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MIZUHO

WEEK AHEAD

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14-Nov-2022

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Economic Calendar

•Survey results from Bloomberg, as of 11 Nov 2022; The lists are not exhaustive and only meant to highlight key data/events.

G3

Date	Country	Event	Period	Survey*	Prior
14 Nov	EZ	Industrial Production WDA YoY	Sep	--	2.5%
15 Nov	**US**	**PPI Final Demand/Ex Food & Energy YoY**	**Oct**	**8.4%/7.2%**	**8.5%/7.2%**
	US	Empire Manufacturing	Nov	-6.0	-9.1
	EZ	**GDP SA YoY**	**3Q P**	**2.1%**	**2.1%**
	JP	**Industrial Production YoY**	**Sep F**	**--**	**9.8%**
	JP	**GDP SA QoQ**	**3Q P**	**0.3%**	**0.9%**
	JP	GDP Deflator YoY	3Q P	-0.6%	-0.3%
	GE	ZEW Survey Expectations/Current Situation	Nov	-52/-68.6	-59.2/-72.2
16 Nov	US	Industrial Production MoM	Oct	0.1%	0.4%
	US	**Retail Sales Adv/Ex Auto and Gas MoM**	**Oct**	**1.0%/0.2%**	**0.0%/0.3%**
	JP	Core Machine Orders YoY	Sep	8.0%	9.7%
	JP	Tertiary Industry Index MoM	Sep	0.6%	0.7%
17 Nov	US	Housing Starts	Oct	1425k	1439k
	US	Initial Jobless Claims	12-Nov	222k	225k
	US	Philadelphia Fed Business Outlook	Nov	-5.5	-8.7
	EZ	**CPI/Core YoY**	**Oct F**	**10.7%/5.0%**	**9.9%/5.0%**
	JP	Trade Balance	Oct	-¥1645.7b	-¥2094.3b
18 Nov	US	Leading Index	Oct	-0.4%	-0.4%
	US	Kansas City Fed Manf. Activity	Nov	-7.0	-7.0
	JP	**CPI/Ex Fresh Food, Energy YoY**	**Oct**	**3.7%/2.4%**	**3.0%/1.8%**

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
14-20 Nov	CH	FDI YTD YoY CNY	Oct	--	15.6%
14-17Nov	PH	Overseas Cash Remittances YoY	Sep	3.2%	4.3%
14 Nov	IN	Trade Balance	Oct	-$26000.0m	-$25713.0m
	IN	**CPI YoY**	**Oct**	**6.7%**	**7.4%**
15 Nov	CH	Industrial Production YoY	Oct	5.3%	6.3%
	CH	Fixed Assets Ex Rural YTD YoY	Oct	5.9%	5.9%
	CH	Retail Sales YoY	Oct	0.7%	2.5%
	CH	**1-Yr Medium-Term Lending Facility Rate**		**2.75%**	**2.75%**
	AU	RBA Minutes of Nov. Policy Meeting			
	ID	Trade Balance	Oct	$4500m	$4990m
16 Nov	AU	Wage Price Index YoY	3Q	3.0%	2.6%
17 Nov	SG	Non-oil Domestic/Electronics Exports YoY	Oct	-1.9%/--	3.1%/-10.6%
	AU	**Employment Change/Unemp. Rate**	**Oct**	**15.0k/3.5%**	**0.9k/3.5%**
	ID	**Bank Indonesia 7D Reverse Repo**		**5.25%**	**4.75%**
	MY	**Trade Balance MYR**	**Oct**	**--**	**31.71b**
	PH	**BSP Overnight Borrowing Rate**		**5.00%**	**4.25%**
18 Nov	**ID**	**BoP Current Account Balance**	**3Q**	**$2850m**	**$3900m**

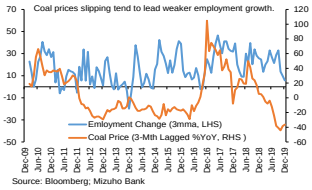
Week-in-brief: Ignition or Flare?

