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MIZUHO

WEEK AHEAD

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28-Nov-2022

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Economic Calendar

•Survey results from Bloomberg, as of 25 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
28 Nov	**US**	**Dallas Fed Manf. Activity**	**Nov**	**-22.0**	**-19.4**
29 Nov	US	Conf. Board Consumer Confidence	Nov	100.0	102.5
	EZ	Consumer Confidence	Nov F	--	-23.9
	JP	Retail Sales YoY	Oct	5.0%	4.8%
	JP	Jobless Rate/Job to Applicant Ratio	Oct	2.5%/1.35	2.6%/1.34
30 Nov	US	JOLTS Job Openings	Oct	10350k	10717k
	US	**MNI Chicago PMI**	**Nov**	**47**	**45.2**
	US	**GDP Annualized QoQ**	**3Q S**	**2.8%**	**2.6%**
	US	Wholesale Inventories MoM	Oct P	0.5%	0.6%
	EZ	**CPI/Core YoY**	**Nov**	**10.4%/5.0%**	**10.7%/5.0%**
	JP	Industrial Production YoY	Oct P	5.2%	9.6%
1 Dec	**US**	**Initial Jobless Claims**		**231k**	**240k**
	US	ISM Manufacturing/New Orders	Nov	49.8/--	50.2/49.2
	US	**PCE/Core Deflator YoY**	**Oct**	**6.0%/5.0%**	**6.2%**
	EZ	Mfg PMI	Nov F	47.3	47.3
	EZ	**Unemployment Rate**	**Oct**	**6.6%**	**6.6%**
	JP	Capital Spending YoY	3Q	6.3%	4.6%
2 Dec	**US**	**Change in Nonfarm Payrolls**	**Nov**	**200k**	**261k**
	US	**Unemployment Rate**	**Nov**	**3.7%**	**3.7%**
	EZ	PPI YoY	Oct	31.8%	41.9%

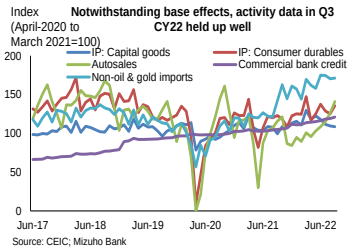
Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
28-30 Nov	VN	Trade Balance	Nov	$1100m	$2270m
	VN	Industrial Production YoY	Nov	--	--
	VN	Retail Sales YoY	Nov	--	--
	VN	**CPI YoY**	**Nov**	**4.3%**	**4.3%**
28 Nov	**AU**	**Retail Sales MoM**	**Oct**	**0.5%**	**0.6%**
30 Nov	CH	Mfg/Non-mfg PMI	Nov	49.0/47.7	49.2/48.7
	AU	CPI YoY	Oct	7.6%	7.3%
	AU	Building Approvals MoM	Oct	-2.0%	-5.8%
	IN	**GDP YoY**	**3Q**	**6.2%**	**13.5%**
	KR	**Industrial Production YoY**	**Oct**	**0.1%**	**0.8%**
	TH	**BoP Current Account/Trade Balance**	**Oct**	**$550/--**	**$623m/$1851m**
	TH	**BoT Benchmark Interest Rate**		**1.25%**	**1.00%**
1 Dec	CH	Caixin PMI Mfg	Nov	49.0	49.2
	AU	Private Capital Expenditure	3Q	1.5%	-0.3%
	KR	Trade Balance	Nov	-$4556m	-$6698m
	KR	**GDP YoY**	**3Q P**	**3.1%**	**3.1%**
	ID	**CPI/Core YoY**	**Nov**	**5.5%/3.4%**	**5.7%/3.3%**
2 Dec	SG	Purchasing Managers/Elect. Sector Index	Nov	--/--	49.7/49.1
	KR	**CPI YoY**	**Nov**	**5.2%**	**5.7%**

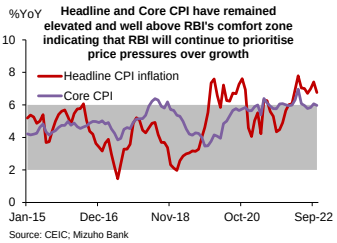
Week-in-brief: Making the Cut (or Not)

