

## Economic Calendar

## G3

Date	Country	Event	Period	Survey*	Prior
11 Sep	JP	Machine Tool Orders YoY	Aug P	--	-19.7%
12 Sep	GE	ZEW Survey Expectations/Current	Sep	-15.0/-76.0	-12.3/-71.3
13 Sep	US	CPI/Core YoY	Aug	3.6%/4.3%	3.2%/4.7%
	EZ	Industrial Production MoM	Jul	-0.9%	0.5%
	JP	BSI Large All Industry QoQ	3Q	--	2.7%
	JP	PPI YoY	Aug	3.3%	3.6%
14 Sep	US	Initial Jobless Claims		227K	216K
	US	PPI/ Ex Food & Energy YoY	Aug	1.3%/2.2%	0.8%/2.4%
	US	Retail Sales Adv/ Ex Auto and Gas	Aug	0.2%/-	0.7%/1%
	EZ	ECB Main Refinancing Rate		4.25%	4.25%
	JP	Industrial Production YoY	Jul F	--	-2.5%
	JP	Core Machine Orders YoY	Jul	-10.6%	-5.8%
15 Sep	US	U. of Mich. Sentiment/Expectations	Sep P	69.2/66.0	69.5/65.5
	US	U. of Mich. 1 Yr/5-10Yr Inflation	Sep P	3.5%/3.0%	3.5%/3.0%
	US	Industrial Production MoM	Aug	0.1%	1.0%
	US	Empire Manufacturing	Sep	-10.0	-19.0
	JP	Tertiary Industry Index MoM	Jul	0.3%	-0.4%

## Week-in-brief: Inverted Logic

- Inverted logic seems to be all the rage these days; where *good is bad and bad is good*.
- Of course one is familiar with the perversion of bad US data being good news for markets; especially for the camp that fervently awaiting any *excuse to ignite "pivot brand of risk-on"*.
- Which is why markets stumbled on out-run in US data last week (with lower jobless claims and unexpected acceleration in services ISM); in turn prompting UST curve bear flattening (2Y: +11bp; 10Y: +8.5bp) and knocked back Wall St (\$SP500: -1.0% Nasdaq: -2%).
- Nonetheless, the overall belief of "immaculate dis-inflation" (upbeat iteration of a "soft-landing") underpins optimism about US inflation unravelled, but demand unfazed, by a hawkish Fed.
- What's more, the principle of "inverted logic" increasingly appears to apply to China as well.
- Whereby dismal economic prints in the world's second largest economy (and largest factory floor) are met with anticipatory cheer about Beijing being more likely to scale up stimulus.
- In fact, the wider China complex appears to have become far more reliant (and perhaps worryingly so) on Beijing's ability to pull a growth rabbit out of its hat.
- This is not only a tall order, but also an unhealthy addiction that progressively demands more buck per bang; at least until a resolutely convincing economic rescue appears. And this is nowhere in sight.
- Even what was deemed to be a fairly aggressive property easing measures fizzled given the limited reach in tier-1 and tier-2 cities that may leave tier-3 cities mostly out in the cold; which by definition leaves a good deal of property sector stress and related flash points for contagion risks intact.
- Over the weekend, a series of reports that President Xi has been called to task by Party Elders on the dire state of the economy may also be cast in a positive light; insofar as the inclination is to take "bad news" on worries about the economy as "good news" on stimulus conviction.
- That this reveals potentially greater fracturing within the Chinese Communist Party, and attendant intensification of policy uncertainty as party officials downstream caught between drifting factions inadvertently fumble on policy execution is lost on the collective, overwhelming desire for a rescue.
- To be fair, this is not necessarily turning logic on its head. But it subject to a positive bias.
- Speaking of inverted logic, OPEC deserves mention. Cutting supply to effectively bump-up prices over \$90/bbl surely defies the logic of concerns about waning demand.
- Especially if the high crude prices perversely not only crimp demand further, but worse, accentuate the threat of policy-induced recession (as higher inflation imposes harsher policy trade-off); which is almost certainly far more disastrous for crude oil demand.
- For now though, the ECB is likely to hold off on a knee-jerk hike on account of soaring gas prices as it mulls over a greater degree of two-way uncertainty and exercise "humility" on policy unknowns.
- A slew of China data may show some improvement, but may keep stimulus hopes alive.
- And as the global economy improves, inverted logic may play out again. This time possibly dampening cheer as market may by then deem conditions healthy enough for more cavalier geo-political brinkmanship to be unleashed.

