

Mizuho Daily Currency Watch

9 May, 2024

Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

MIZUHO

Currency	Main focus of the week (S-T view)
EUR	Quiet week leaves EUR at mercy of events elsewhere
USD	USD to drift higher
JPY	Drifting back up in the absence of MoF
GBP	BoE expectations imply mild downside for GBP

Overnight comment – BoJ hints at tighter policy, JPY flatlines

Asian equities were mixed, with Chinese equities higher, helped by solid trade data and some positive news for the housing market. The Topix also rose, while equities elsewhere in Asia were mainly lower. UST yields edged a little higher in Asian time after a soft 10yr auction. The DXY index was a little higher in Asian time, with the bulk of the gain coming late in the session.

Japan's cash earnings data for March remain clouded by data issues. The headline number was weak but the same sample data were much less so with earnings growth accelerating from 1.9%YoY to 2.2%YoY. The leading index slipped a little in March. The driver of markets was the BoJ's Summary of Opinions from the April meeting. One Board member noted "If underlying inflation continues to deviate upward from the baseline scenario against the backdrop of a weaker yen, it is quite possible that the pace of monetary policy normalization will increase". Another person noted something similar. The fact that BoJ Governor Ueda met PM Kishida this week – after only a brief interval from the previous meeting has also spurred speculation that the BoJ is under pressure to hike faster to support the yen. Indeed, more BoJ tightening in the coming 12 months is now our core scenario. In our monthly forecast update published on 8 May, we now see USD/JPY much higher and the BoJ policy rate 50bp higher on a 12-month horizon vs 25bp previously. JGB yields jumped at the open, with the front end broadly consolidating through the session while back end yields declined. **USD/JPY was flattish at 155.75.**

In comments yesterday both Wunsch and Holzman referenced the Fed, with Wunsch noting divergence from the Fed risked significant euro effects. Holzmann noted no need to rush rate cuts. **EUR/USD drifted during Asian trade and currently sits around 1.0740.** In the UK the RICS house price balance was unchanged at -5 in April. It has been steadily improving since autumn last year. Recent UK housing data have surprised on the soft side. Otherwise it was quiet ahead of the MPC meeting today. **GBP/USD trades around 1.2485.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – BoE meeting (%)	5.25/5.25
US – Jobless claims	213/208

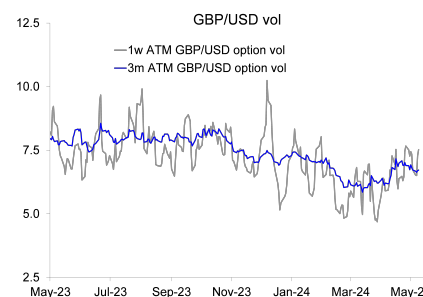
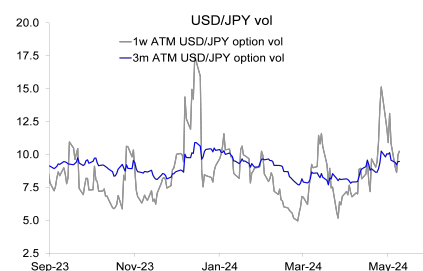
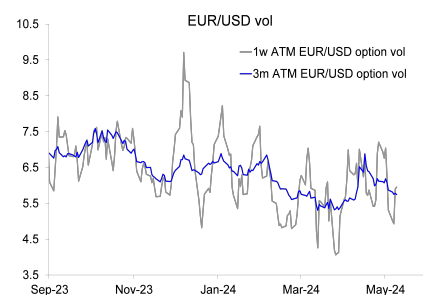
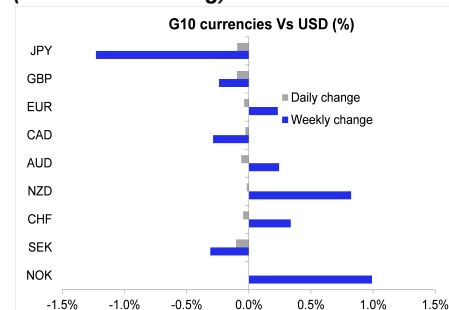
Source: Bloomberg

Europe. The BoE's 9 May policy meeting is the first since the Bernanke Review concluded. It is likely a little early to see much impact but it will be interesting to see if the fan charts survive until a replacement (in the form of scenarios) turn up. We suspect that they will survive for now. It's a super-Thursday so the BoE will release its quarterly Monetary Policy Report, as well as the minutes of the meeting alongside the policy decision. There will be a press conference too. The Bank is widely expected to leave policy unchanged. Since the 1 February meeting when the BoE last produced forecasts, financial conditions are little changed as is trade-weighted GBP. Equity markets are up, credit spreads have narrowed but yields have risen quite sharply. Oil prices have been volatile but are currently marginally higher, while gas prices are also slightly higher than ahead of the February meeting. At the margin these developments argue for a marginally lower CPI forecast at the back end of the forecast horizon. To some extent the impact of these moves in financial markets will be offset by a slightly worse starting point. The recent data on wages and prices show a little less progress than the BoE expected at the time of the February meeting.

US. Jobless claims have remained fairly stable since autumn 2023 and continue to suggest that the labour market remains in decent shape. The Fed's Daly speaks. We see her as at the dovish end of the spectrum and as such her comments on inflation will be of interest. The US Treasury continues to issue with today's offering \$25bn of 30yr bonds

Market data

(Source: Bloomberg)



This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author(s). 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.

This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies' financial data, which may include lists of current ratings.

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, Brazilian, 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. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

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 Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho 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. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

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.

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 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 MSUSA.

Brazil: Banco Mizuho do Brasil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd