Mizuho Global Weekly

March 28, 2024

Weekly Highlights

- **Waller rediscovers his hawkish side, lifts USD**
- **US labour market to remain firm**

- **Intervention watch, as JPY remains under pressure**
- **Tankan to keep modest BoJ hiking cycle on track**

- **Mixed week for EUR & GBP**
- **Gradual eurozone disinflation path to continue**

- **PBoC keeps CNY fixing steady**
- **Spillovers from JPY depreciation a concern**

- **Malaysia's CPI outperformance warns against complacency**
- **RBI's improved policy position not to be mistaken for inflection**

- **Hungary reverted back to 75bp cuts**
- **Poland to keep its cautious stance on inflation risk**

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US – Waller lifts USD

Major Events and Data Releases

Date	Event	Survey	Prior
1-Apr	ISM m'fact (DI, Mar)	48.5	47.8
2-Apr	JOLTS openings (DI, Feb)	--	8863
	Vehicle sales (mn saar, Mar)	15.95	15.81
3-Apr	ISM non-m'fact (DI, Mar)	52.8	52.6
	ADP employment (k, Mar)	150	140
4-Apr	Weekly jobless claims (k)	--	210
5-Mar	Non-farm payrolls (k, Mar)	216	275
	Unemployment (%, Mar)	3.8	3.9
	Average hourly earnings (%MoM, Mar)	0.3	0.1

Source: Bloomberg

The market mover of the week was the Fed's Waller re-discovering his inflation-busting chops. He went soft in January but his comments this week suggest that he is back on the hawkish side of the policy debate. Fed Chair Powell brushed off the strength of recent inflation data in the post-FOMC meeting press conference but on Wednesday evening Waller noted that the recent elevated inflation prints should mean either less cuts or a later start to easing. Indeed, the median 2024 dot in the Fed's Dot Plot was unchanged but its finely balanced. The average dot pushed higher and it likely only needs one or two members to shift from the "3 cuts" camp to "2 cuts" camp for the median dot to move higher. From Waller's comments we believe he is already in the "less than 3 cuts this year" camp. Waller reiterated that there is no rush to begin the easing cycle. UST yields and the DXY index jumped immediately in the wake of the comments and enjoyed some follow through for most of early trade in Europe the following morning. The subsequently greenback gave back some of Thursday's gains in what looked like volatile month/quarter-end trade.

Outlook

The labour market data are due. In the wake of the FOMC meeting, at which Powell implied he is willing to risk above-target inflation to ensure the labour market remains solid, this week's heavy labour market schedule is a key focus. Recent payrolls data have been firm. The consensus forecast is for the labour market to remain solid, with payrolls growth above the natural growth of the labour market, unemployment edging lower and average hourly earnings at 0.3%MoM, which implies %YoY hourly earnings growth continuing to slow towards pre-pandemic levels, albeit slowly. Other labour market data on the week include JOLTS, ADP and weekly jobless claims. Initial claims remain at rock-bottom levels suggesting lay-offs remain low. Continuous claims have been holding steady for over six months. In addition to the labour market data, the ISM reports and auto sales are due. Central bank speak during the week includes Williams, Mester, Daly, Goolsebee, Powell, Harker and Musalem. These will be Musalem's first public comments as St Louis Fed President. He was appointed in January but his term of office starts on 2 April. It will be interesting to see how much commentary reflects Waller's views. We suspect that the comments will be more in the dovish Powell mode rather than echoing Waller.

