

Economic Calendar

Date	Country	Event	Period	Survey*	Prior
31 Oct	US	MNI Chicago PMI	Oct	47.2	45.7
	US	Dallas Fed Manf. Activity	Oct	--	-17.2
	EZ	CPI Estimate/Core YoY	Oct	--	10%/4.8%
	EZ	GDP SA YoY	3Q A	--	4.1%
	JP	Industrial Production YoY	Sep P	--	5.8%
	JP	Retail Sales YoY	Sep	--	4.1%
01 Nov	US	JOLTS Job Openings	Sep	--	10053k
	US	ISM Prices Paid/Mfg	Oct	-49.9	51.7/50.9
	JP	Mfg PMI	Oct F	--	50.7
02 Nov	EZ	Mfg PMI	Oct F	--	46.6
	US	FOMC Policy Rate (Lower/Upper Bound)		3.75%/4.00%	3.00%/3.25%
03 Nov	US	Trade Balance	Sep	-\$67.0b	-\$67.4b
	US	Initial Jobless Claims		--	--
	US	Durable Goods/Non-def Ex Air Orders	Sep F	--	--
	US	ISM Services Index	Oct	56.0	56.7
	EZ	Unemployment Rate	Sep	--	6.6%
04 Nov	US	Change in Nonfarm Payrolls	Oct	200k	263k
	US	Unemployment/Participation Rate	Oct	3.6%/--	3.5%/62.3%
	EZ	Services PMI	Oct F	--	48.2
	EZ	PPI YoY	Sep	--	43.3%
	JP	Services PMI	Oct F	--	53.0

*Survey results from Bloomberg, as of 28 Oct 2022. The lists are not exhaustive and only meant to highlight key data/events.

Date	Country	Event	Period	Survey*	Prior
31 Oct	CH	Mfg/Non-Mfg PMI	Oct	49.2/49.8	50.1/50.6
	AU	Retail Sales MoM	Sep	--	0.6%
	KR	Industrial Production YoY	Sep	--	1.0%
	KR	Retail Sales YoY	Sep	--	15.4%
	TH	BoP Current Account Balance	Sep	-\$2950m	-\$3500m
01 Nov	CH	Caixin China PMI Mfg	Oct	--	48.1
	AU	RBA Cash Rate Target		--	2.60%
	ID	Asian Mfg PMIs	Oct	--	--
	ID	CPI/Core YoY	Oct	--	6.0%/3.2%
	KR	Trade Balance	Oct	--	-\$3778m
02 Nov	SG	Purchasing Managers/Elect. Sector Index	Oct	--	49.9/49.4
	AU	Building Approvals MoM	Sep	--	28.1%
	KR	CPI/Core YoY	Oct	--	5.6%/4.5%
03 Nov	CH	Caixin Services PMI	Oct	--	49.3
	AU	Trade Balance	Sep	--	A\$8324m
	IN	RBI Policy Repo Rate		--	5.90%
	MY	BNM Overnight Policy Rate		--	2.50%
04 Nov	AU	RBA-Statement on Monetary Policy		--	--
	TH	CPI/Core YoY	Oct	--	6.41%/3.1%
	PH	Trade Balance	Sep	--	-\$6000m
	PH	CPI YoY	Oct	--	6.9%

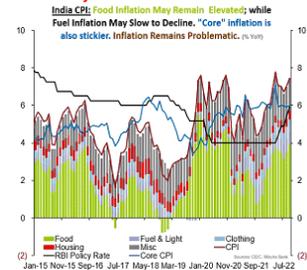
Week-in-brief: Pivot

- Bets of a Fed "pivot" have been heating up. Although the bar is low on this one. "Risk on" has been based off the Fed decelerating/diminishing pace/amplitude of hikes. Whereas, conflating this is a pivot to a reversal of hikes is a leap too far. And so, the risk is that less permissive Fed rhetoric on inflation anchor taking precedence will unravel strong form "pivot" bets. In turn, this could send yields (and USD) higher and take risk off the table, pivoting away from "risk on".

