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MIZUHO

WEEK AHEAD

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Economic Calendar

•Survey results from Bloomberg, as of 4 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
07 Nov	EZ	Sentix Investor Confidence	Nov	-35.0	-38.3
08 Nov	**US**	**NFIB Small Business Optimism**	**Oct**	**91.3**	**92.1**
	JP	Leading Index CI	Sep P	97.8	101.3
	JP	Labor Cash Earnings YoY	Sep	1.7%	1.7%
09 Nov	**US**	**MBA Mortgage Applications**	**4-Nov**	**--**	**-0.5%**
	US	Wholesale Inventories MoM	Sep F	0.8%	0.8%
	JP	BoP Current Account Balance	Sep	¥250.0b	¥58.9b
10 Nov	US	Initial Jobless Claims	5-Nov	--	217k
	US	**CPI YoY/MoM**	**Oct**	**8.0%/0.7%**	**8.2%/0.4%**
	US	**CPI Ex Food and Energy YoY/MoM**	**Oct**	**6.5%/0.5%**	**6.6%/0.6%**
	JP	Machine Tool Orders YoY	Oct P	--	4.3%
11 Nov	**US**	**U. of Mich. Sentiment**	**Nov P**	**59.5**	**59.9**
	JP	PPI YoY	Oct	8.8%	9.7%

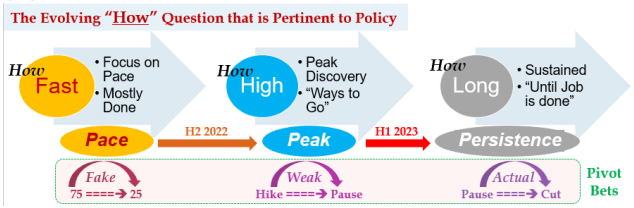
Asia *Actual data release instead of survey

Date	Country	Event	Period	Survey*	Prior
07 Nov	CH	Trade Balance	Oct	$95.97b	$84.74b
	CH	**Exports YoY/Imports YoY**	**Oct**	**4.5%/0.0%**	**5.7%/0.3%**
	ID	**GDP YoY/QoQ**	**3Q**	**5.6%/1.7%**	**5.4%/3.7%**
08 Nov	KR	BoP Current Account Balance	Sep	--	-$3049.1m
	MY	Industrial Production YoY	Sep	10.5%	13.6%
	PH	Unemployment Rate	Sep	--	5.3%
09 Nov	CH	Aggregate Financing/New Yuan Loans	Oct	--	3527.1b/2473.8b
	CH	**CPI YoY/PPI YoY**	**Oct**	**2.4%/-1.6%**	**2.8%/0.9%**
	KR	Unemployment rate SA	Oct	2.9%	2.8%
10 Nov	**PH**	**GDP YoY/QoQ SA**	**3Q**	**6.2%/0.8%**	**7.4%/-0.1%**
11 Nov	IN	Industrial Production YoY	Sep	1.9%	-0.8%
	MY	BoP Current Account Balance MYR	3Q	--	4.4b
	MY	**GDP YoY/QoQ SA**	**3Q**	**12.1%/-0.1%**	**8.9%/3.5%**

Week-in-brief: Dashed

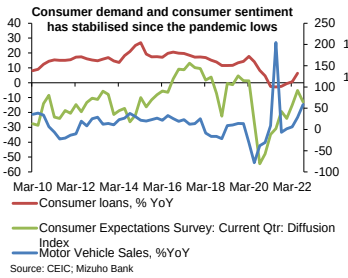
- **Hopes dashed** appears to be story of the week past. A hawkish surprise from the FOMC last week dashed pivot hopes, dragging markets. Over the weekend,, Beijing has dashed hopes of China re-opening in the horizon, by re-asserting of Zero COVID policies. And this could induce fresh caution.
- With US NFP data not creating a huge impetus one way or another, US CPI data will be a crucial watch for most of the markets. And here, the bar may be high to set off "risk on" based on Fed pivot as sticky core and elevated (despite peaking) inflation remains a bugbear.
- **US mid-terms may render political tensions**, *if not grid-lock*, **more prominent risks**. But given markets have drummed this up as positive, the dangers of hopes dashed remain significant.
- Elsewhere, amid a slew of GDP data, **China's re-opening remains a subject of speculation**.

Dialing Up Hawkish Risks for December

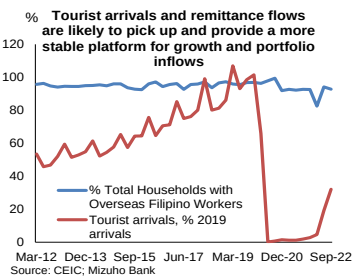


- Admittedly, Nov FOMC statement changes, emphasizing that future policy decisions will *"take into account cumulative tightening … (and) lags with which monetary policy affect economic activity"* might at first blush appear less hawkish; as the allusions may be read as setting the stage for restraint.
- But that would be the wrong read. For Powell's press conference leaves absolutely **no doubt that the the bias remains unequivocally hawkish**. What's more, the Fed's express position is that the **Fed is of the view that tightening too little is a bigger risk than over-tightening**.
- Notably, Powell's pronouncements that;
i) it is "***very premature to be*** *thinking about* ***pausing***" and;
ii) "incoming data … suggest that ultimate ...rates will be higher than previously expected";
- suggest that **markets need to be braced for more hawkish flex** in the near-term.
- Specifically, **December FOMC 'Dot Plot' is a potential hawkish** jolt if peak rates in 2023 rise sharply above 5% and 2024 rate moderation is less distinct.
- In other words, a fresh assertion of "higher for longer".
- For now, **persistence of elevated rates rather than amplitude of peak rates may be the bigger source of potential volatility** derived from the expectations gap between the Fed and markets.

Philippines: Limited Growth Support For PHP



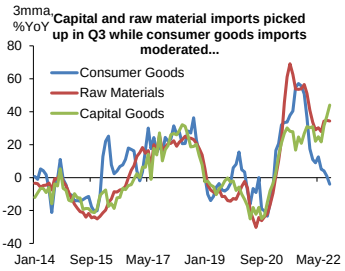
Source: CEIC; Mizuho Bank



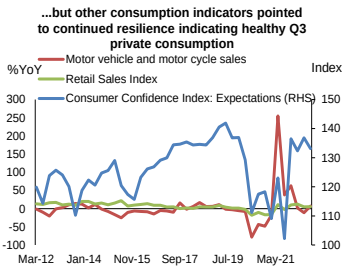
Source: CEIC; Mizuho Bank

- **After Bangko Sentral ng Pilipinas (BSP) raised its policy rate by a cumulative 2.25% this year**, with another (minimum) well-advertised 75bp in the pipeline, **it is no surprise that GDP growth is set to slow in Q3 to 6.8% from 7.4% in Q2.**
- By all accounts, **this slowdown is engineered and arguably necessary to dampen elevated inflation**, which has moved from being driven by food and energy prices to other core services.
- That said, **there are expected to be some bright spots in the Q3 GDP release**. For one, **investment spending is likely to have remained strong** on account of the governments' continued focus on infrastructure development.
- Second, **some of the reversal in private consumption may be temporary following the election associated boost in Q2.**
- Mirroring this, **we expect relatively resilient services sector growth** looking ahead as the country continues to welcome international tourists even as overseas remittances pick up.
- **These will also provide much needed, and more stable, support for the currency (PHP)** which has depreciated close ~13% in 2022.
- But GDP growth will have only a limited impact on backstopping or perpetuating PHP depreciation.
- **The latter is subject to more fundamental pressures from 'twin deficits', elevated inflation and broad US dollar strength.**

Indonesia: Resilient Q3 GDP Affords Space for A Hawkish BI



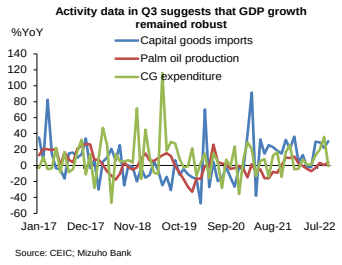
Source: CEIC; Mizuho Bank



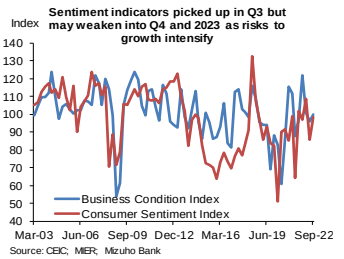
Source: CEIC; Mizuho Bank

- **Q3 GDP growth is expected to pick up to 5.6% YoY from 5.4% in Q2 on improved private consumption and investment spending**.
- *This is despite the ~30% increase in retail fuel prices and elevated inflation biting into real incomes.*
- Government spending and net exports may have a more modest impact on GDP growth in Q3.
- Notwithstanding, **the robustness in Q3 GDP growth will be apparent and supported by fundamental improvements** as the economy recovers from pandemic associated restrictions.
- Moreover, **reforms instituted by the Jokowi administration to attract FDI inflows** (in the Omnibus Bill) and **raise tax efficiency/collections** (via the Tax Harmonisation Bill) have helped in their targeted areas, **making a case for a more consistent increases in investment spending**.
- That said, the **cyclical boost from elevated commodity prices in Q3 cannot be ignored and are at risk of fading into next year** dragging with it private consumption, exports and investments.
- This nonetheless is **consistent with Bank Indonesia's (BI) expectation of slower 2023 growth.**
- The upshot, however, is **that growth is likely to remain resilient above 5% into 2023 allowing BI to stay hawkish and vigilant of inflationary and external pressures.**
- With the US Fed staying hawkish, BI **has increasingly become more vocal about backstopping IDR depreciation amidst a strong USD backdrop.**
- To that end, we **expect that BI will hike its policy rate by a cumulative 75bp in November/December, taking the policy rate to 5.5%, before pausing into early next year.**