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Japan – Tankan to be reasonably upbeat

Major Events and Data releases

Date	Event	Survey	Prior
1-Apr	Tankan, lge m'fact sentiment (DI, Q1)	10	12
	Tankan, lge non-m'fact sentiment (DI, Q1)	33	30
	Tankan All industry capex (%YoY, Q1)	9.5	13.5
3-Apr	Composite PMI, final (DI, Mar)	--	52.3
5-Apr	Household spending (%YoY, Feb)	--	-6.3
	Leading index (Feb)	--	109.5

Source: Bloomberg

The week has been dominated by the currency markets with first Vice Minister of International Finance Masato Kanda firing off volleys of verbal intervention on the Monday followed by Finance Minister Suzuki on the Tuesday. Markets paid little heed. On Wednesday, MoF called a meeting with the BoJ and FSA, which markets seemed to take a little more seriously, with USD/JPY finally coming off the highs. Beyond fevered speculation of MoF intervention little has changed. The summary of the March BoJ meeting confirmed plans to go slowly with any additional tightening. The verbal intervention paid off and the yen tracked the US dollar higher on Thursday. In the week to date JPY is marginally firmer vs USD.

Outlook

The quarterly Tankan is the BoJ's survey of the economy. It is very broad and contains a wealth of detail. With the BoJ having already ended NIRP in March, the results will be less keenly anticipated but nonetheless, it may lay the groundwork for further BoJ tightening. Headline sentiment should ease a little in manufacturing. It will be interesting to see how much of this is due to a downturn in the auto sector and how expectations in that sector perform for H2. For non-manufacturing, the headline sentiment index should push higher still. This is the first FY24 forecast for capex. These should also be solid for the time of year. Estimates are usually revised higher in the first few quarters of the year. The Tankan contains a wealth of data on cost pressures, input and output costs and capacity constraints, as well as corporate inflation forecasts. These will be of special interest this time round to see what impact, if any, the surge in wage payments makes. Outside the Tankan, data include household spending and the leading index.

Currency intervention will also be a focus this week. This week verbal intervention reached fever pitch forcing MoF to meet with the BoJ and the FSA. We suspect that unless the BoJ actually puts its hand in its pocket, or the US data are very weak, then investors will look to test the BoJ's limits.

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Europe – Mild drift lower for eurozone CPI

Major Events and Data Releases

Date	Event	Survey	Prior
2-Apr	UK – M4 Ex OIFCs (3m% saar, Feb)	--	2.2
	EZ – CPI expectations (%YoY, Feb)	--	3.3
3-Apr	EZ – CPI, flash (%YoY, Mar)	2.5	2.6
	EZ – core CPI, flash (%YoY, Mar)	3.0	3.1
4-Apr	UK – DMP 1yr CPI expectations (%YoY, Mar)	--	3.3
	UK – New car registrations (%YoY, Mar)	--	14.0
	UK – Composite PMI, final (DI, Mar)	52.9	52.9
	EZ – Composite PMI, final (DI, Mar)	--	49.9
	EZ – PPI (%YoY, Feb)	--	-8.6
5-Apr	EZ – Retail sales (%MoM, Feb)	--	0.1

Source: Bloomberg

It was a very quiet week for data in the run upto easter, leaving the focus on central bankers. Both the BoE hawks spoke this week. Haskel said that while the drop in headline CPI was encouraging it said little about the more persistent components of inflation. He said it should be a long time before the BoE starts to ease. His focus on the more persistent factors in the inflation basket suggest to us a bigger focus on core CPI or even core services CPI. These metrics give a better underlying view on inflation. It remains the case, however, (as Governor Bailey has stressed), that it is possible to move before inflation comes back down to 2.0%. Bailey has clearly stated that he is encouraged by recent developments. If most of his colleagues feel the same way as he does, then a June move is on the cards. We see the bulk of the MPC more in Haskel's camp and continue to expect the first move in August. We will be watching BoE speak carefully in coming weeks for more clues on this aspect of policy. For the ECB Kazak's noted that the ECB should ease cautiously to see how the economy reacted to lower rates. We suspect that with solid labour markets and uncertainty surrounding the neutral rate (and hence how tight policy actually is) policymakers will go slowly in easing policy. In the week to date, SEK is propping up the G10 rankings after a dovish. GBP is a little firmer vs USD in the week to date while EUR is fractionally weaker.