## US-China Risks Unearthed &amp; CNY Buried?

- Fresh setbacks to hopes of US-China tensions being assuaged are invoked by the mutually damaging focus on iPhone (by Beijing) and Huawei by Washington.
- Inevitably, this heighten uncertainties. And not just for the overall mood of diplomatic US-China relations, but crucially, for the wider commercial and security/strategic eco-system.
- Beyond tit-for-tat commercial sanctions between US and China set to escalate, raised tensions between, and scrutiny by, both sides reflect the depth of geo-economic and geo-political tensions that is likely to not only persist; but get more profound.
- Beijing cracking down on iPhone usage in government agencies, which may potentially widen to state-owned as well as state-backed Chinese entities, sent Apple shares tumbling (6% last week).
- More worryingly, beyond evolving company-specific tremors, the real, albeit less easily quantifiable, chill arises from mounting geo-political tensions that are unearthed.
- Meanwhile, Washington is probing into Huawei's acquisition of 7nm microchips, precisely the advanced chip technology access for Beijing that US sanctions were trying to stymie.
- Inevitably then, this casts scrutiny, and in all likelihood trains further sanctions on SMIC (Semiconductor Manufacturing International Corp.) specifically in the near-term; but beyond which a wider range of potential suppliers of technology to Beijing are subject to US reach.
- The upshot is that common ground for conflict resolution becomes harder to find as US-China relations assume a more antagonistic approach to strategic/tech, leadership and access.
- Consequently, the potential for more extreme negative outcomes are increasing; for all involved!
- The resulting economic dent is not only mutual, but pervasive; hitting all trade partners.
- But currency pain may be asymmetric, and aimed far more at CNH than the USD.
- Near 16-year lows and coming within striking distance (-0.5%) of testing 7.40, the renminbi can neither conceal nor deflect fresh geo-political perils unearthed; which threaten to bury CNY bulls-in-waiting as they cling on to hopes of a stimulus rescue.

## ECB: Flexibility &amp; Humility

- Despite the outburst in energy prices fuelling fears of resurgent inflation, the ECB is likely to hold rates as the contraction in services activity remains worrying.
- The post Jackson hole change in policy dynamics from earlier steadfast rate increase is clear.
- Specifically, ECB President Lagarde's Jackson Hole allusions to "clarity", "flexibility" and "humility".
- While clarity was on their inflation objective, her focus on flexibility in not making policy on simply rules in an uncertain economy warns of over extrapolating recent price shocks.
- As for humility, her concession to the "limits of what we currently know and what our policy can achieve" also points to increasing caution on policy moves. Furthermore, the ECB is afforded breathing space with the Fed likely to hold rates at the September FOMC (next week).
- As such, we expect the ECB to stick to these three key elements by stating their clear commitment to reduce inflation via hawkish communications.
- Nonetheless, exercise restraint in the interest of downside risks to growth by keeping policy on hold as uncertainty over global demand prospects temper variable persistence of energy oil shocks.