Malaysia: Strong For Now



Source: CEIC; Mizuho Bank



Source: CEIC; MIER; Mizuho Bank

- **The jump in Q3 GDP to above 12% YoY largely reflects favourable base effects from a depressed base in Q3 2021**.
- In sequential QoQ SA terms, **growth will likely be flat in Q3 after registering 3.5% in Q2.**
- The drivers of growth are likely to be broad-based coming from exports as well as domestic demand. Private and government spending rose in Q3 as did investment spending.
- **With solid growth in Q3, we expect GDP growth to average 8% in 2022, well above the government's 5.3-6.3% forecast range,** even if it implies a considerable slowdown in Q4.
- **The bigger question is the outlook for 2023 given the rising number of uncertainties.**
- For one, **the outcome of the 19 November elections is still far from clear and political overhang could result in slower investment spending.**
- Second, **cumulative 100bp rate hikes from BNM so far (and another 25bp in the pipeline) will likely weigh on private consumption and credit growth.**
- More importantly, **commodity price tailwinds are likely to start fading hitting exports and fiscal revenues. As such, the extent of the GDP slowdown in 2023 remains pertinent.**
- Even then, *inflationary pressures are likely to remain elevated keeping BNM on a hawkish bias.*
- **With the interest rate differentials to the US Fed clearly negative, and more so than regional peers, MYR remains under depreciation pressure in the near-term.**

Forex Rate

	Close*	Chg^	% Chg^	Week Forecast		
USD/JPY	146.62	-0.980	-0.66%	146.00	~	150.30
EUR/USD	0.9957	-0.0008	-0.08%	0.976	~	1.010
USD/SGD	1.4069	-0.004	-0.28%	1.3980	~	1.4280
USD/THB	37.565	-0.382	-1.01%	37.20	~	37.90
USD/MYR	4.748	0.023	0.49%	4.690	~	4.755
USD/IDR	15738	184	1.18%	15,550	~	15,770
JPY/SGD	0.9599	0.003	0.37%	0.930	~	0.978
AUD/USD	0.647	0.006	0.92%	0.628	~	0.656
USD/INR	82.44	-0.040	-0.05%	81.9	~	83.3
USD/PHP	58.565	0.585	1.01%	57.8	~	58.8

^Weekly change.

FX Outlook: Half-Full

- The **propensity for market to take a half-full view of things** - from pivot to China's Zero COVID policy (dial back), to the Fed's pivot bets - **squares with a sense that the USD will be sold into rallies**. But this week in particular, with **US mid-terms** as well as **US CPI** in tow to kick up volatility on demand, it may be **a tad too risky to bet on straight-line moves**.
- Elsewhere, **with Beijing repeatedly pushing back on** suggestions for, and **speculation of**, **plans for re-opening borders and/or loosening COVID restrictions**, markets may be rendered somwhat more nervy/twitchy. And that means that **USD bears will not go unchallenged**.
- On the whole, **with the Fed maintaining a hawkish stance alongside near-term uncertainty about when China will start relaxing restrictions/regulations** (so as to fire up growth) wider consolidation is more likely in FX markets.
- Meanwhile a sharp capitulation in USD/CNH should lend some boost to EM Asia FX; albeit likely to keep rallies on a fairly tight leash.
- Fact is, the half-full motivation may also mean half-hearted moves in EM Asia and G10 FX; preferring to keep within the wider known range. At least until further clarity on politics and policy alike comes through.

Bond Yield (%)

4-Nov	2-yr	Chg (bp)^	10-yr	Chg (bp)^	Curve
USD	4.658	24.4	4.158	14.6	Flattening
GER	2.112	20.0	2.289	19.4	Flattening
JPY	-0.052	0.7	0.245	0.9	Steepening
SGD	3.084	13.1	3.470	11.0	Flattening
AUD	3.255	5.8	3.845	0.1	Flattening
GBP	2.975	-16.3	3.527	6.1	Steepening