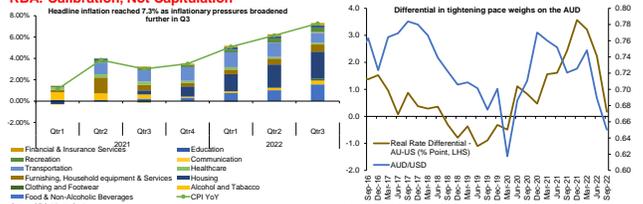
FOMC: Mistaking (Weak) Pivot for Pain Relief

- A 75bp rate hike by the Fed (to 3.75-4.00%) at the November meeting is now as good as a forgone conclusion. And instead, markets are staging "risk on" rallies on "pivot bets"; and to be clear, this is on a weak pivot defined by a dial back in the pace of hikes.
- Put another way, it appears that a fourth 75bps hike culminating in a total of 375bps since March may be brushed off, just because of the prospects that the Fed could dial down the December hike to 50bp (to 4.25-4.50%).
- And that is even with the understanding that the Fed could continue to still lift rates in early 2023 (albeit far more modestly than it has in 2022).
- Wall Street Journal commentary that the November FOMC will be discussing a slowdown in the pace of hikes has been credited for markets' "pivot cheer".
- We fear overdone optimism/cheer could come home to roost.
- For one, the Fed has been clear since the first 75bp hike in June that this quantum of hike is "not usual". And so, a dial back from 75bp ought to be a ridiculously low bar.
- What's more, if the question for December remains "50 or 75" instead of "25 or 50" then perhaps there needs to be some soul-searching about "pivot bets".
- Finally, the "for longer" condition of "higher rates" is the acid test for "pivot".
- Because if the Fed holds elevated rates for a prolonged period, it will be more pause than a bona fide pivot (that ought to mean a change in direction). And in any case, it certainly will not be pain relief for the real economy dealing with 450-500bp of hikes.
- So best to examine the Fed's guidance closely and be nimble enough to back out of stretched "pivot bets" that have aggressively sold down USD along with UST yields.

RBI: Off-Cycle & On Its Toes



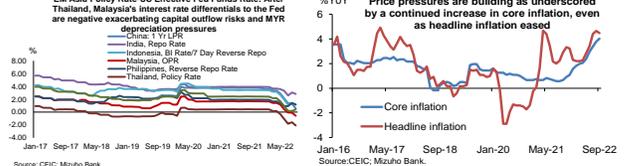
RBA: Calibration, Not Capitulation



- This ("calibration, not capitulation") assessment of the RBA applies from a wider lens.
- First, it expresses that the RBA is in the process of calibrating policy to balance inflation and hard-landing risks. But that it is, neither capitulating from tightening mode by relinquishing hikes; nor is it capitulating dial-back in pace to return to upsize, upfront 50bp hikes.
- Instead, it is consistent with the RBA remaining in a tightening path, with a 25bp (85% probability); and up to 40bps (15% probability) to lift the cash rate to 2.85-3.00%.
- Here's why. First and foremost, the "hot under the hood" inflation for Q3 showing a sharper than pick up in headline (trimmed mean) inflation to 7.3% (6.1%) firstly means that the work on anchoring inflation expectations is not yet complete.
- Yet at the same time, the lagged effects of monetary policy tightening in the context of mounting risks to the housing market (with potential knock-on impact on household and banking balance sheets) warn against over-tightening.
- And given with 250bps already front-loaded alongside sufficiently frequent meetings to assess in-coming data, a more measured pace of tightening arguably offers more optimal balance between taming inflation and averting a hard-landing.

- Data that that shed more light on evolving jobs/housing risks alongside global headwinds will determine if terminal RBA rate stop short of 3.50% or test 4.00%.

Bank Negara Malaysia: Trade-offs Favour a 50bp Hike



- BNM's decision at its 3 November meeting will be a close call in favour of a 50bp hike.
- While BNM may be tempted to continue with gradual, predictable hikes of 25bp, a 50bp will send more emphatic message at a time when policy trade-offs are becoming more acute.
- Against a backdrop of persistent USD strength, and super-sized Fed rate hikes may which extent into December, MYR depreciation pressures will be a bigger consideration for BNM.
- Fundamentally, BNM-Fed interest rates have been negative for some months now, exacerbating the risk of capital outflows.
- By contrast, most other regional peers (Thailand being the main exception) have maintained a positive interest rate differential to the US mitigating some capital outflow risks.
- Furthermore, there are signs that price pressures in Malaysia remain elevated, with the drivers shifting from commodity prices to services.
- Case in point is the September headline inflation print, which eased to 4.5% YoY from 4.7% in July while core inflation rose to 4.0% YoY from 3.8% in July.
- Complicating matters for BNM is the continued political uncertainty ahead and possibly even after the 19 November, which will worsen MYR depreciation pressures.
- While PM Saabri Yakob intended for the 19 November to deliver a clearer mandate to a one party/alliance, the outcome of the elections is far from clear.
- In the best case, the vote throws up clear winners dissipating political uncertainty but in the worse-case, it leads to a hung Parliament and protracted political uncertainty.
- Notwithstanding, the combination of elevated capital outflow risks, sticky inflationary pressures and a high political premium tip the balance in favour of a 50bp hike by BNM.
- The risk, however, is that BNM traverses a familiar path of 25bp rate hikes.

