MIZUHO

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WEEK AHEAD

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22-Apr-2024

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Economic Calendar

•Survey results from Bloomberg, as of 19 Apr 2024; The lists are not exhaustive and only meant to highlight key data/events

Yellow highlight indicate actual data

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Date	Country	Event	Period	Survey*	Prior
22 Apr	US	**Chicago Fed Nat Activity Index**	Mar	--	5.0%
	EZ	Consumer Confidence	Apr P	-14.3	-14.9
23 Apr	US	**New Home Sales**	Mar	670k	662k
	US	**Richmond Fed Mfg Index**	Apr	-8.0	-11.0
24 Apr	US	**Durable Goods Orders/Nondef Ex Air**	Mar P	2.5%/0.2%	1.3%/0.7%
	GE	**IFO Business Climate/Expectations**	Apr	88.8/88.9	87.8/87.5
25 Apr	US	Initial Jobless Claims		215k	212k
	US	**GDP Annualized QoQ**	1Q A	2.5%	3.4%
	US	Personal Consumption	1Q A	2.8%	3.3%
	US	Wholesale Inventories MoM	Mar P	0.2%	0.5%
	US	**Kansas City Fed Mfg Activity**	Apr	--	-7.0
	JP	Coincident Index/Leading Index CI	Feb F	--	110.9/111.8
26 Apr	US	U. of Mich. Sentiment/Expectations	Apr F	77.9/-	77.9/77.0
	US	U. of Mich. 1Y/5-10Y Inflation	Apr F	--/--	3.1%/3.0%
	US	**PCE Deflator/Core YoY**	Mar	2.6%/2.7%	2.5%/2.8%
	US	Personal Spending/Income	Mar	0.6%/0.5%	0.8%/0.3%
	JP	**BOJ Target Rate (Lower/Upper Bound)**		0.00%/0.10%	0.00%/0.10%

Asia

Date	Country	Event	Period	Survey*	Prior
22 Apr	CH	**1Y/5Y Loan Prime Rate**		3.45%/3.95%	3.45%/3.95%
	ID	Exports/Imports YoY	Mar	-10.7%/-5.0%	-9.5%/15.8%
	TW	Unemployment Rate	Mar	3.4%	3.4%
23 Apr	SG	**CPI/Core YoY**	Mar	3.1%/3.4%	3.4%/3.6%
	KR	PPI YoY	Mar	--	1.5%
	TW	Industrial Production YoY	Mar	7.5%	-1.1%
24 Apr	AU	**CPI YoY**	Mar/1Q	3.4%/3.5%	3.4%/4.1%
	ID	**BI-Rate**		6.00%	6.00%
	PH	Budget Balance PHP	Mar	--	-164.7b
25 Apr	KR	Retail Sales YoY	Mar	--	13.7%
	KR	**GDP YoY/SA QoQ**	1Q A	2.5%/0.6%	2.2%/0.6%
	MY	**CPI YoY**	Mar	2.0%	1.8%
26 Apr	SG	Industrial Production YoY	Mar	-1.0%	3.8%
	AU	PPI YoY	1Q	--	4.1%
27 Apr	CH	Industrial Profits YoY	Mar	--	10.2%