- The **unavoidable questi**on *for* anyone looking at the *markets,* which appear to be *eager to seize on any "risk on" cues,* is **whether** the **positive cues** - from outright China stimulus to hopes of a Fed "pivot" - **can make the cut to override lingering downside risks**.
- And the answer is far from clear, particularly as distortions from relief rallies from beaten down expectations may exaggerate the extent of bona fide optimism.
- *Admittedly,* **China's stimulus**, including Friday's 25bp RRR cut, **have elements that may spark tectonic shifts in economic policy**; especially if the execution of the 16-point property market revival plan gains traction alongside a durable and broad-based recovery is confidence.
- But **clarity on the ability of Beijing to make good on the confidence deficit merely on policy reversals is obfuscated**; and highly contingent. Not the least because relaxations from earlier restrictions are still being assessed for durability. Meanwhile, **uncertainty is not exorcised**.
- The case in point being **COVID flip-flops** on the targeted application of Zero COVID policy inadvertently **leading to outbreaks of protests**. In which case activity disruptions are compounded by the drag on sentiments from social unrest. **Consequent CNH setback** may well have a **spillover effect on other EM Asia FX**; thereby **failing to make the cut for sustained AXJ bounce**.
- More widely, **optimism getting ahead of reality on Fed "pivot" bets** hung on a step-down to a 50bps hike also **may also not make the cut for a "Santa rally" that may be converted to sustained "risk on"** (involving, but not limited to, equity market rallies) into 2023.
- Especially **as signs of gathering global headwinds bite into external demand drivers** for most of EM Asia. Whereas price pressures remain sticky enough such that the Fed continues to be in tightening mode through most of H1 2023. And that leaves EM Asia with less wiggle room.
- A steady, **calibrated 25bp hike by the BoT to 1.25% this week is all but a done deal**.
- And **while India's Q3 (CY) GDP should show a decent 6.0-6.2% YoY** print (as flattering base effects that had boosted Q2 GDP to 13.5% wear off), the case for the RBI to continue tightening will only be reinforced. Inevitably, this will entail harsher growth trade-off for price stability.
- Apart from China which has made the second RRR cut this year, **slowing growth elsewhere in EM Asia does not make the cut for EM Asia central banks to** (make the rate cut).
- Especially as *"sticky" inflation and the vulnerabilities to macro-stability from a still hawkish Fed overwhelm* as the policy risks that need to be attended to.

India GDP: Base Effects Wear Off



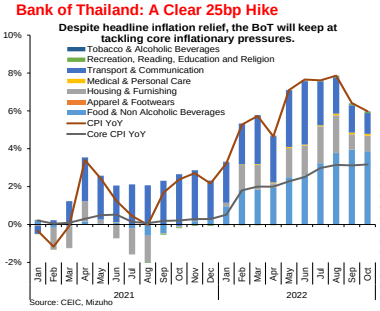
Source: CEIC; Mizuho Bank



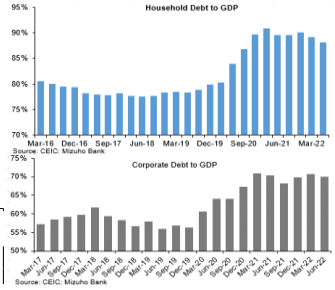
Source: CEIC; Mizuho Bank

- **Headline GDP growth for CY Q3 '22 is set to slow to 6% YoY from 13.5% in Q2; much of this is due to a normalisation of base effects as the impact of COVID-19 restrictions ease.**
- **Notwithstanding the low base effect, activity data has held up reasonably well.** In particular, there are signs that rural demand is picking up underscored by strong two-wheeler sales.
- **Autosales, more broadly, rebounded in Q3** as social and travel restrictions have largely been removed; **credit growth has picked up as have consumer and investment confidence indicies**.
- **External demand, however, has shown clearer signs of slowing**. Export growth slowed to 7.9% YoY in Q3 from 26.7% in Q2 while the slowdown in import growth was more gradual to 29.5% YoY from 49.1% in Q2, implying that the drag from net exports will be larger in Q3 versus Q2.
- **On the supply side, the picture for Q3 will likely be mixed.** Slower IP growth of 1.5% YoY in Q3 from 12.8% in Q2 points to weaker manufacturing sector growth while services sector growth is likely to remain resilient.
- **From a monetary policy perspective, slower growth will not be a surprise to RBI.** Indeed, its now casting models peg GDP growth at 6.1-6.3%, FY22-23 growth at 7%.
- **Price pressures will remain the priority for RBI**, which has been highlighting the stickiness of core inflation, food prices and inflation expectations - all of which have been trending higher recently.
- **With 140bps of rate hikes (including inter-meeting) since April, the RBI may dial back on pace of rate hikes; but at least another 60bp of tightening by early-2023 is required.**
- The risk, despite a weakening growth backdrop, is for more rate hikes rather than less given persistent inflationary pressures.

Bank of Thailand: A Clear 25bp Hike



Source: CEIC, Mizuho



- The Bank of Thailand will continue to steer with steady hands and **continue with rate hikes of 25bp at their final policy meeting in 2022 (30 Nov) taking policy rate to 1.25% to end the year**.
- To the BoT's credit, they have espoused **consistent communication on their preference for gradual rate hikes** which serves to discourge excessive focus/speculation on upcoming policy moves.
- Meanwhile, the **rationale to proceed with rate hikes remain clear**.
- While headline inflation easing to 6.0% in Oct, core inflation has remain steadily elevated and will require continued action on the BoT's part as the **services sector continues to recove**r.
- Clearly, as **foreign visitor arrivals in October reach 44% of 2019 levels**, tourism will continue to be a significant driver of employment and incomes and lead to **demand pull inflation.**
- **That said, with elevated corporate and household debt levels, Q3 2022 GDP level** (on a seasonally adjusted basis) **remains 2% below that in 2019, the case for outsized hikes is clearly not evident.**

Vietnam CPI: Ending on a High

- Tracking petrol and diesel prices which has been adjusted upwards, **headline inflation for November in Vietnam will be expected to print higher than October's 4.3% print.**
- Administrative adjustments to education fees in previous months will imply permanently higher levels and impart **stickiness to core inflation**.
- With lingering effects of tropical storm cutting supplies, domestic wage growth and foreign tourist arrivals, food prices will continue to be a key driver of inflation.
- With steady influx of higher spending tourist from America and Europe, a creep up in prices of culture and entertainment services is also expected.
- All in, **inflation in Vietnam looks to end this year closer to 2023's target of 4.5%.**
- Looking ahead, the authorities look likely to extend their VAT reduction of 2% instituted in Feb this year into 2023 to prevent adding unnecessary inflationary pressures, considering their healthy fiscal positions thus far.

Malaysia: PM Chosen But the Path Is Still Fraught With Risks

- **Anwar Ibrahim was sworn in as Malaysia's PM on 24 November, after days of uncertainty, following an election in which no party won a clear majority.**
- The appointment of a PM is an immediate relief but it does not take away from the uncertainty of the political situation. **Under the best case scenario, PM Ibrahim can, over the next few months, consolidate power and bring together the government.** He plans to table a vote of confidence in Parliament on 17 December.
- **This will mitigate lingering uncertainties around the political situation**, boost business and consumer confidence and allow the government to pass through much needed structural reforms.
- On the flipside, **if the government fails to consolidate power, political uncertainities will persist** weighing on near-term investment spending and in the more medium-term, the government's ability to adopt much needed structural reforms. Budget 2023 will be first lithmus test.
- **An intermediate situation where political uncertainties persist in the background may provide a scenario where near-term growth is supported but more difficult structural reforms** (such as introducing new tax sources to diversify the tax base) may more elusive.
- **Notwithstanding, the relatively resilient reaction of the MYR over the past week, gaining 1.9% versus the USD has been noteworthy.**
- **Arguably, the lack of a parliamentary majority from the elections was largely expected and hence did not elicit any explicit market reaction.** *MYR did underperform most regional peers in the lead up to the elections on 19 November.*
- **We expect the political situation will have little bearing on Bank Negara Malaysia's (BNM) decision making, which will remain focussed on reining in elevated price pressures.** We expect another 25bp hikes from BNM in Q1 2023 but the risk is for more rate hikes, rather than less.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	139.19	-1.180	-0.84%	137.50	~	144.00
EUR/USD	1.0395	0.0070	0.68%	1.000	~	1.050
USD/SGD	1.3768	0.001	0.07%	1.3620	~	1.4100
USD/THB	35.815	0.058	0.16%	35.30	~	37.00
USD/MYR	4.4838	-0.072	-1.59%	4.550	~	4.680
USD/IDR	15673	-15	-0.10%	15,400	~	15,820
JPY/SGD	0.9892	0.009	0.95%	0.946	~	1.025
AUD/USD	0.6751	0.008	1.17%	0.640	~	0.680
USD/INR	81.68	-0.020	-0.02%	80.4	~	82.5
USD/PHP	56.685	-0.565	-0.99%	57.0	~	58.3

^Weekly change.

