the wrong foot structurally**; as both of these global powers are merely **taking a stab at setting fairly basic ground rules, for a relationship based on adversarial terms of engagement**.

- That said, **with low expectations** heading into Yellen's trip to Beijing, the fact that she had met and engaged constructively, with Premier Li Qiang, Vice Premier He Lifeng, his predecessor Liu He and PBoC governors (in transition) Yi Gang and Pan Gongsheng, provided **half-full views of guard rails**.

- Meanwhile, on the US economic front, **shortfall in NFP print (209K)** vs higher expectations set by the 497K ADP teaser (despite the fact that ADP and NFP are known for not marrying up) set off a **softening in the Greenback and front-end yields**.

- Arguably, it is fair to suggest that evidence of soft spots in jobs **may be reasons to suspect that the footing of the US economy is less sure** (much less surer footing!).

- **But to conflate that with surer footing for Fed pivot bets is woefully misguided**, and dangerously cavalier. Fact is, **with wage gains still looking hot (4.4% YoY/0.4% MoM)**, **Fed hawks are unlikely to be deterred**. And the 'Dot Plot' guidance for another 50bp of hikes stays intact.

- Which means is that despite the post-FOMC bravado, **USD bears may not be on surer footing**.

- US CPI in the spotlight mid-week. **Softer headline should not distract from sticky "inner core"** (services ex-rentals) while UoM survey (Fri) will reveal confidence and inflation expectations.

- Elsewhere, the **BoK is expected to remain on hold**. And while global risk upheavals may make the case for more hikes, the **economy is not on sure-enough footing for tightening per se**. Instead, **sure-footedness of KRW and macro-stability may be precisely what's needed for policy inflection**.

- In Singapore, **prospects of the first post-GFC manufacturing-led technical recession** (with Q2 GDP data) suggest that the global economy is far from being on surer footing.

- Certainly, **continued softness in China data** issue grim warnings that **bears have the surer** (albeit slower) **footing** than **bulls** that are **fast**, rather than **sure-footed**.

Three Things to Know About Singapore's Impending Technical Recession

Sequential Growth Momentum* 2Q/2022 saar: Singapore is **Already Effectively in a Manufacturing Recession** (since Q3 2022). **Despite Services Offset, Risks of a Technical Recession have Risen Substantially.**



India's Stretched Inflation Relief

- To be fair, India's dis-inflation has legitimately provided the RBI with scope for serious policy re-evaluation; and arguably policy options (to pause).

- But the **critical nuance** here is that the **policy advantage from inflation is stretched**.

- Fact is, vegetable price resurgence threatens the durability of dis-inflation insofar that the sharp drop in inflation was largely derived from food.

- Crucially because **El Nino** risks mean **food cost-push re-emergence may not be fleeting**.

- What's more, India's **fuel dis-inflation could also be far more muted** given the front-loaded relief from Russian imports from the outset.

- The upshot being, anchoring inflation closer to 4% rather than 6% may be a challenge.

- In which case, the risks now tilt the other way.
- That's to say, **instead of creating timely policy space, inflation may, inconveniently, undermine justifiable policy inflection later.**

- The consensus is for Singapore's Q2 GDP to mark a technical recession; with a second consecutive sequential (QoQ) contraction.

- There are three things to note.

- First, it will be the **first manufacturing-led technical recession since the 2008 GFC**.

- Admittedly, there have been quite a **few manufacturing downturns** since: in 2012 (EZ crisis), 2015 (China crisis), and 2019 (US-China trade spat). **But none of these had resulted in a technical recession**.

- And the **COVID technical recession in H1 2020** was driven by a **deep services slump** whereas **manufacturing was afloat**.

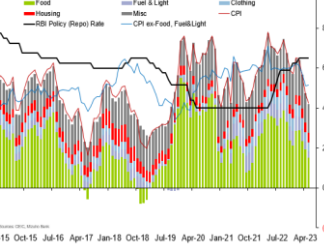
- Second, the **depth and length of this manufacturing downturn**, essentially **recession**, is the **worst since the GFC**.