\*Survey results from Bloomberg, as of 8 Sept 2023; The lists are not exhaustive and only meant to highlight key data/events

## Asia

Date	Country	Event	Period	Survey*	Prior
11-15 Sep	CH	Aggregate Financing/New Yuan Loans CNY	Aug	2730b/1275b	528.2b/345.9b
11 Sep	MY	Industrial Production YoY	Jul	0.3%	-2.2%
12 Sep	IN	CPI YoY	Aug	7.1%	7.4%
	IN	Industrial Production YoY	Jul	5.3%	3.7%
13 Sep	IN	Trade Balance	Aug	-\$20.8b	-\$20.67b
	KR	Unemployment rate SA	Aug	2.9%	2.8%
14 Sep	AU	Emp. Chg/Jobless Rate	Aug	25.5K/3.7%	-14.6K/3.7%
	IN	Wholesale Prices YoY	Aug	-0.6%	-1.4%
	TH	Consumer Confidence Economic	Aug	--	50.3
15 Sep	CH	Industrial Production YoY	Aug	4.1%	3.7%
	CH	FAI/Property Investments YTD YoY	Aug	3.3%/-9.0%	3.4%/-8.5%
	CH	1-Yr Medium-Term Lending Facility Rate		2.50%	2.50%
	CH	Retail Sales YoY	Aug	3.0%	2.5%
	CH	New Home Prices MoM	Aug	--	-0.2%
	ID	Trade Balance	Aug	\$1449m	\$1310m
	PH	Overseas Cash Remittances YoY	Jul	1.3%	2.1%

## Thailand's Cost Reduction Motion ...

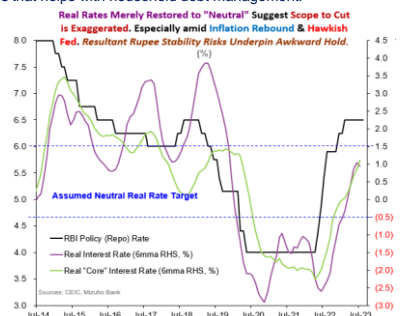
- On 11 Sep, Thai PM Sretta is primed to *motion* policy priorities in Parliament. Justifiably, *cost containment* will feature. *Trouble is, fiscal challenges are as real as the cost of living crisis*.
- In any case, *reduction of transport and energy costs will be in the spotlight*.
- To be sure, the proposed *train fare reduction* in Bangkok to 20 baht, at a fiscal cost of 5.4 billion THB (0.03% of GDP) *does not look like it will break the bank*. Especially given cost mitigation from targeted implementation via income differentiation and/or timings/specific train lines.
- The impact (both cost and benefits) will however span over the next few years (2- year timeline).
- But clearly, commitment to *reduce diesel and electricity prices* further *threaten to impose a far greater fiscal toll*; as subsidies absorbed at pain of large losses by the Oil Fuel Fund Office (OFFO) and Electricity Authority of Thailand (Egat) *simply to maintain current price subsidy*.
- *This is a risk that is accentuated by surging global energy prices*.
- Ultimately, the success of "*cost*" transfer from households to the state depends on the *ability to optimize*; i) *expenditure*; ii) *public debt costs*; and iii) *private sector growth multipliers*.
- ... & Consumption Moonshot
- But the potentially most profound fiscal thrust for the new government is aimed at firing up the top-line! Specifically, a *consumption moonshot* delivered via government's push for a digital wallet.
- What would otherwise come across as a fintech innovation is transformed into a staggering consumption boost by means of a jaw-droppingly large cash transfer at a cost of 560billion baht (3.5% of GDP); slated for implementation in Q1 2024.
- The sheer quantum of direct transfers it involves and a rather narrow window (within 6-months) for spending this cash credited government suggest potential for a large consumption boost.
- Using fiscal multiplier estimates of ~1.4X, suggested by a range of studies, adjusted for more accented conservation of propensity to increase personal savings, in exceptionally higher interest rate/cost-of-living context, we expect *nominal consumption boost of 4.0-4.5%-pts of GDP*.
- Depending on inflation outcomes, this translates into real GDP lift of 1.7-2.4%-pt (in 2024).
- That said, unprecedented scale of direct fiscal transfers can have unintended adverse impact on; i) *fiscal re-allocation*; ii) *cost from additional financing* and; iii) *potential "crowding out"*.
- Upshot being, *net real growth impact is likely to be milder*. On the bright side, the *BoT may then have a more "Goldilocks"-type of policy outcomes* that helps with household debt management.