Bond Yield (%)

25-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.453	-8.0	3.678	-15.1	Flattening
GER	2.159	10.3	1.968	-3.8	Flattening
JPY	-0.032	0.4	0.246	0.6	Steepening
SGD	2.908	-1.4	2.971	-10.8	Flattening
AUD	3.178	7.3	3.570	0.1	Flattening
GBP	3.210	9.1	3.111	-11.7	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	4,026.12	1.53
Nikkei (JP)	28,283.03	1.37
EuroStoxx (EU)	3,962.41	0.96
FTSE STI (SG)	3,244.55	-0.85
JKSE (ID)	7,053.15	-0.41
PSEI (PH)	6,606.94	2.63
KLCI (MY)	1,486.54	2.57
SET (TH)	1,620.84	0.21
SENSEX (IN)	62,293.64	1.02
ASX (AU)	7,259.48	1.51

FX Outlook: Calibrating on Risk Appetite

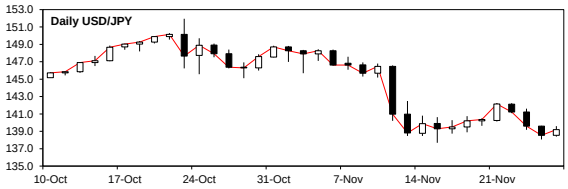
- **With the USD mostly functioning in the Left-Half of the 'USD Smile'**, which is to say that *USD dynamics are mostly negatively correlated to risk appetite* (USD dropping on "risk on" and surging on "risk off"), the **broad-based FX market theme may be mostly cued off risk appetite**.
- **Especially as risk sentiments have turned more twitchy**; with low-hanging relief rallies giving way to less excitable markets. And it is not merely the shifting risk-reward quotient that demands greater caution/calibration but justifiable "half-empty" views and mixed signals that feature.
- For one, **"risk on" from Fed pivot bets appear to be stretched a tad too far**.
- Even with cooling US CPI now making way for a clean step down to a 50bp hike at the December FOMC, it is **premature to abandon tightening stance at rather elevated (7-8%) levels of inflation**.
- What's more, **hawkish ECB sound bites also induce far greater volatility** in the markets.
- Not only will resultant the yield buoyance dynamics (perhaps on bboth sides of the Atlantic) dampen AXJ via EUR/AXJ crosses, but **USD could also counter-intuitively come out on top if the "forced hikes" by the ECB are read as a negative for the beleaguered EZ economy**.
- So **perversely, a hawkish ECB may not be at odds with a strong USD** in this instance; especially if EZ fiscal travails and "fragementation" risks start showing up in EZ peripheral-core yield spreads.
- Finally, despite Beijing's RRR cuts that ought to feed into optimism about the economy - as it dove tails with relaxation measures for developers - **protests over China's flip flop on Zero COVID policies dragging on the CNH is likely to pose as headwinds to other EM Asia FX** as well.
- **Looking for one clear signal to trade on is going to be a challenge** this week.
- But **caution and a bias for haven** should keep the USD bid on dips, if not provide some lift.
- **Undulations from risk appetite being re-calibrated** however makes way for some two-way action.

