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MIZUHO

WEEK AHEAD

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25-Oct-2022

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Economic Calendar

•Survey results from Bloomberg, as of 21 Oct 2022; The lists are not exhaustive and only meant to highlight key data/events.

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Date	Country	Event	Period	Survey*	Prior
24 Oct	**US**	**Chicago Fed Nat Activity Index**	**Sep**	**0.1**	**0.0**
	EZ	Mfg/Services PMI	Oct P	46.6/48.2	48.4/48.8
	JP	Mfg/Services PMI	Oct P	50.7/51.7	50.8/52.2
25 Oct	US	Conf. Board Consumer Confidence	Oct	105.5	108.0
	US	**Richmond Fed Manufact. Index**	**Oct**	**-5.0**	**0.0**
	JP	Machine Tool Orders YoY	Sep F	--	4.3%
	GE	IFO Current Assessment	Oct	92.4	94.5
26 Oct	**US**	**New Home Sales**	**Sep**	**580k**	**685k**
	JP	Coincident Index/Leading Index CI	Aug F	--	101.7/100.9
	JP	**PPI Services YoY**	**Sep**	**2.1%**	**1.9%**
27 Oct	US	Initial Jobless Claims		220k	214k
	US	Kansas City Fed Manf. Activity	Oct	-2.0	1.0
	US	Core PCE QoQ	3Q A	4.5%	4.7%
	US	Durable Goods/Non-def Ex Air Orders	Sep P	0.6%/-0.2%	-0.2%/1.4%
	US	**GDP Annualized QoQ**	**3Q A**	**2.3%**	**-0.6%**
	EZ	**ECB Main Refinancing Rate**		**2.00%**	**1.25%**
28 Oct	US	U. of Mich. Sentiment/Expectations	Oct F	59.6/--	59.8/56.2
	US	**PCE Deflator/Core YoY**	**Sep**	**6.3%/5.2%**	**6.2%/4.9%**
	US	**U. of Mich. 1 Yr/5-10Yr Inflation**	**Oct F**	**5.1%/2.9%**	**5.1%/2.9%**
	EZ	Consumer Confidence	Oct F	--	-27.6
	JP	Job-To-Applicant Ratio/Jobless Rate	Sep	1.33/2.5%	1.32/2.5%
	JP	**BOJ Policy Rate/10-Yr Yield Target**	**28-Oct**	**-0.10%/0.00%**	**-0.10%/0.00%**

Asia

*Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
24-Oct	CH	Trade Balance	Sep	$84.74b	$79.35b
	CH	**GDP YoY**	**3Q**	**3.9%**	**0.4%**
	CH	**Fixed Assets Ex Rural YTD YoY**	**Sep**	**5.9%**	**5.8%**
	CH	**Retail Sales YoY**	**Sep**	**2.5%**	**5.4%**
	CH	**Industrial Production YoY**	**Sep**	**6.3%**	**4.2%**
25-31 Oct	CH	FDI YTD YoY CNY	Sep	--	16.4%
25 Oct	**SG**	**CPI/Core YoY**	**Sep**	**7.4%/5.2%**	**7.5%/5.1%**
	AU	**Australia-Budget**			
	KR	**Consumer Confidence**	Oct	**--**	**91.4**
	KR	Retail Sales YoY	Sep	--	15.4%
	TH	**Customs Trade Balance**	Sep	**-$2860m**	**-$4215m**
26 Oct	**SG**	**Industrial Production YoY**	Sep	**2.1%**	**0.5%**
	AU	**CPI/Trimmed Mean YoY**	3Q	**7.0%/5.5%**	**6.1%/4.9%**
27 Oct	**CH**	**Industrial Profits YoY**	Sep	**--**	**--**
	SG	**Unemployment rate SA**	Sep	**--**	**2.1%**
	KR	**GDP YoY**	**3Q A**	**2.9%**	**2.9%**
28 Oct	**AU**	**PPI YoY**	3Q	**--**	**5.6%**
29 Oct	**VN**	**Trade Balance**	Oct	**$2300m**	**$1140m**
	VN	**Retail Sales YoY**	Oct	**--**	**36.1%**
	VN	**Industrial Production YoY**	Oct	**--**	**13.0%**
	VN	**CPI YoY**	Oct	**4.4%**	**3.9%**