Week-in-brief: Dismissals and Interventions

- Iran was **rather dismissive about Israel's latest attack** last Friday, with Iran's foreign minister labelling the supposed drones as toys. Aligning with Iranian state media, he said that the attack was **limited in scope and severity** and should not be characterized as strike.
- More importantly, Iran communicated that **it has no intentions to strike back.**
- Judging from the reactions of markets last Friday which saw UST10 Y drop more than 10bp on news of Israel's attack with subsequent recovering to close just 1.2bps large, the **fear of a wider conflict is utterly apparent with the subsequent details providing the necessary calibrations.**
- Consider the equities mauling last week, a **calmer tone to start this week ought to pave the stage for a mild risk rebound. In contrast to a mere technical rebound, a recovery will rest on** US exceptionalism prevailing with US GDP print on Thursday.
- Nonetheless, **unilateral dismissal of risks is dangerous** amid Israel's official silence on the attack along with the national security minister hinting that the attacks are weak.
- Structurally, with the US house passage of aid to Israel and Ukraine, we should **not be too dismissive about the underlying about financing trade-offs** which buoys UST yields and apply due caution about assumptions of a continued status quo on the Russia-Ukraine front.
- On the monetary policy front, Chicago **Fed's Goolsbee fell in line with Fed Chair Powell as he warned that three months of inflation data cannot be dismissed.**
- Given the hawkish Fed rhetoric, the **shock from end of week a higher PCE deflator print might have already been dismissed.** Nonetheless, consolidating elevated UST yields remains the base case.
- **The consequent strong USD backdrop** also poses tough questions for central bankers on coping with the resurgent greenback also implies that **the BoJ this friday cannot dismiss imported inflation risks even as inflation edged lower in March even if expectations are for a policy hold with Governor Ueda's signalling for continued accommodative monetary policy last Friday.**
- The implication being that JPY intervention risks remain on the cards.
- In EM-Asia, means to cope with the resurgent dollar **this week may range from keeping a vigilant watch, actual FX intervention to actual policy rate moves. In fact, last week,** the likes of the BSP signalled shift of intervention levels, the SBV and Bank Indonesia conducted FX intervention.
- On Wednesday, **Bank Indonesia may opt to further stabilize the IDR via a 25bps hike to dampen real rate pressures.** With resilient growth providing policy room, a hike could well serve to dampen depreciation pressures with the USD/IDR already exceeding levels above last October when BI went with a surprise hike.
- Down Under, **Australia's March CPI print also on Wednesday may reveal far from satisfactory dis-inflation outcomes.** The RBA ends up in a tight spot with insufficent grounds to move policy in either direction, watching a battered AUD engineering further upside risks ot inflation amid slight worries of a looser labour market.
- While **Korea GDP on Thursday is expected to improve above last quarter's 2.2% YoY print on firmer external recovery**, softer retail sales imply that **domestic risks cannot be dismissed**. Having already intervened in FX markets last week on KRW volatility, the growth print is likely **to back the BoK to persist with keeping restrictive rates for longer.**
- **All in, FX intervention operations and military operations are often far from a one and done and as such geo-political and FX risks should not be too easily dismissed.**

BoJ Tightening: Eventually, Not Imminently

- The BoJ will eventually move from mild calibrations to more discernible tightening, albeit in a very gradual and guarded manner. And Governor Ueda's stress is on policy shifts that are gradual and guarded rather than ground-breaking. Point being, whilst the durability of a virtuous wage-price is being assessed in the context of a fragile recovery, the BoJ cannot afford haste.

Bond Buying:

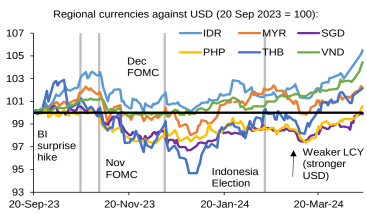
- Specifically, the BoJ is stressing on "eventually, not imminently" with **reference to expectations for, and a time line of, a reduction in bond buying** (QT). In fact, Governor Ueda expressly warned that **prematurely dismantling bond buying** altogether, to go "cold turkey" was "dangerous".
- This provides appropriate context to the "abandonment" of YCC at the last meeting. Which is that it was merely a consolidation, not capitulation, from bond buying.
- The BoJ merely consolidated bond market intervention to a quantity based mechanism (QQE) from a price-based mechanism (YCC).
- And with global bond market volatility still elevated, the BoJ may be expected to exercise necessary, hands-on guidance to avert destabilising disruptions in the bond market.

Rate Tightening:

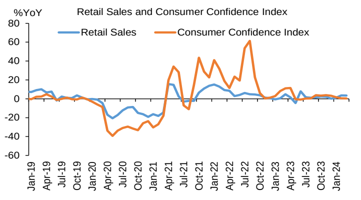
- Even with rate tightening, the BoJ has signalled a patient pick-up in the policy rate.
- Whilst wage gains have been encouragingly brisk, they are not compellingly in a virtuous wage-price dynamic. Certainly not worryingly overheating.
- Fact is, **real wage gains are still subdued, and by some measures, subpar**. Crucially, extreme JPY weakness has made it more palatable for exporters to raise wages from improved profitability from favourable exchange rate movements.
- And with the impending pivot (to rate cuts) by global central banks, another leg of FX advantage boosting profits is uncertain, if not unlikely. So projecting current pace of wage gains to be sustained is overly optimistic, if not outright flawed.
- As such, the **next hike will probably be well into H2, likely October, is sticky inflation and solid wage gains are sustained. And in the context of a relatively stable JPY**.
- If JPY spikes on global rate cuts, the BoJ may choose, correctly, to hold its horses on further tightening; lest excessive upside JPY volatility is inadvertently triggered by the BoJ swimming against the global policy tide. Supplanting one (excessively bearish) JPY risk for another (excessively bullish) is neither desired nor desirable from a more holistic policy standpoint.

So at this meeting, the **BoJ will not only stand pat, but perhaps also take pains to communicate why patient assessment of conditions are warranted before tightening further.**

Bank Indonesia: Tough Call



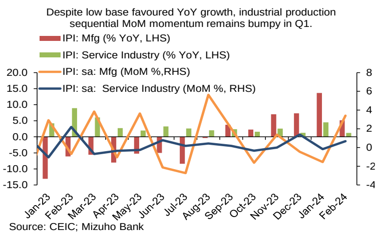
Source: Bloomberg; Mizuho Bank



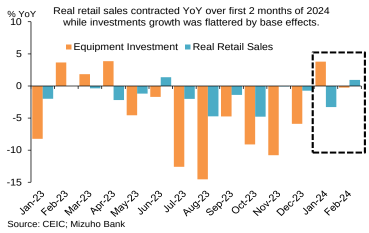
Source: CEIC; Mizuho Bank

- **The upcoming Bank Indonesia meeting is a tough call to make.** Rupiah stability is undoubtedly at the top of BI's mind, with BI stepping in to intervene twice since the start of the month.
- Given current USD strength, **we lean towads a hike albeit slightly, attributing a 60% probability to a hike and 40% to an uncomfortable hold.** Point being, even as BI has shown some reluctance to use policy rate as a tool to anchor currency stability, preferring instead to use FX instruments (e.g. FX-based rupiah securities) to stem IDR outflows, excessive rupiah weakness might force BI's hand.
- Afterall, **BI's surprise hike in October 2023 was on the back of USD strength from a hawkish shift in the Sep'23 Dot Plot. Considering recent Fed rhetoric, Dot Plot shifts are very concievably on the table.**
- A BI hike could alleviate some of the diminished real-rate advantage faced by IDR, which is set to be prolonged with a) a bumpy US dis-inflation trajectory that sees a Fed that holds for longer, and b) inflation in Indonesia potentially heading higher further (albeit still within BI's target range) on surging food prices which could last till at least the Apr on skyrocketing rice prices on poor harvests.
- Meanwhile, fiscal woes cast an overhang amid concerns on Prabowo's spending plans, even as Finance Minister Indrawati reassured in early April that the government remains committed to keep the fiscal defict within 3% GDP, even after "accommodat[ing] the priority programs of the incoming administration". Any IDR rallies have been subdued going into elections and post-results.
- The silver lining is perhaps that **growth domestically would likely be supported despite the hike** amid ongoing festivities. Forecasts on the Eid al-Fitr 2024 have been very encouraging, with the Transportation Ministry expecting the largest movement of people in Indonesia's history during the celebrations. Furthermore, retail sales still remain supported (3.4% YoY growth in March) and consumer sentiment ticked up in March.
- **That said, should trade data (due 22 Apr) it see a further narrowing in trade surplus, and some pullback in USD strength, the odds could shift back towards a hold**.

Korea Q1 GDP: Pick Up



Source: CEIC; Mizuho Bank



Source: CEIC; Mizuho Bank

- We expect Q1 GDP growth in Korea is likely to **accelerate from Q4 2023's 2.2% YoY to hit around 2.7%** as low base effects lend a helping hand. QoQ sequential momentum is also likely to see an uptick in pace on a seasonally adjusted basis.
- This is in part an **acknowledgement of a firmer external demand recovery** with nominal exports recording a respectable 8.3% YoY growth which helped record US$9bn of trade surplus as the semiconductor sector recovers.
- Nonetheless, the surplus was in part due to import compression as energy demand fell.
- The domestic situation remains less rosy with real retail sales down 1.2% YoY over Jan-Feb with **inflationary effects likely to have taken a toll on household spending.**
- On a broader basis, the services index still chalked a robust 2.8% YoY growth driven by the likes of the financial and insurance services, information and communication services and real estate activities.
- In all likelihood, this print is likely to also delay expectations for a BoK rate cut especially as the labour market remains very tight with the unemployment rate at just 2.8%.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	154.64	1.410	0.92%	153.00	~	155.00
EUR/USD	1.0656	0.0013	0.12%	1.055	~	1.077
USD/SGD	1.361	0.000	-0.03%	1.3510	~	1.3660
USD/THB	36.86	0.255	0.70%	36.20	~	37.10
USD/MYR	4.7832	0.0127	0.27%	4.740	~	4.810
USD/IDR	16255	410	2.59%	15,890	~	16,300
JPY/SGD	0.8805	-0.008	-0.86%	0.874	~	0.899
AUD/USD	0.6418	-0.005	-0.76%	0.637	~	0.652
USD/INR	83.47	0.055	0.07%	83.0	~	83.7
USD/PHP	57.632	1.092	1.93%	56.9	~	58.0

^Weekly change.

FX Outlook: Limits?

USD:

- The Greenback's recent surge may set the stage for markets to ponder if ***the USD will continue to test higher or swing towards thoughts of a peaking USD.***

- Despite the more Fed related PCE deflator releasing this week, **US exceptionalism may end up being the swing factor** while geo-political underpins the haven USD with **Israeli escalation in Gaza** merely a reminder of the fraught backdrop. Even if a peaking USD is in sight, a hasty retreat may not appear in the horizon without a nasty growth shock.

EUR:

- The EUR's allure remains dampened by an ***increasing firmness for a June cut*** despite cautioning on excessive cuts this year. ECB's Wunsch espoused that decision will get harder **after two cuts**.

- Justaposing against a Fed in no urgency to cut, EUR bulls will be weighed down by the near term propsects of a wider spread.

CNH:

- The **limited policy room of the PBoC** will again land the CNH in an unenviable position, with little boost to export competitiveness from more accomodative policy and emphasizing domestic woes. A default hold merely stresses the necessity of a stable CNH with little room for positive spillover for AxJ.

EM-Asia FX:

- PHP: With the previous intervention levels of 57 characterised as weak support by the BSP and now duly surpassed, temptation is for PHP bears to challenge higher especially as oil price remain buoyant.

- IDR: While a hike is not a strong catalyst for IDR rallies against the USD, it **may assist to slow depreciation pressures and refrain from ending up at the bottom of regional peers.**

- VND: Intervention effectiveness will be watched for as real estate and banking risks hog headlines.

Bond Yield (%)

19-Apr	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.986	8.9	4.621	9.9	Steepening
GER	2.994	14.7	2.498	14.1	Flattening
JPY	0.252	-0.9	0.840	-0.3	Steepening
SGD	3.411	0.4	3.333	2.8	Steepening
AUD	3.872	-2.1	4.252	0.1	Steepening
GBP	4.364	3.6	4.228	9.3	Steepening

Stock Market

	Close	% Chg
S&P 500 (US)	4,967.23	-3.05
Nikkei (JP)	37,068.35	-6.21
EuroStoxx (EU)	4,918.09	-0.75
FTSE STI (SG)	3,176.51	-1.26
JKSE (ID)	7,087.32	-2.74
PSEI (PH)	6,443.00	-3.25
KLCI (MY)	1,547.57	-0.22
SET (TH)	1,332.08	-4.60
SENSEX (IN)	73,088.33	-1.56
ASX (AU)	7,567.28	-2.84

US Treasuries: Peaks and Horizons

- UST yields surged on hawkish Fed speak led by Chair Powell who push back the timeline for rate cut while various officals pared back their expected rate cuts to even no cuts in 2024.

- **Markets ought to brace for a volatile week depsite the calmer geo-political backdrop.**

- Point being, US GDP may reveal if UST yields have peaked or is this another brief stop before **mounting a futher climb towards the 5.20% mark for 2Y yields.**

- Inevitable, at these heights, UST 2Y yields will cross the 5% mark, though the base case remains for a consolidation **remains our plausible base case as a longer term horizon implies worries is hard to dismiss.**

- On balance, 2Y yields to trade in the 4.90-5.15% range while 10Y yields hover in the 4.50-4.75% range.