## India: Inflation Risks

- The sharp surge in India's inflation from -4% to above the 6% policy ceiling is more than just an inconvenience.
- Taken alongside red hot 7.8% Q2 GDP growth, it poses a policy conundrum.
- Not only are hopes of RBI priming for easing blown out of the water; but perhaps whispers of more rate hikes grow.
- Especially if a stubbornly hawkish Fed "keeps at it" in the midst of upwardly inclined global crude prices.
- Admittedly, insofar that inflation outburst is mostly driven by food, the RBI is not compelled to urgently tighten further.
- But with wider macro risks invariably inflated, led by downside rupee volatility, the RBI's policy calculus turns more complicated. Dismissing food inflation to sit on its hands becomes a costly option.

## EM-Asia Inflation Wrap: Surprise?

- Thus far, August headline inflation print across EM-Asia has surprised on the upside.
- As we had alluded to before (see Mizuho Chart Speak: EM-Asia: The Price of Rice), the Philippines will inevitably suffer the hardest hit given the 8.9% weight of rice in the CPI basket.
- Headline inflation's resurgence to 5.3% is uncomfortable sight for the BSP and fellow authorities. Despite persistent assurance of adequate stockpiles, price prices continued surging and necessitated *price ceilings* which was effective last Tuesday.
- In general, adequate stockpiles across EM-Asia are necessary but not a sufficient condition to restrain price surges. For one, India's embargo has removed a source of imports and in fact consolidated pricing power. Households have less alternatives as demand for other types/sources of rice turns more inelastic which ought to be distinguish from absolute supply levels. Even for supply levels, it would be contentious to suggest that stockpiles were ramped to replace this gap.
- Admittedly, government actions have been rather swift with Indonesia increasing rice imports from Cambodia and Singapore seeking exemptions from India's curbs.
- While the technical arithmetic impact on other regional peers is assessed to be relatively smaller, it is the impact above and beyond the initial increase in rice prices that should worry as substitution towards alternatives such as the likes of noodles and bread takes hold.
- Unfortunately, these wheat based substitutes are also subject to the complications of Russia-Ukraine Black Sea grain deal and also weather's tyranny in the likes of Australia.
- All in, the worry remains that food inflation stays higher for longer.



	Headline Inflation, YoY% (Actual)	Headline Inflation, YoY% (Expectations)	Food Inflation, YoY%	Rice Inflation, YoY %MoM%
Korea	2.9%	3.4%	4.6%	7.8%/4.7%
Indonesia	3.3%	3.3%	2.6%	N.A.
Philippines	5.3%	4.7%	8.2%	8.7%/4.9%
Thailand	0.9%	0.6%	0.7%	2.1%/1.0%
Vietnam	3.0%	2.5%	7.0%	-14.4%

Source: CEIC, Bloomberg, National Authorities, Mizuho Bank

Note: 1. Korea Rice Inflation measured using white rice

2. Thailand's Food Inflation included Non-alcoholic beverage

## Forex Rate

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	147.83	1.610	1.10%	144.00	~ 148.00
EUR/USD	1.07	-0.0080	-0.74%	1.060	~ 1.090
USD/SGD	1.3657	0.013	0.96%	1.3550	~ 1.3750
USD/THB	35.520	0.522	1.49%	35.20	~ 36.00
USD/MYR	4.6772	0.031	0.67%	4.600	~ 4.720
USD/IDR	15325	85	0.56%	15,220	~ 15,500
JPY/SGD	0.9238	-0.001	-0.14%	0.916	~ 0.955
AUD/USD	0.6376	-0.008	-1.24%	0.625	~ 0.650
USD/INR	82.95	0.226	0.27%	82.5	~ 83.8
USD/PHP	56.641	0.043	0.08%	56.1	~ 57.2

\*Weekly change.