Stock Market

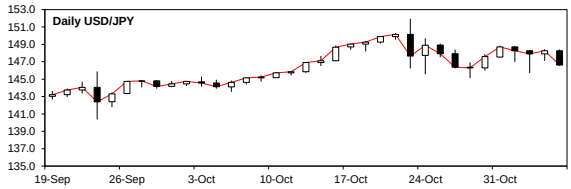
	Close	% Chg
S&P 500 (US)	3,770.55	-3.35
Nikkei (JP)	27,199.74	0.35
EuroStoxx (EU)	3,688.33	2.08
FTSE STI (SG)	3,130.11	2.32
JKSE (ID)	7,045.53	-0.15
PSEI (PH)	6,185.53	0.52
KLCI (MY)	1,438.28	-0.62
SET (TH)	1,626.32	1.26
SENSEX (IN)	60,950.36	1.65
ASX (AU)	6,892.46	1.57

US Treasuries: Over not Under

- Last week, UST 2Y yields tested 4.8% and receded towards 4.65% to close while 10Y yields rose 14.6bp. Certainly, the 24p surge in 2Y yields reflected the **hawkish sentiments emanating from the FOMC decision.**
- That said, at the same time, markets are also incorporating both a more gradual pace of hikes down the road but yet **propensity to over rather than under tightening.**
- As such, we expect short end yields to remain elevated and the **fairly deep 10Y-2Y inversion** (which is now at 50bps) to continue persisting.
- Given very fluid expectations at this juncture, USTs will remain in **heightened state of volatility.**
- All in, UST yields will remain high as the end of week decline in yields are more adjustments rather than pivots.
- We expect 2Y and 10Y yields to stay elevated above 4.5% and 4.1% respectively.
- This week's inflation print may again allow 2Y yields to challenge 4.8% as core inflation gives grim reminders of its sticky persistence.

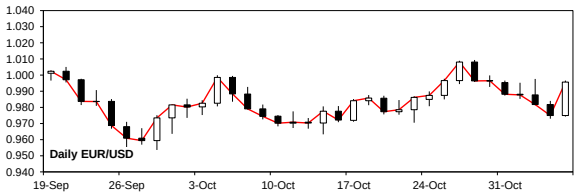
USD/JPY: Staying High

- Last week's JPY appreciation against the grind of higher UST yields is **by no means renewed strength or clear pivot.**
- We cannot emphasize enough that energy prices remain high with Brent Crude at above US$95/barrel and continues to weigh on the JPY.
- Finance minister also gave another reminder that amid **the intolerance of excessive FX volatility,** FX intervention is not level specific.
- His **support for BoJ independence** re-iterates the entrenchment of BoJ's dovish stance.
- All in, we expect to see buoyancy for the USD/JPY this week, trading in the 146-150 range with upside bias likely ignited by the US CPI print.



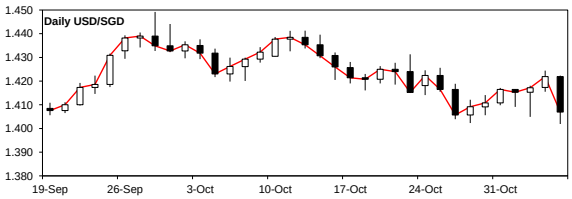
EUR: Betting On USD

- For now, it is all about USD and its implications for EUR. The bump in EUR/USD to 0.995 levels and a potential test of parity is set for reversal.
- USD demand may come back as CNY/CNH strength fades. Domestically, EUR has little impact to look ahead to this week by way of domestic data releases.
- In a quiet week, the markets will focus on ECB speakers and potentially try to extrapolate ECB President Lagarde comments on a potential Eurozone recession onto other speakers.
- As such, EUR/USD will trade mid-9.07-0-.997 for the week.



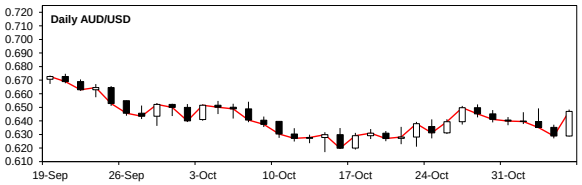
SGD: Hopes Dashed

- The USD/SGD was given an **end of the week assistance by the CNY/CNH strength** from re-opening rumors which allow the pair to fall below mid-1.40.
- With these **China re-opening hopes now dashed**, USD strength will look to re-assert its strength as the USD remains bid on higher UST yields.
- What's more, these dashed hopes **spill over to the EUR and regional peers.**
- As such, we expect the pair to sustain buoyancy above 1.40 with **re-taking mid-1.41 on the cards as US inflation remains sticky.**



AUD: Lack of Material Challenge

- As expected, the RBA hiked rates by 25bp while the Fed continue with their 75bp increase, **solidifying the wider rate differentials.**
- In addition, the RBA added that they have **raised interest rates materially since May**. As such, the **bar for RBA re-instating 50bps hikes remains a very high one.**
- While higher energy prices provide marginal terms of trade improvement, China's **staunch Covid-zero policy** mean that an all out resource demand resurgence is far fetched.
- This week, the AUD challenges above 0.65, if any, will be weak and cautious while the base case remains for slips below mid-0.63



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