US Treasuries: Challenging Depths

- While **we alluded to unprecedented deep inversion of the UST yield curve, UST bulls continue to challenge these depths last week.**
- FOMC minutes affirmed a likely step down in pace of rate hikes soon while some members expressed concerns on overtightening.
- The former alongside lower survey inflation expectations sent front end 2Y yields lower, ending the week down 8bps. On the longer end, 10Y yields crashed 15.1 bps as growth worries implied a surge in haven demand.
- The pertinent question is whether **how deep can this inversion go?**
- **Admittedly, some gyration is inevitable.** While economic data prints remain broadly resilience, **any softening signs from the US jobs report or GDP revisions may incite temptation to extrapolate into 2023 recession possibilities.**
- What's more, simmering broad geo-political risk aversion from China's Covid zero uncertainties may marginally trigger haven demand. That said, if EZ inflation print slips, cross Atlantic yield spillover may embolden UST bulls further.
- All in, 2Y yields look to trade 4.35%-4.55%. 10Y yields may **slip towards 3.6% as haven demand remains present on the longer end, but beyond which, further inversion may not be forth coming** considering the 10Y yield's ~35bps decline since start of Nov.

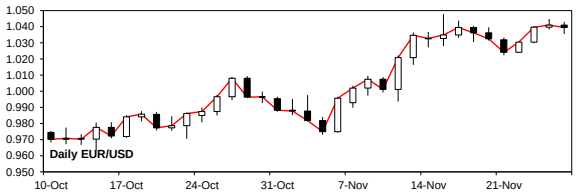
USD/JPY: Haven?

- The USD/JPY gave a run of the mill performance last week edging down to 139 as lower oil prices and US yields aided the JPY recovery.
- While admittedly wrongfooted last week on energy relief not being forthcoming, **we remain undeterred that energy relief will present remains limited, barring sharp China protest worries triggering demand concerns.**
- Similarly, while headline news of **Chinese instability over Covid protests rightly fuels regional haven demand for the JPY, it is nonetheless important to calibrate the initial safe haven instincts with a touch of pragmatism** over fundamental economic differences between Fed-BoJ.
- As such, while sub-138 may be tested, the USD/JPY may still sustain around 138-140 for this week.



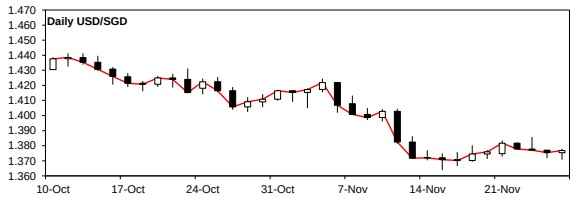
EUR: Under Pressure

- EUR/USD is starting the week under some pressure from a strong USD bias on account of downside risks to growth and mixed signs of action from ECB.
- Last week, Chief Economist Philip Lane and Isabel Schnabel gave differing views on a continuation of 75bp in rate hikes. Lane was off the opinion that 75bp would no longer be required while Schnabel seemed reluctant to scale back to smaller magnitude rate hikes.
- Market pricing for the rate hike for the 15 December has, as result, become more mixed. A softer stance from ECB will likely put additional pressure on EUR, which last week was at a four-month high of 1.044.
- EUR/USD will likely settle lower this week at 1.035-1.04 levels.



SGD: Watch for CNH Drag

- A bottoming USD coupled with fresh slippage in the CNH mean that **SGD bulls will have to take a backseat for a bit**; and that could be **consistent with USD/SGD now re-grouping in the wider sub-1.37 to 1.39** range as it awaits the "all clear" to retest 1.36.
- Whether this bout of benching for SGD bulls is a mere pitstop or an about turn (especially if USD traction sustains) is an open question for the time being.
- Fact is, if "risk on" makes a pronounced comeback, then one may expect USD/SGD downside to also resume in tandem.
- Although, it may be against a backdrop of SGD/AXJ being subdued or slipping if the brand of "risk on" favours higher-beta AXJ, or is incited by China border re-opening that will favour THB, PHP and MYR to a greater degree.



AUD: Shaky on Shanghai?

- Protests in Shanghai over COVID lockdowns that have led to tragic deaths in a building fire in Urumqi appear to be reverberating via AUD channels.
- To be clear, the impact has not been devastating. But it is clearly discernible.
- AUD has slumped to test mid-0.66 from having challenged mid-0.67 late last week.
- Clearly, the extent of China uncertainty and the impact this is expected to have via the commodity channels cannot be dismissed.
- But equally, a more hawkish sounding ECB and perhaps a case to pullback on stretched Fed pivot bets, could also be taking some wind out of AUD vis-a-vis a clearly less hawkish RBA.
- For now, mid-0.65 to mid-0.67 gyrations cannot be ruled out.