## FX Outlook: Converted USD Bulls?

- The *inverted logic* that we alluded to, may for now be **supportive of "converted USD bulls"**.
- To be specific, **"peak Fed" USD bears now converted to USD bulls as "good news" likely to persist for the US economy is likely to support UST yields and USD.**
- **More so with US CPI likely to show a re-acceleration;** which will give pause to notions of the Fed being done, and instead lend far more credence to "ground to cover" type of views.
- **Especially as Euro-zone inflation woes** (on surging gas prices) are now **converted as economic drag and cause for the ECB to exercise humility rather than execute hawkish responses.**
- Which in turn means that **real rate spreads turn more supportive of USD,** whereas EUR allure is further **diminished** amid a wide range of uncertainty; from upside in inflation to (relative) downside in the economy conspiring to undermine confidence and possibly up "fragmentation" risks.
- What's more, **converted USD bulls are also likely to have an edge over CNH** given the sharp inflation-policy contrast with China, which has only just managed to dis-entangle itself from deflation.
- And even then not convincingly so. The wider point being, with **entrenched signs of demand weakness dragged by confidence deficit weighing on China,** a weak CNH appears to be par for the course.
- And **PBoC intervention remain a calculus about optimal downside volatility dampeners that do not entail excessive "cash burn";** given the harrowing experience of losing \$1trn in FX reserves in 2015-16 China sell-off. So a **judicious and measured backstop for CNH** is likely to keep any scope AXJ and AUD rebound in check.- And more likely than not opportunistic with a high propensity to lock profits.
- For now, it appears that **converted USD bulls, while not in full charge mode, may retain enough conviction to stall extended pullback in the Greenback;** especially in what continues to be a **climate of US exceptionalism amid risks of resurgent energy inflation colliding with adversarial geo-politics.**

## JPY: Judgements

- Admittedly, last week's USD/JPY rise to above mid-147 has now given way to BoJ Governor Ueda's comments on being able to **judge if wages will continue to rise by year end.**
- As such, markets have passed an **initial hawkish judgement with JPY bulls emboldened.**
- **Nonetheless, a careful examination of his comments would reveal several caveats such as a stronger than expected economy and the condition that a rate lift would not prevent their ability to achieve their inflation target.**
- While having a rather near term timeline (for judgement) have rightfully backstop JPY bulls and **fade rallies, outright JPY slippages below 144 might be tough given the US CPI print this week.**

## EUR: Humbled

- Given the ECB decision this week, EUR bulls ought to follow Lagarde's advice of being "flexible" and "humble".
- While the base case is for the ECB to stand pat, even a **rate hike will come with an abundance of caution espousing the need to look at things meeting by meeting.**
- Given the growth headwinds, a **surprise hike will also imply that the policy room gets even tighter ahead which is no win for EUR bulls.**
- Furthermore, the **US CPI print may humble EUR bulls further. As such, cautious testing of 1.06 may not be off the cards.**

## SGD: Relief, not Rebound

- Admittedly, USD/SGD upside appears to have been capped ahead of 1.37, and the Greenback coming off last week's peaks provides some relief for SGD bears.
- But this is limited relief at best, and certainly nothing close to a sustained rebound.
- In a data light week for Singapore, US CPI (upside) risks alongside US-China geo-political headlines that are far from pretty suggest a scope for SGD slippage remains intact.
- What's more, a softer EUR from ECB is also a significant risk (and an attendant SGD dampener) if the European central bank tempers commentary on energy inflation risks with views of heightened economic uncertainty.
- And so, it appears that with elevated SUT yields, USD/SGD could remain in the sub-1.36 to 1.37 range for now;