- What this means is that a fifth quarter of deepening manufacturing contraction, could undermine offset from post-COVID bounce in construction and services on the wane.

- Finally, given the threat of demand shocks from policy and geo-politics, averting a technical recession will be **but cold comfort**.

- In other words, **a technical recession will not be telling us anything we don't already know**.

India CPI: Food-Led Dis-Inflation is a Relief, But Not a Panacea amid El Nino. Especially as Cheaper Oil Benefits have been Front-Loaded.



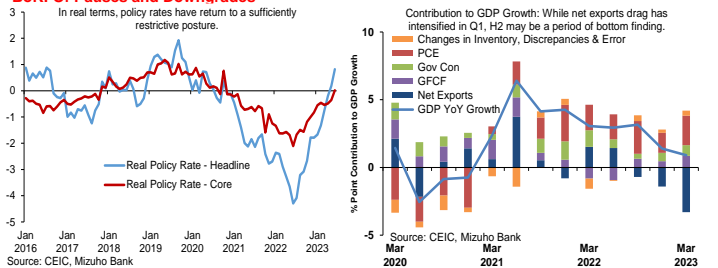
*Survey results from Bloomberg, as of 7 July 2023; The lists are not exhaustive and only meant to highlight key data/events

Asia

Yellow highlight indicates actual data

Date	Country	Event	Period	Survey*	Prior
10-15 Jul	CH	Aggregate Financing CNY	Jun	3100.0b	1555.6b
	CH	New Yuan Loans CNY	Jun	2318.5b	1362.8b
10 Jul	CH	CPI/PPI YoY	Jun	0.2%/-5.0%	0.2%/-4.6%
11-18 Jul	CH	FDI YTD YoY CNY	Jun	--	0.1%
11 Jul	PH	Trade Balance	May	-\$4636m	-\$4531m
12 Jul	IN	CPI YoY	Jun	4.60%	4.3%
	IN	Industrial Production YoY	May	5.00%	4.2%
	KR	Unemployment rate SA	Jun	2.60%	2.5%
	MY	Industrial Production YoY	May	1.80%	-3.3%
13 Jul	CH	Trade Balance	Jun	\$74.4b	\$65.8b
	KR	BoK 7-Day Repo Rate		3.50%	3.50%
	TH	Consumer Confidence Economic	Jun	--	50.2
14 Jul	IN	Trade Balance	Jun	-\$20.05b	-\$22.12b
	SG	GDP YoY/QoQ saar	2Q A	0.4%/-0.2%	0.4%/-0.4%

BoK: Of Pauses and Downgrades



- While our base case is for the BoK to **hold rates (3.50% in July (Thu))**, an **examination of the rationale behind their continued hold** since the start of 2023 ought to shed light on the **various signposts to watch for which could trigger another 25 step up in H2 or the need for cuts**.

- First, **declining headline inflation** from 5.2% YoY in Jan 2023 to 2.7% YoY in June 2023 and an albeit **smaller drop of core inflation** from 4.1% in Jan to 3.5% in June imply that **real rates have returned to sufficiently restrictive territory which raises the bar for further hikes**. Cuts remain off the table this year given sticky core inflationary pressures.

- Second, **growth trajectory remains clouded** with uncertainty over whether manufacturing production's 3.2% MoM SA increase in May (off 0.6% MoM SA contraction in April) represent a durable turnaround. What's more, the **services industry contracted** in both April and May.

- The **elevated inventory levels** in the manufacturing sector adds significant **downward pressure on firms necessity to raise production levels** in the coming months.

- Parsing the above points via the Taylor rule, the **case for a pause in July is clear**.