- Last week, faster than expected deceleration of US inflation seem to have **ignited risk on rallies for most markets**. Nonetheless, this single inflation print is far from being the conclusive evidence and may end up being a **flare - fading into the distance**
- As such, Fed officials continued to emphasize that the job is far from done and this is rightly so given that **patience is required on monetary policy transmission** and an **abundance of vulnerabilities** ranging from continued second round effects pass to fresh geo-political shocks **remain**.
- This week, Japan's inflation print while unlikely to move the BoJ's policy needle may provide subtle hints on global inflation dynamics via China's producer disinflation. Meanwhile, Eurozone's **GDP print will reveal the economic damage posed by record high inflation** and geo-political shocks.
- Eurozone activity is likely to contrast with ASEAN-3 (Indonesia, Malaysia, the Philippines) 's show of resilience as GDP growth outperformed and sets the stage for BI and BSP to hike policy rates this week with the latter taking a bigger step.

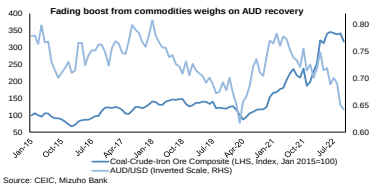
ASEAN-3 Q3 GDP: A Show of Resilience

- **The Q3 GDP outturns for Indonesia, Malaysia and the Philippines exceeded consensus and our own expectations in what looks like a show of combined resilience.**
- **For Indonesia, growth picked up to 5.7% YoY from 5.4% in Q2** driven by higher investment spending, which more than offset the modest decline in private consumption and a smaller contribution from net exports. The ~30% increase in retail fuel prices did not seem to dent growth.
- By contrast, **for the Philippines, the pick up in Q3 GDP growth 7.6% YoY from 7.5%, defying expectations of a slowdown, was on account of private consumption.**
- This is despite the central banks cumulative 225bp in rate hikes and decade high inflation. **Importantly, growth picked up on a sequential QoQ SA basis to 2.9% from -0.1% in Q2.**
- **For Malaysia, expectations of double-digit growth(12.1%) were outdone -** Q3 GDP at 14.2% YoY from 8.9% in Q2. Admittedly, momentum on a sequential basis slowed to 1.9% QoQ SA from 3.5% in Q2.
- **Notwithstanding, the base effects from the same quarter last year, the print had some positives**. For one, **the contribution of net exports turned positive** (despite relatively resilient import growth) for the first time this year. Second, **growth in the implicit GDP deflator slowed to 5.9% YoY from 9.2% in Q2 suggesting that some underlying price pressures are easing**.
- **The resilience of the Q3 prints will allow the central banks of these countries more leeway to remain hawkish and tackle still elevated inflationary pressures.**
- That said, **the pecking order of central bank hawkishness, from highest to lowest, will remain Bangko Sentral ng Pilipinas (BSP), Bank Indonesia (BI) and Bank Negara Malaysia (BNM).**
- **The robustness in growth justifies BSP's bias towards large magnitude rate hikes** to curb domestic consumption while at the opposite end of the spectrum, **the sequential growth moderation puts into context BNM's reluctance to raise rates by larger magnitudes than 25bp.**
- **For BI, another 50bp hike would be justified by robust growth.** *However, a potential US Fed pivot to 50bp from 75bp may give it leeway to scale back rate hikes to 25bp.*