## AUD: China Risks

- AUD could go either way; and mostly on China risks. Two way risks to be sure.
- On one hand, the on-going uncertainties around geo-political risks and lingering demand deficit will likely forestall any emphatic and large gains in the AUD.
- Which is to say, an uninterrupted surge to 0.65 and beyond to 0.66 look like a long shot.
- But equally, if optimism about property relaxation measures ripple via the commodity complex (for which the AUD sits in a sweet spot) then sustaining traction to mid- or even high-0.64 is not outlandish.
- On balance though, elevated yields and firm USD may render sub-0.64 to mid-0.64 consolidation as the more likely outcome.

## Bond Yield (%)

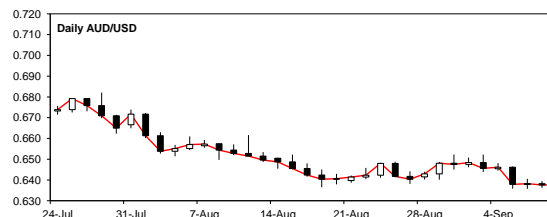
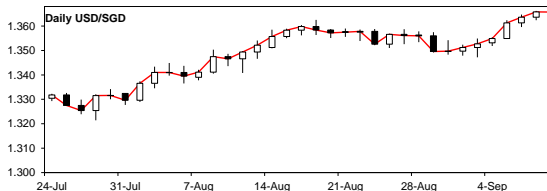
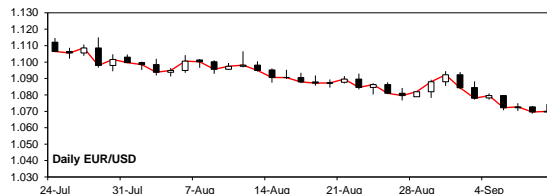
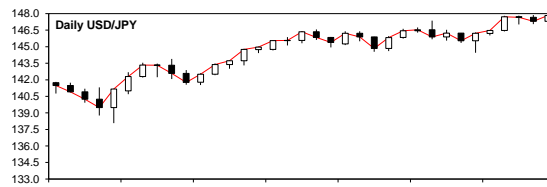
8-Sep	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.991	11.2	4.264	8.5	Flattening
GER	3.064	8.6	2.606	6.2	Flattening
JPY	-0.001	-1.3	0.644	2.4	Steepening
SGD	3.413	-3.8	3.180	7.7	Steepening
AUD	3.811	3.3	4.080	0.1	Flattening
GBP	5.039	-10.6	4.417	-0.5	Steepening

## Stock Market

	Close	% Chg
S&P 500 (US)	4,457.49	-1.29
Nikkei (JP)	32,606.84	-0.32
EuroStoxx (EU)	4,237.19	-1.06
FTSE STI (SG)	3,207.75	-0.79
JKSE (ID)	6,924.78	-0.76
PSEI (PH)	6,222.94	0.68
KLCI (MY)	1,454.95	-0.58
SET (TH)	1,547.17	-0.92
SENSEX (IN)	66,598.91	1.85
ASX (AU)	7,156.69	-1.67

## US Treasuries: Waging Claims

- While initial **jobless claims** might have edged lower, it is the **ISM services** which should rightfully be seen as a key driver of the surge in UST yields.
- Specifically, the **greater number of respondents signalling higher prices paid would have triggered worries of this week's inflation print.**
- **Afterall, non-wage components of cost in the services sector should also stake a claim in driving inflation.**
- Aside from services inflation, **headline inflation simply confirming a higher print will also invite UST bears to roar louder.** Given the Fed silence during blackout period, data prints will invite enlarged volatility.
- All in, we retain a **hawkish bias for this week with prospects for further yield curve inversion.** 2Y yields trading in the 4.9%-5.15% range and 10Y yields to retain buoyancy above 4.15%.



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