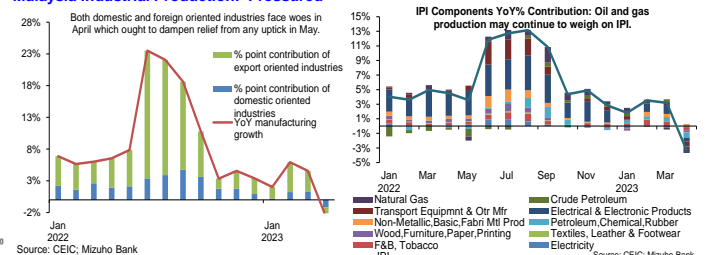
- **Looking ahead**, through the risk angle, the **drop in housing prices have slowed substantial to a rather steady rate** around 0.1% week on week. This **risk reduction provides a backdrop but not catalyst for hikes**. **Nonetheless, risk could emerge from their reverse Jeonje crisis**.

- **Fiscal stimulus announced in early July** could contain **potential to generate impulse for both growth and prices**. Admittedly, a slew of measures such as grants and tax incentives remain catered to enhance longer term potential growth and reduce supply chain vulnerabilities.

- Various consumption boosting measures (foreign and domestic tourism promotion, major sales campaigns) alongside infrastructure projects (high speed commuter rail) could have near term implications to price and growth and represent a **tail risk** surrounding a further hike.

- **For now, BoK will stand pat** as growth worries remain skewed to the downside with the MoF downgrading their 2023 growth forecast to 1.4% which is still a notch above ours (1.1%).

Malaysia Industrial Production: Pressured



- While Malaysia's industrial production for May (releasing on 12 Jul) may see a **small uptick**, the **manufacturing sector is likely to remain pressured** and the **mining sector may also experience contraction** signalled by energy price woes.

- **Manufacturing PMIs entrenching in contractionary territory** underscores the rough road to recovery. Reflecting so, export demand remains weak experiencing 0.7% YoY contraction in May.

- Consequently, the **external sector woes** seen in April whereby export oriented industries suffered a sharp 13.5% contraction in April are **unlikely to have faded**.

- Furthermore, **domestic oriented sectors** are also pressured led by lower auto manufactures and food and beverage products. Amid elevated household debt levels, **higher servicing costs inevitably poses a drag on consumption**.

- Nonetheless, **leading trade indicators point to possible reversals for some areas such as oil and gas production as well as electrical products**.

- **On balance**, while **stability in production is welcomed**, the **industrial outlook remains cloudy**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	142.21	-2.100	-1.46%	141.80	~ 145.30
EUR/USD	1.0967	0.0058	0.53%	1.084	~ 1.108
USD/SGD	1.3468	-0.006	-0.41%	1.3390	~ 1.3580
USD/THB	35.130	-0.325	-0.92%	34.85	~ 35.50
USD/MYR	4.6665	0.000	0.00%	4.628	~ 4.700
USD/IDR	15143	150	1.00%	14,950	~ 15,280
JPY/SGD	0.9475	0.011	1.12%	0.922	~ 0.958
AUD/USD	0.669	0.003	0.39%	0.658	~ 0.684
USD/INR	82.74	0.703	0.86%	82.0	~ 82.8
USD/PHP	55.625	0.419	0.76%	55.2	~ 56.0

*Weekly change.

FX Outlook: Selling (Softer) Facts or the (Hawkish) Fed?