Outlook

The data highlight of the week ahead will be the eurozone inflation data. Spanish inflation is already out, with CPI up from 2.9%YoY to a slightly weaker-than-expected 3.2%YoY. Ahead of next week's German CPI, the French and Italian CPI are due on Good Friday. The consensus forecast for the eurozone figure is for it to nudge down from 2.6%YoY to 2.5%YoY with core down by a similar amount to 3.0%YoY. Progress towards 2.0% has slowed a little, especially with the recent uptick in wholesale gas prices. The ECB inflation survey is also due. 1yr expectations are still elevated at 3.3%. 3yr expectations at 2.5% are still above the level they were before the surge in energy prices in 2022, when they were broadly in the 2.0~2.1% range.

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China – PBoC keeps CNY fixings steady

Major Events and Data Releases

Date	Event	Survey	Prior
31-Mar	Mfg. PMI (DI, Mar)	50.1	49.1
	Non- mfg. PMI (DI, Mar)	51.4	51.4
1-Apr	Caixin China PMI Mfg.	50.9	50.9
3-Apr	Caixin China PMI Services	--	52.5

Source: Bloomberg

The RMB market is largely back to normal, as market participants are convinced by PBoC's policy actions so far this week, amid steady CNY fixings and rumours of USD selling in the onshore China market. Spot CNH rebounded towards the 7.23 level but weakened again due to concern over JPY depreciation and spillovers to EM Asian currencies. Admittedly, RMB depreciation pressure has been mounting, with the CNH-CNY gap widening and stronger CNY fixing support. The correlation trade between USD/CNH (USD/CNY) and USD/JPY could be a source of the recent RMB depreciation pressure. Indeed, the 3-month correlation between USD/CNH and USD/JPY has been running high near the 0.9 level. More importantly, JPY depreciation could prompt the PBoC to consider further RMB depreciation. If the Japanese authorities refrained from defending the currency, a sharp JPY depreciation past 152 could trigger a bigger wave of Asian currency depreciation and the PBoC will be facing heavier pressure on defending CNY spot around the 7.2 level. Hence, the PBoC might be tempted to allow CNY depreciation pressure in an orderly manner by letting CNY spot go above 7.2 alongside steady CNY fixing in advance. Approaching quarter-end, the PBoC scaled up its reverse repo operations notably, net injecting over CNY 600bn of liquidity over the week in comparison to CNY 17bn liquidity withdrawal in the prior week.

Outlook

We hold a view that the PBoC's greenlight for CNY weakening aims to introduce FX volatility into the CNY market and break expectations for a steady CNY fixing policy, paving the way for the exit of CNY fixing support eventually. However, the gap between CNH/CNY spot and CNY fixing for the time being is too wide for such a policy exit. Considering the significant RMB depreciation pressure, a removal of CNY fixing support will likely lead to a sharp RMB depreciation and possible FX overshooting. Such case could reignite capital outflow pressure and causes jitters in financial markets. Hence, if the PBoC is targeting a phase out of its CNY fixing support, the central bank may attempt to narrow the CNY spot – fixing gap and increase the flexibility of CNY fixing setting gradually before the beginning of Fed's easing cycle. On the data front, China manufacturing PMI for March is expected to rebound to rebound above the 50 expansion mark for the first time since September 2023 after the Chinese New Year break. Robust consumption figures point to a robust non-manufacturing PMI.

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EM Asia – Sticky inflation remains a challenge

Major Events and Data Releases

Date	Event	Survey	Prior
1-Apr	Indonesia CPI (%YoY, Mar)	--	2.8
	Korea Exports (%YoY, Mar)	--	4.8
	Thailand Business Sentiment (DI, Mar)	--	48.8
2-Apr	Singapore PMI (DI, Mar)	--	50.6
	Australia RBA Minutes (March)	--	--
	Korea CPI (%YoY, Mar)	--	3.1
4-Apr	Australia Building Approvals (%MoM, Feb)	--	-1.0
5-Apr	Singapore Retail Sales (%YoY, Feb)	--	1.3
	Australia Trade Balance (A$mn, Feb)	--	11027
	India RBI Repurchase Rate (%)	--	6.5
	Korea C/A Balance ($mn, Feb)	--	3046
	Thailand CPI (%YoY, Mar)	--	0.4
	Philippines CPI (%YoY, Mar)	--	3.4