- The RBI just announced (on 27th Oct, Thu) that there will be an off-cycle meeting on 3rd November; snapping on the heels of the November FOMC.
- Presumably, this meeting will involve a discussion on the letter to the government to explain why the (2-6%) inflation target was missed; in particular given that that inflation has struggled in vain to get back below 7% durably.
- But the timing, being the Asia morning after the overnight FOMC meeting, is too much of a coincidence to be ignored. Specifically, it appears to be poised to arrest sharp INR depreciation and/or asset market ripples; should there be an unexpected hawkish jolt.
- To that end, we expect that (after a cumulative 190bps of hikes since May) another rate hike of 35-50bp (to take the repo rate to 6.25-6.40%) might be on the cards.
- We expect that with the Fed poised to hike by 75bp at the November FOMC and on course for the further 50-75bp in December, the RBI would much rather front-load to insure against excessive sell-off. At least until the Fed's pivot is more emphatic rather than tentative.
- Upshot being, with the INR down 7-8% (since the Fed stepped up hikes in May), being on its toes with an off-cycle meeting is an encouraging sign of the RBI's vigilance.
- For the record, we expect that even with a hike at this off-cycle meeting, the RBI may have more left; albeit stepping down the magnitude of the hike to get to (at least) 6.50%.

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast	
USD/JPY	147.6	-0.050	-0.03%	146.50	~ 151.00
EUR/USD	0.9965	0.0103	1.04%	0.976	~ 1.010
USD/SGD	1.4108	-0.004	-0.31%	1.3980	~ 1.4280
USD/THB	37.947	-0.077	-0.20%	37.60	~ 37.50
USD/MYR	4.725	-0.014	-0.29%	4.690	~ 4.755
USD/IDR	15554	-78	-0.50%	15,500	~ 15,700
JPY/SGD	0.9564	-0.002	-0.26%	0.926	~ 0.975
AUD/USD	0.6411	0.003	0.50%	0.628	~ 0.656
USD/INR	76.52	-6.170	-7.46%	81.8	~ 83.3
USD/PHP	57.98	-0.778	-1.32%	57.5	~ 58.8

*Weekly change

FX Outlook: Reining in Pivot Bets

- **Consolidation rather than breakthrough could be the safer trades in the FOMC week.**
- Especially with respect to stretched Fed "pivot bets"; which have resulted in sharp USD capitulation from "risk on" (derived from expectations of the Fed set to rein in hikes).
- So there are three key risks with extending bearish USD bets ahead of the FOMC this week.
- First is simply the **stretched short USD positions last week**, with the USD index tanking from 113-114 to test below 110 (before reclaiming some ground back towards 111).
- So **extending overdue short USD bets** based on "weak form" pivot - associated with a slowdown in hikes rather than an actual change in policy direction - **clearly risks a reversal of USD weakness**,
- especially if the Fed leaves the decision for December open (between 50 or 75) despite discussing options to dial back the pace of hikes (when appropriate).
- Second, EUR rebound last week on ECB's 75bp hikes may also struggle to find follow-through boost; as more **hesitant ECB hawkishness** and high EZ inflation highlight the stagflation conundrum for the ECB, which translates into risks of a weaker rather than stronger EUR.
- And while GBP appears to have found sustained traction on fiscal rectitude, the **economic challenges remain fairly acute**. Which would also **limit scope for sustained rallies**.
- Against this backdrop, **unchecked short bets against the USD may be a risky proposition**.
- And more so, given that **sticky core PCE deflator** from for Q3 **suggests that the Fed's pivot may not be as soon or as emphatic** as appears to have been hoped for.
- Moreover, the **drift higher in USD/JPY and USD/CNH** from recent pullback suggest that **initiating fresh bullish bias in EM Asia FX will also be hampered**.
- The upshot is, given that **too much** appears to have been made of "pivot" raises the risk of **disappointment** (with regards to reining in Fed peak rate). As a consequence of which, it may be **best to rein in pivot bets ahead of FOMC**.

USD/JPY: Dictated by FOMC

- JPY will, in all likelihood, come under renewed pressure this week ahead of the US FOMC meeting.
- The US core PCE data on Friday showed that inflationary pressures remained high and that the Fed may not be convinced to pivot to smaller magnitude rate hikes yet.
- This implies upward pressure on yields will persist as the terminal rate discussions for the US remain a hot potato while BoJ dug its heel into its ultra-loose policy stance as wage pressures are still absent.
- For the week, we expect USD/JPY to trade within the 147.5-151 range.

EUR: Mixed Bag After ECB

- For all practical purposes, the ECB meeting was a mixed bag. While the ECB was emphatic in hiking its policy rate by 75bp and signalling more to come in this regard, it was not so convincing around unwinding QE.
- That caught investors in a bind making EUR/USD trades choppy following the meeting. As a result, support for EUR around parity versus USD waned.
- This week much will depend on the FOMC outcome. We expect the Fed to stay the hawkish course implying some downward pressure on EUR/USD.
- We could peg support for the pair around 0.99-1.00 levels.

SGD: Way-laying sub-1.40

- Last week's enthused move to test mid-1.40 was thwarted by a rebound in the USD off the lows alongside renewed pressures on CNY (and later JPY).
- As we had pointed out before, despite a hawkish MAS move to re-centre significantly higher, sustained SGD surge is not a give.
- Especially when CNH, EUR and JPY struggle to regain traction against the Greenback.
- What's more, S\$NEER at the stronger half of the trading bands also limits scope for the SGD to out-perform. Especially when the Fed is not expected to do a dovish flip.
- Over-extended pivot bets, we think, will continue to waylay sub-1.40 aspirations.

AUD: Not Inflated

- **Higher (and hotter under the hood) than expected Q3 CPI** conspiring with Fed pivot hopes inflated by the WSJ article, was arguably **cause for markets to bet on some dissipation of Fed-RBA divergence**. And this has provided AUD with attendant boost.
- Nonetheless, the pullback from 0.65 rather than an extension to 0.66-0.67 suggests;
- 1) that **markets are wary of extrapolating higher CPI as a catalyst for the RBA to revert to 50bp hikes** as policy lags and housing market concerns are likely to rein in the magnitude and pace of hikes from here (after a cumulative 250bp of hikes);
- 2) that Fed pivot bets may fizzle as the Fed calibrates but without capitulating from inflation anchoring priorities.
- And so ahead of this week's RBA meeting and FOMC, AUD bulls could be taking the backseat to RBA restraint.
- This ought to be consistent with AUD consolidating in the sub-0.63 to mid-0.65 range for now as market size up Fed and RBA cues.

Bond Yield (%)

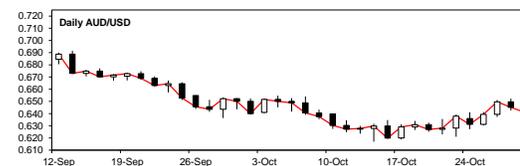
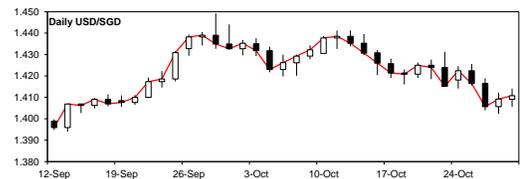
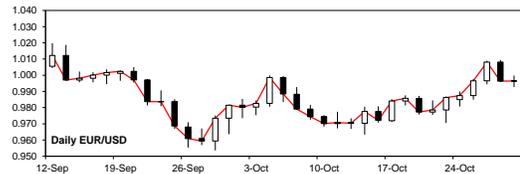
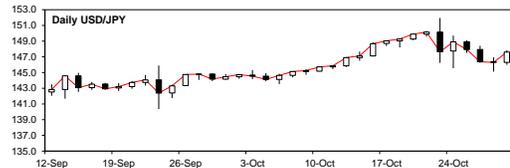
28-Oct	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.414	-5.8	4.012	-20.5	Flattening
GER	1.912	-10.5	2.095	-31.3	Flattening
JPY	-0.059	-4.5	0.236	-1.0	Steepening
SGD	2.953	-22.0	3.360	-23.3	Flattening
AUD	3.198	-43.8	3.730	0.1	Steepening
GBP	3.138	-41.6	3.466	-57.2	Flattening

Stock Market

	Close	% Chg
S&P 500 (US)	3,901.06	3.95
Nikkei (JP)	27,105.20	0.80
EuroStoxx (EU)	3,613.02	3.92
FTSE STI (SG)	3,059.19	3.00
JKSE (ID)	7,056.04	0.55
PSEI (PH)	6,153.43	2.84
KLCI (MY)	1,447.31	0.06
SET (TH)	1,606.07	0.93
SENSEX (IN)	59,959.85	1.10
ASX (AU)	6,785.72	1.63

US Treasuries: "Weak Pivot" Not Panacea

- We cannot stress enough that the **weak form "pivot"**, entailing a **slowdown in the pace of Fed hikes ahead of a pause**, is **not as emphatic as the "strong" pivot** variety that **requires the Fed to turn policy direction and cut rates**.
- And at the heart of this distinction is the question of **how long peak rates may be sustained** for amid fears of sticky inflation amid heightened uncertainty about unusually high exposure to sustained supply shocks.
- In other words, **quantifying the "longer" part of "higher for longer" rates**.
- To be sure, OIS markets and Fed "Dot Plot" are pretty much in agreement on peak rates being in the vicinity of 4.75-5.00%. But markets are betting the Fed will blink and start cutting rates by H2 2023, whereas the Fed is inclined to end 2023 with higher rates than 2022; with net cuts only starting in 2024.
- Given the **fastest post-Volcker rate hikes and rather restrictive 450-500bp of rate tightening**, it is **difficult to draw a line under UST Sell-off** (higher yields) just yet.
- We remain watchful of 2Y yields in the wider 4.2-4.6% range for now, with 10Y yields likely to be mostly 20-25bps on either side of 4%. And given weak "pivot" is no panacea for bond bears, upside risks to yields should not be ignored.



Important Information

This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author. It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.

Disclaimer

Unless otherwise stated, all views or opinions herein are solely those of the author(s) as of the date of this publication and are not to be relied upon as authoritative or taken in substitution for the exercise of judgement by any recipient, and are subject to change without notice.

This publication has been prepared by Mizuho solely from publicly available information. Information contained herein and the data underlying it have been obtained from, or based upon, sources believed by us to be reliable, but no assurance can be given that the information, data or any computations based thereon are accurate or complete. This publication provides general background information only. It is information in summary form and does not purport to be complete. This publication has been prepared for information purposes only and is not intended by Mizuho or its affiliates to constitute investment, legal, accounting, tax or other advice of any kind and all recipients of this publication are advised to contact independent advisors in order to evaluate the publication, including, without limitation, the suitability of any security, commodity, futures contract or instrument or related derivative (hereinafter, a "financial instrument"), product or strategy herein described. This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Japanese, Singapore or any other applicable securities laws.

This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. Nothing contained herein is in any way intended by Mizuho or its affiliates to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. Neither the author, Mizuho nor any affiliate accepts any liability whatsoever with respect to the use of this publication or its contents or for any errors or omissions herein.

Mizuho and its affiliates, connected companies, employees or clients may take the other side of any order by you, enter into transactions contrary to any recommendations contained herein or have positions or make markets or act as principal or agent in transactions in any securities mentioned herein or derivative transactions relating thereto or perform or seek financial or advisory services for the issuers of those securities or financial instruments.

All of the information contained in this publication is subject to further modification without prior notice and any and all opinions, forecasts, projections or forward-looking statements contained herein shall not be relied upon as facts nor relied upon as any indication of future results. Opinions stated in this publication are subject to change without notice. Future results may materially vary from such opinions, forecasts, projections or forward-looking statements. The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This is a strictly privileged and confidential publication. This publication contains information addressed only to a specific individual and is not intended for distribution to, or use by, any person other than the named addressee or any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation. Save with Mizuho's prior written consent, you may not disclose, divulge, reproduce or furnish any information contained herein to any other party. Please notify the sender immediately if you have mistakenly received this publication.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MS USA.

© 2014 Mizuho Bank Ltd.