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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 18 Nov 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
21 Nov	US	Chicago Fed Nat Activity Index	Oct	-0.03	0.10
22 Nov	**US**	**Richmond Fed Manufact. Index**	**Nov**	**-6.0**	**-10.0**
	EZ	ECB Current Account SA	Sep	--	-26.3b
	EZ	Consumer Confidence	Nov P	-26.0	-27.6
	EZ	**OECD Publishes Economic Outlook**			
23 Nov	**US**	**New Home Sales**	**Oct**	**575k**	**603k**
	US	**Initial Jobless Claims**		**225k**	**222k**
	US	U. of Mich. Current Conditions/Expectations	Nov F	--	57.8/52.7
	US	**U. of Mich. Sentiment**	**Nov F**	**56.3**	**54.7**
	US	**U. of Mich. 1/5-10 Yr Inflation**	**Nov F**	**5.1%/3.0%**	**5.1%/3.0%**
	US	Durable Goods/Non-def Ex-Air Orders	Oct P	0.4%/0.1%	0.4%/-0.4%
	EZ	Mfg/Services PMI	Nov P	46.0/48.0	46.4/48.6
	US	**FOMC Meeting Minutes**			
24 Nov	**EZ**	**ECB Account of October Policy Meeting**			
	JP	Coincident/Leading Index	Sep F	--	101.1/97.4
	JP	Mfg/Services PMI	Nov P	--	50.7/53.2
	JP	Machine Tool Orders YoY	Oct F	--	-5.4%
	GE	IFO Current Assessment	Nov	93.8	94.1
	GE	IFO Business Climate/Expectations	Nov	85.0/77.0	84.3/75.6
25 Nov	JP	PPI Services YoY	Oct	2.1%	2.1%

Asia

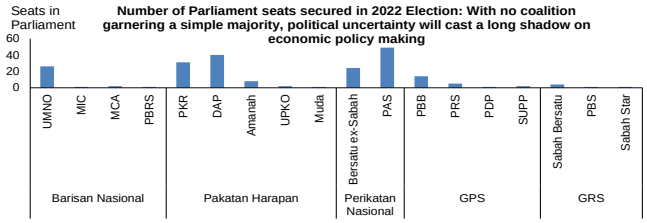
*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
19 Nov	**MY**	**General Elections**			
21 Nov	**CH**	**1-year/5-Year Loan Prime Rate**		**3.7%/4.3%**	**3.7%/4.3%**
	SG	**GDP YoY**	**3Q F**	**4.3%**	**4.4%**
	TH	**GDP YoY**	**3Q**	**4.3%**	**2.5%**
23 Nov	**SG**	**CPI/Core YoY**	**Oct**	**7.0%5.3%**	**7.5%5.3%**
	KR	Mfg Business Survey		--	73.0
	TH	Customs Trade Balance	Oct	--	-$853m
24 Nov	KR	PPI YoY	Oct	--	8.0%
	KR	**BoK 7-Day Repo Rate**		**3.25%**	**3.00%**
25 Nov	**SG**	**Industrial Production YoY**	**Oct**	**--**	**0.9%**
	MY	**CPI YoY**	**Oct**	**3.9%**	**4.5%**
	TH	Capacity Utilization ISIC	Oct	--	63.2
	TH	Mfg Production Index ISIC NSA YoY	Oct	--	3.4%

Week-in-brief: Considerations

- Last week, while we alluded to pondering whether sentiment recovery in markets (from softer inflation print) was **ignition or flare? The end result leans toward the latter as Fed speakers triggered a deeper consideration of peak rates.**
- Consequently, **shorter end of US treasuries sold off** and deepened the 10Y-2Y UST yield curve inversion. Without a doubt, Fed hawk St Louis Fed President James Bullard dimmed the light on rallies as he called for a minimum of Fed funds rate at **5.00%-5.25% to be sufficiently restrictive**.
- This was followed up by Boston Fed President Susan Collins who **reminded that a 75bp hike is still a consideration in December.**
- These end of the week Fedspeak **overshadowed earlier comments** by San Francisco Fed President, Mary Daly, whose staff estimated a proxy Fed funds rate which **takes into account forward guidance and balance sheet reduction (Quantitative tightening).** Her staff conclusion was that monetary policy stance was conducted as if the policy rate was 5.25% as opposed to the actual rate of 3-3.25% in Sept.
- After these extensive comments, **this week's FOMC meeting minutes** may **have little left to give**, though one would pay close attention to members' thoughts surrounding quantitative (if any) on their association with peak rates. What will be the pace of QT when peak rates are reached?
- Afterall, **peak rates may not necessarily be peak tightening.**
- Across the Atlantic, **ECB minutes will likely also take a backseat** as reports on stepping down to 50bp are floated despite various speakers remaining hawkish. Kicking off balance sheet reductions discussions will be an even bigger bugbear for the ECB.
- In EM-Asia, the **BoK will look to step down to 25bp** as tighter corporate credit conditions and slipping housing prices weigh on policy calculus especially given recent KRW appreciation providing some respite.
- In Malaysia, amid a hung Parliament, political parties will be **considering various permutations of forming a coalition** and the political uncertainty surrounding economic policy direction will hang around.
- In Thailand, GDP growth print may point to another show of resilience in the region underscoring the importance of the tourism/services sector.
- All said, the US Fed's moves are by far still top of consideration in EM-Asia.