Week-in-brief: Conflicts

- The one **theme that resonates**, on several dimensions across the US, China and, **is that of conflict**. Not comforting in totality. But not all resulting in devastation either.
- For one, the **conflict between** *uncomfortably elevated US inflation* and *gathering headwinds* **distilled down as** markets warming to the idea of **Fed hikes step down** (from 75bp to 50bp) for December FOMC. In turn, this has **triggered equity market rally** since Friday.
- **Our suspicion is that Fed pivot relief** is **overdone**, if not **premature**. Nevertheless, it may be sufficient to buoy equities, check front-end yield upside and temper USD; although not ubiquitously.
- In fact **not helping bearish CNH waves** as the **conflict** *between Beijing's security and economic (growth) objectives* have been rendered **starker** following the weekend's NPC session.
- In particular, a clean sweep of the Politburo Standing Committee by Xi loyalists, and a conspicuous absence of technocrats likely to be more focused on firing up the economy, suggests that **economic revival policies may be subordinated to political agenda and geo-political brinksmanship**.
- Especially amid *risks that echo chamber policy-making will supplant in-built mechanisms of checks;* with the absence of policy tweaks on Zero COVID and property underpinning reservations.
- In that light, *despite China's consensus-beating 3.9% YoY Q3 GDP* print, there is **nothing in it that resolves the conflict between boosting growth and the confidence/growth multiplier deficit** inflicted by far-reaching impact from brutal property/developer crackdown.
- And **CNY ripples** are likely to **intensify policy conflicts for EM Asia central banks**; and in more ways than one. For a start, **just after widening VND trading bands to +/-5% (from +/-3%) to effectively allow for passive VND catch-down** with AXJ weakness elsewhere, **the SBV delivered a second 100bp hike** yesterday in a move "*to help restrain inflation*".
- VND flexibility (and other AXJ) is a finely-balanced conflict; between stability and stress relief.
- And **MoF JPY intervention last week papers over JPY-YCC conflict** so that the BoJ (Fri) may maintain dovish support. Elsewhere, the **ECB's (Thu) 75bp hike accentuates the conflict between recession and inflation risks**. And the **RBA will find itself confronted by a similar conflict**, arguably **amplified by housing market risks, as higher Q3 CPI**, **challenges policy pivot.**

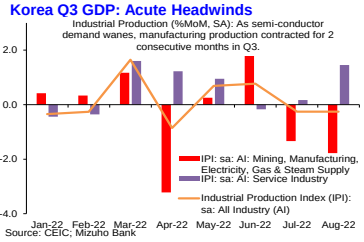
ECB: Of Foregone Conclusions & Liquidity Considerations

- It is a foregone conclusion that the **ECB will hike its policy rate by 75bp** at its 27 October meeting;
- **Not just to contain double digit inflation but also to build on its intent to stamp out sticky inflation expectations, which will eventually start feeding into wage pressures.**
- It seems that there is unison within the Governing Council regarding the need for strong monetary policy action given the worsening inflation trajectory.
- **However, whether a 75bp hike will be sufficient remains an open question.** The heterogeneity within European economies compromises the ability to stomach larger magnitude rate hikes.
- Notwithstanding, **ECB still has to consider unwinding its enlarged balance-sheet of USD5trn of assets**, purchased during the recent crises. While the actual unwinding maybe deferred to 2023, nascent talks may weigh disproportionately on Italian, Greek and Spanish bonds, for example.
- **Following an increase in bank profits, the issue of ECB's enlarged balance-sheet and the timeline for winding down QE have gained prominence.**
- Specifically for the 27 October meeting, we expect some discuss around liquidity normalisation.
- Further, **any inclination by market participants that the ECB is willing to bump up the magnitude of rate hikes to 100bp from 75bp will be a positive push for EUR/USD.**
- This is more of an outside chance given some members of the Governing Council may be so inclined to stick to a 'gradual approach' when it comes to rate hikes.

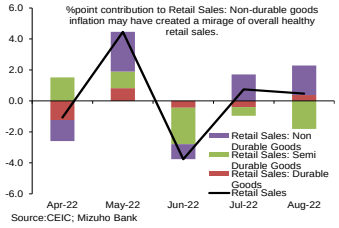
BoJ: Of Interventions, Independence & Impasse