- After an out-of-the-park ADP (near 500K) data out-run, **USD slumped as markets primed for a sizzling NFP print met with a fizzle**. (at 209K). To be fair, 200+K NFP jobs is not an outright weak number. But there was no distracting from the near 60% shortfall of the ADP tease.
- The **USD's reaction** is clear. *Classic "selling the fact"*, arguably exacerbated by the jobs data fizzle, after having bought the far more upbeat rumours.
- Whereas the **underlying motivation of FX markets is less clear**. Specifically, whether and to what extent markets were **"selling the fact"** (of softer NFP) **as opposed to selling the (hawkish) Fed**.
- Same difference, you say? Well, not quite. The argument being around policy sensitivity to data.
- Point being, while *US jobs data* have softened, they are *nowhere near the vicinity of a relenting Fed*.
- For one, these numbers in no way deter a 25bp July hike. Crucially, a 200+K jobs print with still solid (if not brisk) wage growth (4.4% YoY/0.4%MoM) **fall far short of deterring hawkish inclination**.
- In other words, not only is the Fed set for an unwavering July hike, but could continue to unflinchingly signal a "live" September FOMC; in line with 'Dot Plot' guidance for another 50bp hike in H2.
- In which case, **"selling the Fed"** may prove frustratingly premature as a thematic bet. Instead, **two-way, tactical, responsive, "selling the fact"** around global **data undulations will likely dominate**.
- For this week though, **JPY bears fended off by BoJ rumblings alongside MoF intervention threats could conspire with any post-Yellen backstop in the CNH** to keep a come-back USD squeeze in check. Although that is a tentative argument for subdued trades.
- Nevertheless, **cautious consolidation may be the theme for global FX markets** as a mixed set of data are digested along overstated geo-political relief.
- The warning being, **the familiarity of "selling the fact" should not be allowed to be hijacked by overconfidence about "selling the Fed"**.

USD/JPY: Jawboned

- An appropriately jaw-boned FX market have returned some traction back to the JPY; with USD/JPY plunging to test below mid-142, follow-through sellers though are not forthcoming as the there are no compelling reasons to discard the policy wedge trades.
- For now though the persistence of intervention risks introduced by a variety of speakers into FX markets mean that any breakthrough past 145 and upwards will have to wait or be driven by fiercely hawkish Fed/G10 surprises.
- Meanwhile USD/JPY consolidation in the sub-142 to mid-144 range ought to capture most of the range for the week; with some give skewed to the usdpe.

EUR: Anti-USD Boost

- Leveraging on the NFP miss to blast past 1.09 hardly makes for a compelling case to break 1.10 and target 1.11 thereafter. simply put, looking past "Anti-USD" bets buoying the EUR, the case for sustained bullish EUR momentum may be stretched.
- Admittedly, a more hawkish sounding ECB alongside further us CPI dis-inflation could set the stage for simplistic nominal rate differential boost for the EUR.
- But increasingly, the real rates elephant in the room alongside binding risks of Europe being vulnerable to a sharper and deeper downturn if global headwinds turn more aggressive means that the allure of the EUR is not unequivocal. Possibly even suspect.
- For now, mid-1.08 to sub-1.11 trades are likely to exhaust trigger; especially bullish EUR impulses to the upside.

SGD: Technical Recession!

- Two-way impulses in the USD/SGD are likely this week.
- While the week appears to have started in favour of long USD amis sharp USD sell-off and a firmer CNH after Yellen's fairly constructive talks in Beijing, Singapore's technical recession risks and a re-assessment of global economic and geo-politics may imede SGD bulls.
- Fact is, a technical recession confirmed by Q2 GDP will not simply reflect manufacturing downturn, but perhaps convey a binding drag from global demand headwinds.
- The first manufacturing-led technical recession since GFC could in turn also prompt policy expectations that temper SGD alongside a softer CNH if Yellen's visit is properly assessed by levels heads as phone-line (keeping engagement) rather than a life-line.
- For now, expect USD/SGD in the sub-1.34 to high-1.35.

AUD: Doubts

- Doubts about the global recovery may continue hinder AUD aspirations past 0.67to 0.68.
- While higher global oil prices ought to backstop AUD, the Antipodean is tellingly hesitant to extend traction beyond 0.67 for the time being.
- Perhaps the RBA's hold last week may be counselling caution for wannabe AUD bulls.
- In addition, the more seasoned China watchers may not necessarily be rejoicing any China positives. That is, despite Yellen's "surer footing" comments, AUD may not benefit from that (surer footing).
- What's more, a continuation of aoft Chinese data may arguably also be dampening upside in the AUD, which has not leveraged on a weaker USD as much as other G10 FX.
- Amid doubts, low-0.66 to 0.68 may be a reasonable range to spot AUD that is sporting doubt.

Bond Yield (%)

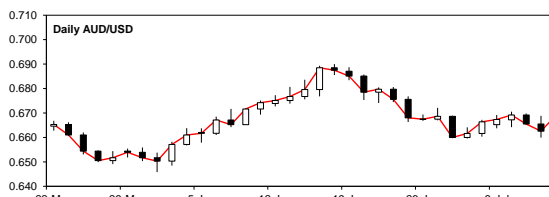
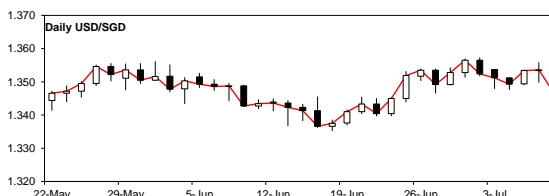
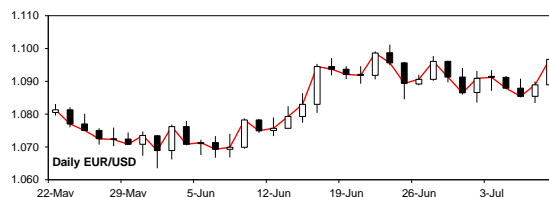
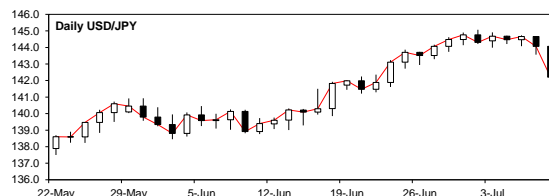
7-Jul	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.946	5.1	4.062	22.5	Steepening
GER	3.240	6.1	2.632	24.4	Steepening
JPY	-0.056	2.2	0.414	2.8	Steepening
SGD	3.547	-0.2	3.152	10.9	Steepening
AUD	4.303	9.3	4.255	0.1	Flattening
GBP	5.363	13.0	4.643	26.5	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,398.95	-1.16
Nikkei (JP)	32,388.42	-2.41
EuroStoxx (EU)	4,236.60	-3.69
FTSE STI (SG)	3,139.47	-2.07
JKSE (ID)	6,716.46	0.82
PSEI (PH)	6,379.03	-1.38
KLCI (MY)	1,377.67	0.07
SET (TH)	1,490.51	-0.84
SENSEX (IN)	65,280.45	0.87
ASX (AU)	7,042.27	-2.24

US Treasuries: Convenient, Not Considered

- The **post-FOMC steepening of the UST yield curve** (with front-end yields slipping while long-end yields rise) admittedly **alleviated some of the yield curve inversion** from (from over 100bp) to around 90bp.
- This is however a **tactical and piecemeal reaction** to the *disappointing shortfall in NFP impacting the front-end (2Y)* to a much greater extent, while *higher oil prices transmitted to the long-end, lifting yields* at the margin.
- What it is not, is a **thematic and coherent reassessment concluding a meaningfully dovish/less hawkish shift** by the Fed *on account of NFP data*.
- In other words, **convenient bond market reactions that are tactical**, if not noisy; and **not a considered and resounding epiphany about tidal shifts**.
- Above all, it is certainly not that start of an imminent and enduring reversion to a normal-sloping yield curve that conveys diminishing risks of a recession.
- *Dissonant and distorted data driving a wedge between markets and a hawkish Fed alongside elevated risks of policy miscalculations, meanwhile remain a bugbear.*
- For now, 2Y yields could still have legs left to re-test above 5% (albeit on a short leash) while 10Y yields consolidate sub-4% to 4.2%.



MIZUHO

Important Information

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author. 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. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice.

This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a “financial instrument”), product or strategy herein described. 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, 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. Nothing contained herein is in any way intended by Mizuho or its affiliates 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. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. 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 is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho’s prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

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

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

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.

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.

© 2014 Mizuho Bank Ltd.