Source: Bloomberg

This week, underscoring the importance of administrative measures, Malaysian CPI exceeded expectations printing at 1.8%YoY accelerating from the 1.5%YoY in January due to adjustments in water tariff setting mechanism. While the spike is unlikely to worry the BNM, we remain watchful of second round effects from the impact of the already implemented service tax increases and possibilities of higher minimum wages in the pipeline.

In Australia, while the Swift effect panned out as expected to lift retail sales to 0.3%MoM on a seasonally-adjusted basis with higher spending on clothing and footwear as well as cafés and restaurants, household goods consumption contraction may be pointing to signs of underlying household weakness and possible expenditure switching. February CPI in Australia also stayed sticky at 3.4%YoY with goods dis-inflation on items such as food and beverage offsetting higher services inflation as education costs were revised higher while the likes of rent and health care inflation stay flat.

Outlook

To be sure, softer inflation across a spectrum of measures, including headline and core, is welcome relief for the RBI. But the RBI's improved (policy) position is not to be confused for an inflection point. Three compelling reasons why. First, despite encouragingly sustained CPI decline, upside inflation volatility remain a distinct risk. This counsels against excessive confidence in over-estimating the resultant policy space. Second, while real rates have turned considerably restrictive (above neutral), this is not broadly the case; and not for long enough. Finally, on a real rate spread (vs US), the RBI is still at a significant dis-advantage. As such, implied rupee stability risks effectively tie the RBI's hands for now.

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EMEA – Poland to keep its cautious stance on inflation risk

Major Events and Data Releases

Date	Event	Survey	Prior
29-Mar	Poland CPI (%YoY, Mar)	2.3	2.8
2-Apr	Hungary Manufacturing PMI (DI, Mar)	-	52.2
2-Apr	Poland Manufacturing PMI (DI, Mar)	47.6	47.9
2-Apr	Czech Manufacturing PMI (DI, Mar)	44.1	44.3
4-Apr	Poland Policy Rate (%)	5.75	5.75
4-Apr	Romania Policy Rate (%)	7.00	7.00

Source: Bloomberg

Last week, EMEA currencies depreciated against USD, while remaining firm against EUR.

In Hungary, the National Bank of Hungary (NBH) cut its policy rate from 9.00% to 8.25% as market expected on 26 March. The NBH slowed the pace of interest cuts from 100bp in February to 75bp in March after HUF weakened. The NBH Vice Governor Virag suggested further rate cuts, saying the market expectations that the NBH will reduce the base rate to between 6.5% and 7% by the end of June were “realistic”. But Virag also showed his cautious stance, especially on HUF depreciation risk, suggesting that the rate cut pace will slow.

In South Africa, the South African Reserve Bank (SARB) kept its policy rate at 8.25% on 27 March. Although the market reaction was muted, the wording of statement and the Governor Kganyago’s briefing were more hawkish than the January meeting with risks from the El Nino weather condition threating harvests and risking an acceleration in food inflation.

In Poland, the ruling coalition set in motion a process to oust the central bank Governor Glapinski, who is widely seen as an ally of former ruling party “Law and Justice”(PiS) on 26 March. PLN showed little reaction.

Outlook

Next week, the National Bank of Poland (NBP) and the National Bank of Romania (NBR) meet. We believe both central banks will keep their policy rates unchanged. Polish March CPI inflation will likely show a further drop from February, but we believe the NBP will judge the drop of CPI inflation is “temporary” and will not alter its cautious stance on resuming interest cuts.

Other than central bank meetings, March manufacturing PMI reports in central and eastern Europe economies will be worth watching.

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