- The upshot is that **the MoF's second "big bang" intervention** on Friday **to (temporarily) stem acute JPY weakness provides the BoJ with necessary space for dovish independence**.
- And so, on that note, the **BoJ may be expected to maintain a dovish hold**.
- Specifically, with the *policy rate at -0.10%* and *YCC maintained at "around 0%" 10Y yield target*; although for all practical purposes, 10Y JGB yield is likely to press up against the 0.25% upper limit.
- **But this is temporary relief, not a resolution to the inherent conflict between YCC- JPY risks**.
- So, **while** this BoJ meeting may be **in the clear to flex central bank independence**, maintaining a dovish stance, **the BoJ may invariably be fraught with policy dilemma and tensions** that is bound to arise from sharp and sustained JPY weakness amid YCC-induced (UST-JGB) yield divergence.
- Not only does this **accentuate the pain of imported cost shocks**, but also gives rise to **potentially destabilizing financial market** risks; as FX volatility leads to asset market dislocations.
- With the current 0.25% 10Y JGB upper limit defined by YCC (in its current form), what is undeniable is that the **near 300bp surge in UST yields since late last year** to 4.2+% **creates immense pressures on the JPY**; **which may intensify until a Fed pivot becomes clearer**.
- All said, this means that **policy inertia** (in terms of maintaining stimulus, *led by YCC*) **is in acute conflict with increasing JPY weakness**. That means **that at some point, the YCC-JPY impasse will inevitably come home to roost**. And at that point, either the BoJ will need to tweak YCC or the Fed must begin to relent/pivot to take the pressure off JPY (upside in USD/JPY). For now, *between FX intervention, dovish independence and YCC-JPY impasse, buying time is a critical feature.*

Korea Q3 GDP: Acute Headwinds



Source: CEIC; Mizuho Bank



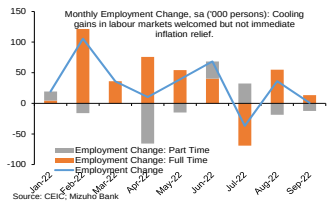
Source:CEIC; Mizuho Bank

- **Korea's economic growth is set to slow**. Accordingly, we retain our downside bias for Q3 GDP (consensus: ; Mizuho: 2.9%) as **both manufacturing and services face acute headwinds**.
- Waning semiconductor demand has led to **consecutive contraction of manufacturing industrial production** in July and August.
- On a broader note, with 6 consecutive months of trade deficits (Apr-Sep) and the latest (Aug) current account balance landing in deficit, the **external growth engine has certainly faltered** with the industrial complex being hard hit by rising input costs.
- Meanwhile, mild increases in services activity face likely reflect higher prices while underlying demand stagnates. Similarly reflecting so, nominal retail sales expansion in July and August have been driven by **non-durable goods such as food and pharmaceuticals which experienced prices increases** within the CPI basket.
- All in, the **risk of a mild GDP contraction is certainly not negligible**. That said, it is important to recognize that current economic activity levels and labour market conditions remain healthy.

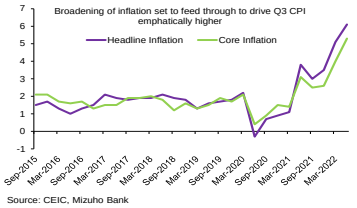
Australia's Monthly CPI: Carried Over not Carried Away

- While Australia's quarterly CPI release is of critical importance, their first release of monthly CPI data on 26 Oct will provide **more timely updates** which better aligns with the RBA's policy meeting schedule but one should **not get carried away**.
- First, although items in the CPI basket are the same in both monthly and quarterly series, the monthly **series will only update prices for 62-73% of the basket**.
- The **remainder of the prices which are not updated, will be carried forward from their previous collection and assumed to have no change**.
- As an example, food and petrol prices which are more volatile are collected and update monthly compared to prices of restaurant meals which will be updated on a quarterly basis.
- Notably, housing rents and new dwelling purchase prices (weighing more than 11% of the basket) will be available on a monthly basis.
- All in, markets will take when they can in this situation where **some updates are better than none**.

Australia Q3 CPI: Soaring Higher



Source: CEIC, Mizuho Bank



Source: CEIC, Mizuho Bank

- Australia's Q3 CPI will be expected **surge emphatically higher from Q2's 6.1% YoY**.
- To be clear, this projection is no slight on the RBA's policy rate hikes of 250bp thus far.
- Given the continued broadening of inflation within the CPI basket, the inflation surge is representative of **continued cost pass through from higher input cost of businesses to end consumer prices as margin buffers buckle.**
- In Q2, more than 80% of the categories in the CPI basket had inflation rates above their pre-Covid (2017-19) average. Amid this pervasive inflationary pressures, the RBA would have anticipated the continued inflation surge in Q3 and Q4 of 2022.
- As such, the **bar for a CPI surge to re-ignite the RBA towards a 50bps hike is a very high one**.
- This is especially so in consideration of **that labour market conditions showing initial signs of cooling and housing prices which continue to fall across the country**.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	147.65	-1.020	-0.69%	145.00	~	151.00
EUR/USD	0.9862	0.0140	1.44%	0.960	~	1.005
USD/SGD	1.4152	-0.011	-0.76%	1.4100	~	1.4400
USD/THB	38.024	-0.310	-0.81%	37.80	~	38.60
USD/MYR	4.7387	0.034	0.73%	4.710	~	4.750
USD/IDR	15632	205	1.33%	15,350	~	15,700
JPY/SGD	0.9589	0.000	0.02%	0.934	~	0.993
AUD/USD	0.6379	0.018	2.90%	0.618	~	0.650
USD/INR	82.69	0.325	0.39%	82.0	~	83.0
USD/PHP	58.758	-0.185	-0.31%	58.7	~	59.3

^Weekly change.

FX Outlook: Risk On Restraint?

- **USD Bulls appear to be restrained**, partly set back, **by the bout of "risk on"**, which has been *incited by speculation* that the Nov FOMC will discuss a *dial-back of Fed tightening pace* (from 75bp to 50bp in December). Right on cue, USD Index has buckled below 112 from testing 114 just before.
- Against this backdrop, it **might be tempting to run with a short USD bets**.
- **But the warning** is that **adopting such an unmitigated bearish USD position on overdone pivot bets** is a reckless proposition; especially to adopt across the board.
- For one, "pivot bets" and consequent "risk on" that has driven bearish USD reflex may reverse on disappointment. Especially when considering that a **gradual dial back after a raft of 75bp hikes** (in Jun, Jul, Sep & presumably Nov) is **arguably a moderation of, not a pivot away from, on-going tightening**. In other words, restraint is not synonymous with "risk on".
- Point being, USD downside may be quickly checked, if not partly reversed, if the propensity to further tighten and maintain elevated rates comes through at the Nov FOMC.
- What's more, **fresh CNY weakness** on **concerns about little relief from economic headwinds**, and *certainly an absence of a distinctive boost/turnaround,* will probably have a propensity to rub off on to other EM Asia FX. More so if asset market drag spills over.
- And so, for all intents and purposes, the **apparent "risk on" born out of bets on pipeline Fed restraint is not without potential for conflict in terms of FX market impact**.
- Specifically, **unbridled short USD bets are likely to be challenged**. Perhaps even outright defied in the EM Asia FX space, where less than transparent China risks are unpacked and digested.
- Meanwhile, JPY gains against the USD after sharp intervention by the MoF on Friday relieves, but does not reverse, underlying pressures. And a dovish BoJ could reinstate USD/JPY buoyancy insofar that Fed dial-back retains policy/yield divergence.

Bond Yield (%)

22-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.472	-2.4	4.217	19.9	Steepening
GER	2.017	8.3	2.408	6.8	Flattening
JPY	-0.014	5.1	0.246	0.7	Flattening
SGD	3.173	-7.8	3.593	12.7	Steepening
AUD	3.635	26.0	4.193	0.1	Flattening
GBP	3.554	-26.9	4.038	-27.6	Flattening

Stock Market

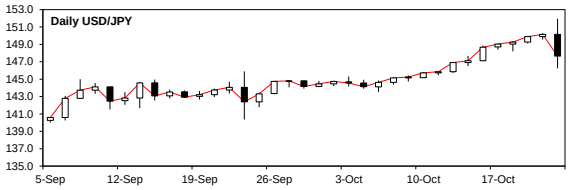
	Close	% Chg
S&P 500 (US)	3,752.75	4.74
Nikkei (JP)	26,890.58	-0.74
EuroStoxx (EU)	3,476.63	2.81
FTSE STI (SG)	2,969.95	-2.29
JKSE (ID)	7,017.77	2.98
PSEI (PH)	5,983.56	1.33
KLCI (MY)	1,446.42	4.63
SET (TH)	1,591.32	1.96
SENSEX (IN)	59,307.15	2.39
ASX (AU)	6,676.76	-1.21

US Treasuries: Light Weight Growth?

- **UST yields continue their buoyancy** as the tresuries sell-off overwhelmed haven demand from worsening risk sentiments especially on the longer end.
- Philadelphia Fed president Harker reiterated that rates should be **well above** 4% by ed-2022 while framing the need to keep interest rates restrictive because **inflation shoot up like a rocket and then come down like a feather.**
- Based on OIS markets, the Fed funds rate is nearly pricing in **another 75bp in Dec**, in addition to foregone conclusion of 75bp in November.
- With Q3 GDP release this week, the focus turns to the **fragility of the economy** entering into 2023 which faces **higher for longer rates.**
- As an update, the Fed's preferred **recession indicator**, near term forward spread (18M-3M), has declined below 0.5% from early October highs of 1.1%.
- This week, wider global pessimism from China growth concerns and worsening US PMIs, may prevent 2Y and 10Y yields from testing 4.6% and 4.4% respectively, though buoyancy will be retained.

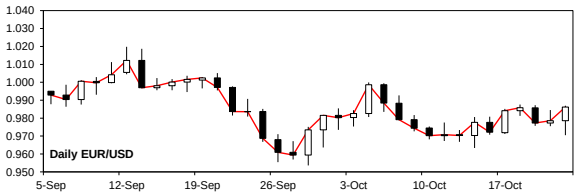
USD/JPY: Giving Way

- While the JPY appreciated against the USD with an end of the week surge, it will not be forgotten that the USD/JPY almost tested 152.
- The surge is certainly a reminder provided by the Mof that **FX intervention prospects will be laden in the path ahead and a reminder that circumstances of straight up slippages is far from a given.**
- With CNY/CNH weakening amid the growing and firming worries surrounding China growth and simmering US-China tensions, JPY recovery prospects remain dim.
- The **BoJ remaining entrenched in their dovish hold also means that the JPY will have more to give, barring YCC giving room**.



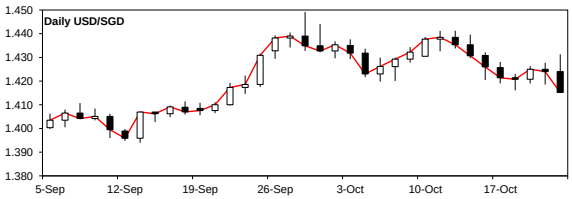
EUR: Looking to ECB

- A 75bp hike by ECB is a foregone conclusion, but preliminary discussions around winding down QE may be more pertinent to markets as European banks rake up higher profits.
- A clearly hawkish bias by ECB with an intent to continue to tackle inflationary pressures may be EUR positive but this could well be offset by dicussions around liquidity.
- As EUR/USD edged toward 0.99 on account of the positive spillover from the appointment of Rishi Sunak as UK PMI, may carry forward into the ECB.
- For this week, we expect a range of 0.98-.995 as par for the course.



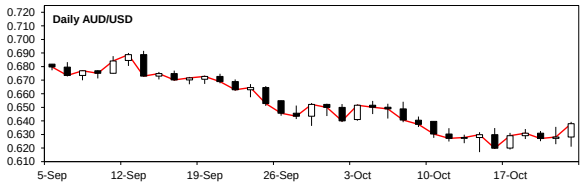
SGD: Technical, Not Tectonic

- SGD strength with **USD/SGD dips below 1.42 remain technical** - based on higher S$NEER policy bands and broad-based USD capitulation off rallies.
- But there is however **nothing tectonic in terms of USD/SGD shifts**.
- Especially **as fresh bouts of CNY weakness** and transitory aspects of JPY strength (from intervention) get **baked into the assessment of durability of SGD gains**.
- And the upshot is that there are no compelling triggers for near-term levels shifts in SGD strength vis-a-vis the USD. That may have to wait for dovish surprises in Nov FOMC.
- For now USD/SGD dips below 1.42 could remain restrained, and sub-1.41 even more so; unless huges and sustained CNY, EUR and MYR rallies come through.



AUD: Two-Way Consolidation Amid Volatility

- Admittedly, **a higher CPI print in the works suggests that the AUD could pick up** somewhat amid re-assessment of an RBA that will not stop short on hikes despite dialling back from 50bnp moves to 25bp hike at the last meeting.
- But insofar that this is not unchallenged, given lingering housing market risks, tat the RBA may be increasingly sensitive to.
- So, despite the "risk on" rallies derived from assuaged Fed (and attendant recession) fears, which are likely to buoy the AUD, sustained gains are likely to give way to two-way consolidation. In which case, we expect that AUD upside could stall at 0.64 breach; and likely before the 0.65 handle.
- Budget and Q3 CPI are however likely to be swing factors for the week.



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