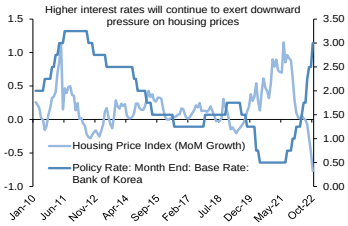
Malaysia Election: Political Uncertainty to Cast a Long Shadow



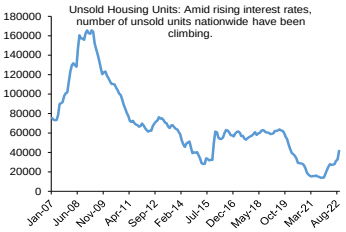
Source: Malaysia Star; Mizuho Bank

- The 19 November election resulted in a **no coalition winning a simple 112 seat majority in the 222 seat Lower House, resulting in a hung Parliament.**
- *This was no surprise given the increasingly noisy and devisive political theatrics witnessed since the political tumult began in February 2020.*
- **One thing that was clear from Saturday's election was the incumbent Barisan Nasional coalition was the biggest loser**, losing 49 seats from the 2018 election, to garner only 30.
- Although **Pakatan Harapan, the coalition led by Anwar Ibrahim, lost 22 seats** since the previous 2018 election, it **still holds the largest number of seats in Parliament at 82.**
- The **newly formed Perikatan Nasional, led by Muhyiddin Yassin, won 73 seats in Parliament**.
- In terms of next steps, the King has asked for more clarity in terms of the government that will be formed and PM-elect candidates on 21 November.
- **Any incoming government, whether led by Anwar Ibrahim or Muhyiddin Yassin, will be subject to political negotiations and horse trading, limiting its power to introduce bold economic reforms.**
- **Even discussions around the Budget for 2023 could be fraught with complications with each coalition looking to further its own agenda.**
- **The bottom-line is that the political uncertainty will continue to cast a long shadow over economic policymaking.**
- *There is a non-trivial risk that fickle coalition politics could percipitate the collapse of the government, with snap elections triggered well before the next stipulated election* (5 years from now).
- **Political uncertainty will continue to weigh on the currency (MYR) and may led to under performance versus regional peers despite support from strong external tailwinds.**

BoK: Stepping Down to 25



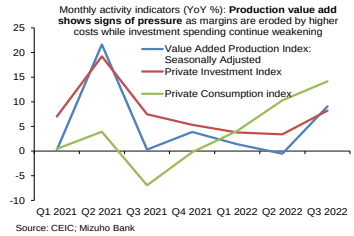
Source: CEIC; Mizuho Bank



Source: Kostat; Mizuho Bank

- After taking rates to 3.0% with a 50bp increase at their October meeting, the **Bank of Korea will be expected to step down their pace of rate hikes to 25bp at their next meeting (24 Nov).**
- **The need to continue raising rates speaks to persistent inflation momentum** with **core inflation edging higher** to 4.2% in October from 4.1% in September and **inflation expectations (year ahead) elevated at 4.3%.**
- **Nonetheless, the need to re-calibrate back to a 25bps hike is also clear, arising from pipeline financial stability and housing market risks.**
- On the latter, the dampened housing demand is apparent **as unsold housing units have been climbing nationwide since late-2021 .**
- **Since the previous meeting, weekly indicators point to continued slipping of housing prices** as well as **lower Jeonse deposits** stemming from the impact of higher interest rates**.**
- In an implicit acknowledgement of the cooling housing market, the **authorities eased lending rules** such as allowing higher loan to valuation ratios for housing buyers.
- Aside from **weaker household balance sheets** translating to subdued private consumption, **the BoK will be watching out for financial sector liquidity and corporate balance sheet risks as the cost of debt increases.**
- On the **corporate front**, since the confidence crisis triggered by real estate developer of Legoland in Gangwon, **demand for corporate debt fell for state owned developers and even non-real estate related companies such as KEPCO**- their largest utility company.
- In turn, the **BoK has stepped with liquidity improving measures** such as expansion of collateral criteria for banks borrowing from the BoK, though stopping short of direct liquidity injections.
- All in, while recognising the need to curb inflationary pressures, the **BoK will opt for a 25bp hike as they remain wary of exacerbating these financial stability risks** with another 50bps hike.
- Looking ahead, transmission of **tighter credit conditions will restrain investments** and **household budgets will be eroded by higher debt servicing burden** with majority of loans on variable rate schemes.
- In turn, **slower growth in 2023 will increasingly hold back the BoK's peak rates**.