Australia: Labour Tightness to Abate



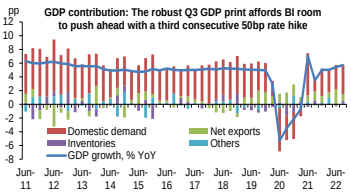
Source: Bloomberg; Mizuho Bank



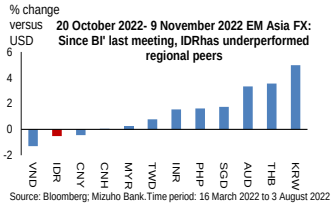
Source: CEIC, Mizuho Bank

- Australia's impending labor market report for October looks to **retain familiar tones** as **gains (if any) will continue to be muted.**
- On the resource sector front, with coal prices slipping, further job growth and wage gains may be hard to come by. In fact, due to **spillovers to other auxiliary sectors such as retail and business services, overall employment could see modest declines if historical precedents hold up.**
- What's more, domestically, activity and **employment in the construction sector will slow on impact of higher interest rates.**
-Turning to possible sources for employment growth: Manufacturing sector, Arts and Recreation sector and Agricultural sector have yet to see employment recovery above pre-Covid levels. With tourism recovery continuing steadily, employment in the Arts and Recreation sector may continue to make up more ground.
- The same though may not be forth coming in the manufacturing sector as external demand wanes.
- With the **RBA now increasingly comfortable in their 25bp hike, the attention will turn to the strength of wage growth underpinning pipeline inflationary pressures.**
- To that end, we continue to expect an edge up in unemployment rate stemming from higher participation rates which in turns **creates slack to keep a lid on wage pressures**. Falling consumer confidence surrounding households' finances will push marginal workers to return to the labour force.
- With labour market conditions likely to align with the RBA's policy stance, the **AUD's recovery could end up being more bungled as commodity prices fade.**

Bank Indonesia: Room for 50bp Hike



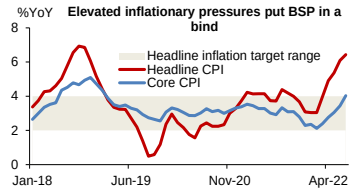
Source: CEIC; Mizuho Bank



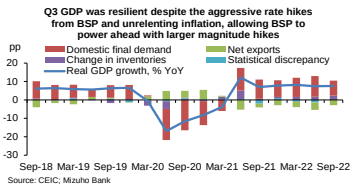
Source: Bloomberg; Mizuho Bank.Time period: 16 March 2022 to 3 August 2022

- **The solid Q3 GDP print of 5.7% YoY driven by domestic demand**, amidst a backdrop of elevated external stress, allows BI room to remain hawkish and continue to 'front-load' rate hikes.
- **We expect BI will deliver its third consecutive 50bp hike at its 17 November meeting to follow on its commitment to support IDR.**
- Since its last meeting on 20 October, **the currency (IDR) has underperformed regional peers (depreciating 0.5% versus 1-3% appreciation in THB, PHP and MYR in the same period).**
- **Although the BI-Fed interest rate differential remains positive**, unlike for BNM or BoK, **IDR's vulnerabilities have started to increase as inflationary pressures remain elevated and real rates remain squarely negative (on a headline basis).**
- Furthermore, **strong domestic demand pressures as underscored by the Q3 GDP print, will continue to push up import growth**. The offset, for the moment, remains robust export growth led by commodities such as coal and palm oil.
- To that extent, **the wider Q3 current account surplus** (estimated at 4.5% of GDP from 1.1% in Q2) **will provide some buffer from IDR but the incoming October data is likely to underscore building external pressures.**
- Notwithstanding, **BI is presented with an opportunity given the robust growth backdrop to push ahead with another 50bp hike in November, before moderating to 25bp in December.**
- **The risk, however, is that BI slows the pace of rate hikes in November to 25bp** using a potential moderation in US Fed rate hikes to 50bp from 75bp as the justification.

Bangko Sentral ng Pilipinas: Well telegraphed 75bp Hike



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- **BSP Governor Medalla has confirmed that a 75bp hike is guaranteed at the 17 November, matching the quantum of the US Fed's 2 Nov hike.**
- The more pertinent question for BSP at this stage is how far it is willing to go in terms of rate hikes to rein in inflation. With Q3 GDP growth defying expectations of a slowdown, by picking up to 7.6% YoY from 7.5% YoY in Q2 (with sequential growth rising to 2.9% QoQ SA from -0.1% in Q2), BSP's path to higher rate is cleared for longer.
- Importantly, private consumption growth picked in Q3 despite the aggressive 225bp hike in rates and unrelenting inflation.
- Speaking of which, inflationary pressures in the Philippines have remained stubbornly high, despite signs that inflation is moderating in some neighbouring countries.
- More so, **food prices have remained sticky upwards** with food CPI in October at 9.8% YoY from 7.7% in September. Core inflation has also not relented, rising to 5.9% from 5.0% in September.
- Although the pace of **PHP** depreciation has moderated in the past month, it **remains one of the worst performers in the EM Asia region, imported inflation pressures onto food and fuel** (both of which the country net imports) remain elevated.
- **This implies that BSP will have to remain nimble in its approach to hiking rates, possibly keeping the door open for larger magnitude rate hikes even at its 15 December meeting.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	138.81	-7.810	-5.33%	137.50	~	144.00
EUR/USD	1.0347	0.0390	3.92%	1.000	~	1.050
USD/SGD	1.3718	-0.035	-2.49%	1.3620	~	1.4100
USD/THB	35.948	-1.617	-4.30%	35.50	~	37.00
USD/MYR	4.622	-0.126	-2.65%	4.570	~	4.680
USD/IDR	15494	-244	-1.55%	15,300	~	15,620
JPY/SGD	0.9884	0.029	2.97%	0.946	~	1.025
AUD/USD	0.6703	0.023	3.60%	0.640	~	0.680
USD/INR	80.82	-1.613	-1.97%	80.2	~	82.5
USD/PHP	57.263	-1.302	-2.22%	57.0	~	58.3

^Weekly change.

Bond Yield (%)

11-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.332	-32.6	3.813	-34.5	Flattening
GER	2.170	5.8	2.154	-13.5	Flattening
JPY	-0.070	-1.8	0.229	-1.6	Steepening
SGD	3.028	-5.6	3.334	-13.6	Flattening
AUD	3.070	-18.5	3.650	0.1	Steepening
GBP	3.065	9.0	3.347	-18.0	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	3,992.93	5.90
Nikkei (JP)	28,263.57	3.91
EuroStoxx (EU)	3,868.50	4.88
FTSE STI (SG)	3,228.33	3.14
JKSE (ID)	7,089.21	0.62
PSEI (PH)	6,286.77	1.64
KLCI (MY)	1,468.21	2.08
SET (TH)	1,637.29	0.67
SENSEX (IN)	61,795.04	1.39
ASX (AU)	7,157.95	3.85

FX Outlook: Concessions?

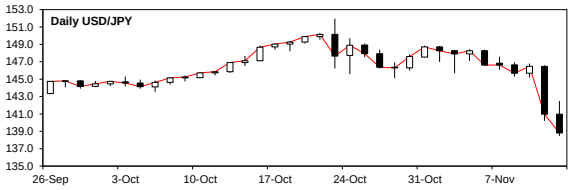
- On account of the lower than expected US inflation print, the USD staged an emphatic sell off with the DXY collapsing from 111 to below 107 as Fed's pivot bets continue to rise.
- Admittedly, while a Fed pivot is not on the immediate horizon, historical precedent is consistent with USD strength peaking before peak rates.
- That said, even if one is tempted to call for peaking USD strength, **caution should be duly applied before extrapolating a peak to that of a pivot** (weakening USD trend).
- This squares with Fed funds rate being kept elevated for longer, simply put, some **Fed officials may concede to a need for slow pace of hikes but the bar for rate cuts is far higher.**
- This week, the USD conceding further ground will be dependent on the sustainability of challenges from the JPY, EUR and CNH/CNY. The JPY's more than 5% gain last week took full advantage of the lower real US yields and may leave little room for appreciation without further decline in UST yields.
- Eurozone's GDP print alongside final CPI confirmation may remind of **difference** in economic fundamental (relative to the US) despite the ECB's tendency to head similarly for 75bps hikes.
- The relative **CNH/CNY underperformance** gaining ~1.4% against the USD reveals economic pains which are congruent with the authorities' need to unveil mild loosening of travel restrictions and property market relief measures.
- Consequently, amid the lack of CNY/CNH support, **EM-Asia FX** having made much gains last week **will question their ability to gain further** against the USD especially **for oil-importers** as Brent crude prices remain elevated.
- While the IDR and the PHP will look to be backstopped by their central bank policy hikes, we **expect rallies in EM-Asia FX to be shallow and vulnerable to some USD pullback.**

US Treasuries: Inversions

- Clearly, UST bulls ran the show after the lower than expected CPI print as **2Y and 10Y yields collapsed 32.6bp and 34.5bp** respectively. Admittedly, amid these large moves, the usual caveats apply as a single inflation print does not make a trend.
- Despite these outsized moves, markets are still pricing in peak rates just above 4.9% coming down from above 5% before the CPI print. The Fed funds rates being elevated above 4.9% is by no means "easy" financial conditions.
- Reflecting the unease, the **Fed's preferred recession indicator (18M-3M spread) has dipped in inversion territory for the first time since 2020. A prolonged state of inversion will incite bets for the Fed pauses or pivots as well as encourage demand for haven assets.**
- On that note, Fed speakers will be expected to push back against market expectations of rate cuts as Fed's Waller kicked off the week stating that that rates will keep going up. Even the more dovish Daly has re-iterated that pausing is not the discussion while stepping down (rate **increases**) is.
- Given the past week's expectations adjustments, we expect 2Y yields to consolidate around 4.2%-4.4%. Meanwhile, 10Y yields trade in the lower region of 3.7-4.0% amid haven demand.

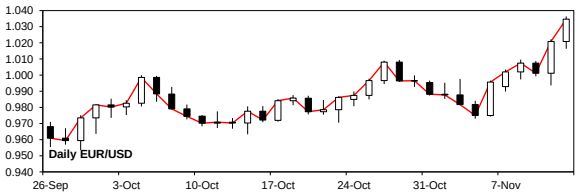
USD/JPY: Push Backs

- Last week the JPY duly enjoyed a 5.3% appreciation against the USD **on the back of an emphatic collapse of UST yields as US inflation came in lower than expected.**
- Clearly, this week's inflation outturn in Japan will be unlikely to trigger such impact especially amid these **JPY gains giving further relief to the BoJ alleviating imported inflation in the pipeline.**
- This relief is much welcomed amid Brent crude prices trading above USD90/barrel since Late Oct.
- We expect that pair to search for consolidation in the range of 138-141 with some upside bias especially as Fed speakers push pack on Fed pivot bets.



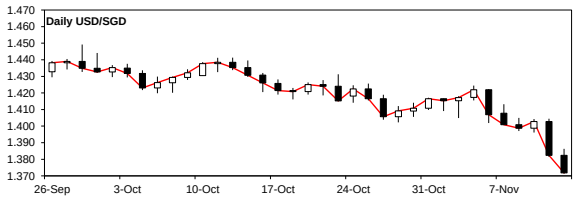
EUR: Less About EUR More about USD

- Wieth EUR/USD perched well above parity, all signs are pointing to it remaining there.
- But there are some risks worth highlighting. For one, the US CPI led rally is set to fade on more caution from Fed speakers around prematurely pricing in a 'pivot'.
- Second, energy market concerns have far from faded. Limited progress on the Balcksea trade negotiation and the impending winter energy consumption surge are a risk for Europe and hence, EUR.
- For now, though, parity maybe the floor.



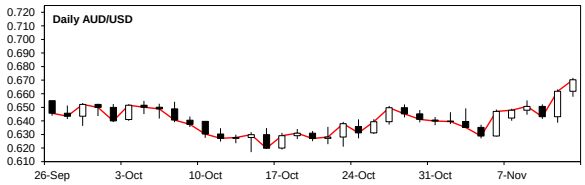
SGD: Riding Along

- Riding the weaker USD in the second half of last week, the **USD/SGD took a leg down to hover above 1.37.**
- Given the relative outperformance of the SGD last week, the **S$NEER's rich valuation is being stretched further** and may **dampen futher "relative" outperformance gains**.
- To be clear, while the SGD retains ability to gain further ground against the USD, the magnitude of this ride will be increasingly tempered and subject to the extent afforded by JPY, EUR and regional peers.
- All in, SGD bulls will be kept in checked with a wider range of 1.36-1.39.



AUD: Wait and See?

- Unsurprisingly, the AUD also staged a resurgence amid a backdrop of weaker USD to breach 0.67 as the **UST-AGB yield differentials narrowed.**
- **This week, the RBA's minutes will be watched for clues on their terminal rates given that they remain in favour of standard 25bp hike or even pausing.**
- **On the latter, RBA Deputy Governor Michele Bullock in her Senate testimony last week raised the possibility of having an "opportunity to sit and wait and look a little bit at what's going to happen next.**
- On the external front, the AUD may be afforded some backstop on China's property relief measures. This week, the AUD may attempt an **elevated consolidation around both sides of mid-0.66**.



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