JPY: Accomodating the BoJ

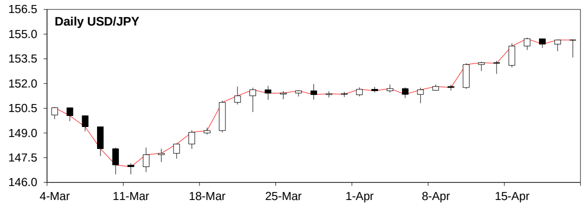
- Resurgent UST yields saw the USDJPY close above mid-154 last week.

- The 155 mark appears to be a key intervention worry for JPY bears.

- Nonetheless, with the BoJ looking set to stand pat and stay patient this week, the JPY may have to accomodate the BoJ and allow for testing of 155.

- That said, any sharp surge (in contrast to slower crawl) to cross the 155 mark and beyond will be met sharp rebuke from Japan MoF.

- The backdrop of elevated UST yields and oil prices continue to weigh on JPY bulls in turn consolidating buoyancy above 153 for the USDJPY.

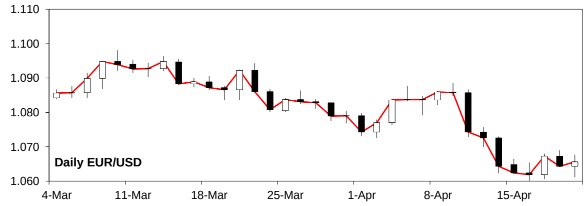


EUR: Timing Woes

- Even as ECB speakers cautioned against excessive rate cuts in 2024, the increasing likelihood of a June cut cements near term woes for EUR bulls.

- The wider EZ-UST spreads will weigh even if cuts are subsequently paused, in turn, traction above 1.08 remains absent this week.

- Any geo-political relief and softer oil prices serves to aid 1.06 consolidation rather than a cause for rallies. All in, the EUR is expected to attempt durability around 1.06-mid-1.07.

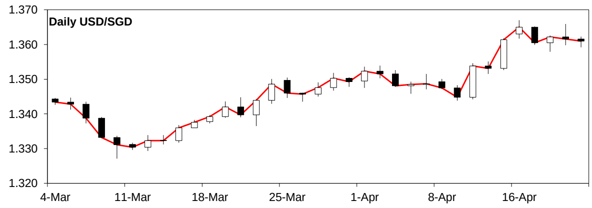


SGD: Restrained and Volatile

- USD/SGD broadly traded above 1.36 for most of the week.

- This week, **geo-political tensions are likely to continue taking the centre stage,** with USD/SGD upside volatility should tensions in Middle East rise. Meanwhile, cautious rhetoric from the Fed on a long-drawn dis-inflation process would restrain SGD rallies. In particular, USD/SGD upside volatility could be evidenced should second-tier US data releases this week demonstrate strong activity and give support to a possibility of an overheated economy.

- Combined with a weaker CNH and weak EUR rallies (on ECB still focussed on a June cut), we expect any dips below mid-1.35 to be shallow.

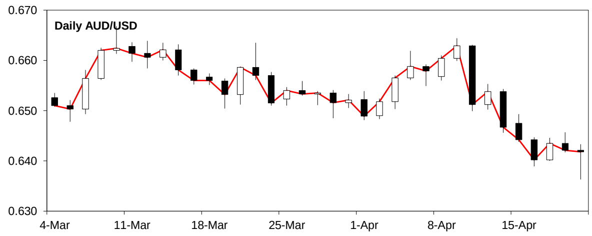


AUD: Sticky and Weak

- Having slipped below 65 cents, **AUD may look to stick in the 64-65 cents region** as this week's CPI print which is likely to be sticky and far from sufficient dis-inflation for the RBA.

- Perversely, any downside surprise for the CPI down under may sink the AUD further putting the RBA in the course for cuts. Though the AUD weakness will come into the policy calculus through imported inflation to slow slippage below 64 cents.

- Similarly, China economic data was unable to provide much for AUD bulls last week, though commodity run up could help backstop 64 cents.



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