Thailand GDP: Services Resilience



Source: CEIC; Mizuho Bank

Thailand Tourism Recovery (As of Sep 22)

	% of Dec 2019
Occupancy	63%
International Tourist Arrivals	33%
Room Rates	64%

- Thailand's upcoming (21 Nov) Q3 GDP print looks set to join regional peers (Indonesia, Malaysia and the Philippines) in their show of **resilience**, albeit with similarities to Malaysia.
- Specifically, we expect Q3 YoY to post 4.4% YoY growth stemming from a **depressed base in 2021**, which in turn implies that **a slower sequential expansion** of 0.6% in Q3 from the 0.7% posted in Q2.
- With a **doubling of tourist arrivals** in Q3 from Q2, services export revenue is expected to improve considerably which squares with **further recovery in accomodation and food services sector**.
- Given the **substantial multiplier effects from the tourism recovery**, monthly indicators point to **firm household consumption in Q3 despite high inflationary pressures.**
- Nonetheless, weakening business sentiment look to hold back investment spending and general elections in the first half of 2023 will also seed political uncertainty and impede investment plans.
- At this juncture, Asean visitors have reach 77% of pre-Covid arrivals and tourists from India also took up a huge share of arrivals and have reached almost 70% of pre-Covid arrivals.
- There is still further room for growth in terms of arrivals from higher spending segments originating from Europe and Americas which are still about a third of pre-Covid arrivals. This services recovery will be expected to stay steady while improving modestly in 2023.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	140.37	1.560	1.12%	138.00	~	144.00
EUR/USD	1.0325	-0.0022	-0.21%	1.000	~	1.050
USD/SGD	1.3759	0.004	0.30%	1.3620	~	1.4100
USD/THB	35.757	-0.191	-0.53%	35.30	~	37.00
USD/MYR	4.5562	-0.066	-1.42%	4.550	~	4.680
USD/IDR	15688	194	1.25%	15,400	~	15,820
JPY/SGD	0.9799	-0.008	-0.86%	0.946	~	1.022
AUD/USD	0.6673	-0.003	-0.45%	0.640	~	0.680
USD/INR	81.70	0.881	1.08%	80.4	~	82.5
USD/PHP	57.25	-0.013	-0.02%	57.0	~	58.3

^Weekly change.

FX Outlook: Searching for direction

- Hawkish Fed speak mitigated most of the impact from expectations that headline CPI inflation had peaked; while strong economic activity data added to the Fed's hawkish bend of speak.
- That left most G10 currencies trading in a fairly volatile manner through most of last week; GBP and NZD gained versus USD while weaker commodity prices and slower demand from China weighed on AUD, with NOK and SEK on the back foot; EUR and JPY ended the week lower versus USD.
- This week may be more of the same.
- Although the minutes of FOMC will provide some clues into the Fed's thinking on peak rates and the 'higher for longer' aspect of their guidance, it may be moot given the CPI data and slew of Fed speakers that followed after the 2 November FOMC.
- This implies that the volatility witnessed in EM Asia FX last week will in all likelihood persist.
- MYR is poised to the regional underperformer for the week, following elections that resulted in a hung Parliament.
- The political uncertainty this week will cast a shadow not only on medium-term growth and reform prospects but also on near-term MYR prospects.
- Spill-overs from weaker growth in China, along with BoK dialling back rate hikes to 25bp from 50bp, will have a bearing on KRW.
- IDR weakness may be reversed marginally following strong external support; but fundamental sticky inflation pressures will persist not least because of a 10% increase in minimum wages for 2023.

Bond Yield (%)

18-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.533	20.1	3.829	1.6	Flattening
GER	2.056	-11.4	2.006	-14.8	Flattening
JPY	-0.036	3.4	0.240	1.1	Flattening
SGD	2.922	-10.6	3.079	-25.5	Flattening
AUD	3.105	3.5	3.608	0.1	Flattening
GBP	3.119	5.4	3.228	-11.9	Flattening

Stock Market

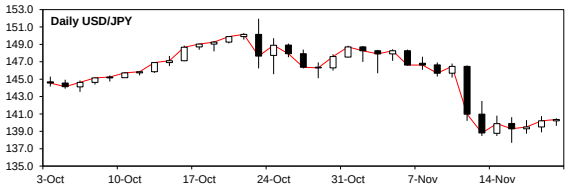
	Close	% Chg
S&P 500 (US)	3,965.34	-0.69
Nikkei (JP)	27,899.77	-1.29
EuroStoxx (EU)	3,924.84	1.46
FTSE STI (SG)	3,272.23	1.36
JKSE (ID)	7,082.18	-0.10
PSEI (PH)	6,437.38	2.40
KLCI (MY)	1,449.32	-1.29
SET (TH)	1,617.38	-1.22
SENSEX (IN)	61,663.48	-0.21
ASX (AU)	7,151.83	-0.09

US Treasuries: Deep Inversion

- With an emphatic 20.1bp surge for 2Y UST yields and 10Y yields edging up a modest 1.6bp, the **inversion of 10-2Y portion** of the yield curve **deepened to a record low -70bps, a level not seen since the 1980s.**
- At this juncture, it would be remiss not to provide another reminder on the likelihood of growth slowdown over the next 6-12 months.
- An update: the Fed's preferred recession indicator (18M-3M spread) continues to hover in and out of the inversion territory last week.
- This week, Fed's minutes while unlikely to be ground breaking, can still act as **renewed support for UST bears**.
- As such, the expectation is for 2Y UST yields to remain buoyant above 4.4% while 10Y yields continue to edge up mildly as worries creep in the backdrop.
- On the side, it is worth nothing that **inflation expectations implied by US 10Y breakevens declined by ~20bp last week** and inevitably hints at rising growth concerns and points to much higher market implied real UST yields.

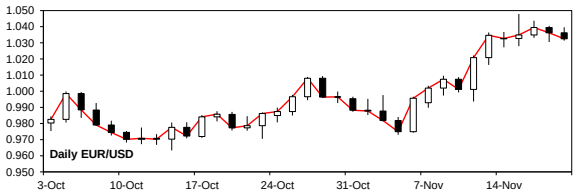
USD/JPY: Elevated Consolidation

- The USD/JPY edged up steadily last week to close above 140.
- The mild JPY depreciation despite the large step up in UST yields speaks to the 7.2% decline in Brent crude prices to below US$87/barrel. That said, with the OPEC+ keen to keep oil price elevated, **further energy relief may not be forthcoming.**
- With US yields remaining elevated, the USD/JPY is likely to continue trading around the upper half of 138-144.



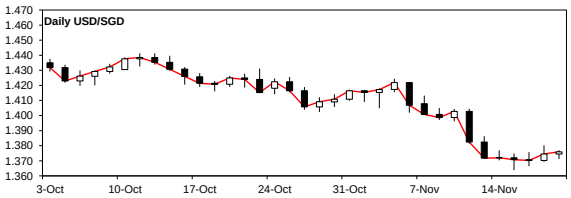
EUR: Some Upside

- EUR/USD trading, while volatile, has been fairly range bound to above 1.03 levels.
- On the positive side, the upcoming winter is looking less severe than expected, implying that the energy price crunch might not hit as badly as previously expected.
- The minutes of the ECB meeting might not be as relevant this week given the FOMC minutes release.
- While EUR trading has deferred largely to USD direction, a continuously hawkish ECB may narrow some of the differentials, even in language, between ECB and the Fed.
- As such, EUR/USD may sustain above 1.03 levels.



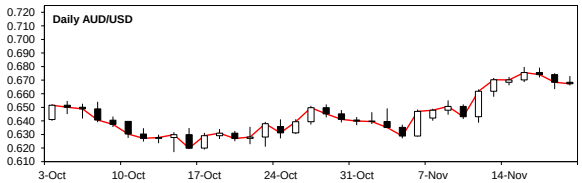
SGD: Giving Way to USD

- While giving way to USD strength remains in vogue, the SGD continues to display outperforming resilience last week.
- Fundamentally, with CNY/CNH complex remaining lacklustre, SGD gains remain limited.
- Meanwhile, last week's positive spillover from MYR gains (onto the SGD) may fade as political uncertainty looms and commodity edge decline.
- All in, SGD strength will be kept in checked with a wider range of 1.365-1.39.



AUD: No RBA Upsize, Little Upside

- With commodity prices slipping, US yields higher and fading of China's "easing" of quarantine rules, the AUD slipped toward mid 0.66.
- Certainly, a resilient labour market will not be moving the RBA's needle to re-instate upsized policy especially and RBA minutes **highlighting for the first time, the option raised the possibility of keeping rates unchanged.**
- All in, AUD challenges above 0.68 to remain weak as consolidation in the 0.65-0.67 range remains likely.



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