Mizuho Global Weekly

April 26, 2024

MIZUHO

Weekly Highlights

- **USD takes a breather amid stagflation concerns**
- **Heavy data week including payroll and earnings, but focus on the Fed**

- **Dovish BoJ sees USD/JPY push above 157**
- **Intervention watch in holiday-shortened week**

- **EUR and GBP give up gains late in the week**
- **Heavy eurozone data week includes GDP and CPI**

- **PBoC guided CNY depreciation gradually**
- **CNH liquidity conditions eased notably**

- **Taiwan Q1 GDP growth to outperform on exports**
- **Vietnam trade and industrial production to remain firm**

- **Turkiye kept policy rate at 50.0%**
- **Czech central bank to cut 50bp**

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US – heavy data week, with Fed the focus

Major Events and Data Releases

Date	Event	Survey	Prior
30-Apr	House prices (%YoY, Feb)	--	6.6
	Consumer confidence (DI, Mar)	104.1	104.7
1-May	JOLTS job openings (k, Mar)	8725	8756
	ISM m'fact (DI, Apr)	50.1	50.3
	FOMC (%, mid)	5.375	5.375
	Vehicle sales (%saar, Apr)	15.7	15.5
2-May	Weekly jobless claims (k)	---	207
3-May	Non-farm payrolls (k, Apr)	250	303
	Unemployment (%, Apr)	3.8	3.8
	Average hourly earnings (%YoY, Apr)	4.0	4.1
	ISM services (DI, Apr)	52.0	51.4

Source: Bloomberg

Early in the week the data were mixed. The highlight of the week was the Q1 GDP data that was weak in real terms. However, it wasn't weak in terms of private domestic demand and it wasn't weak in nominal terms either. The core GDP deflator almost doubled from 2.0% saar in Q4 to 3.7% saar in Q1. UST yields jumped in the wake of the GDP data, with 2yrs briefly breaking above the 5.0% level. Whilst UST yields broadly held the move, in fx markets the DXY index did not. US equity earnings have been solid especially the tech sector, which has led equity markets higher this week, with the Nasdaq up over 4.0% – in short "risk on". USD railed hard late on Friday. Over the course of the week, USD outperformed JPY, CHF and the Scandi currencies, while AUD, NZD and GBP topped the G10 rankings.

Outlook

The Fed will leave policy unchanged at its meeting this week. The main focus is on whether it will hint at a need to raise the policy rate instead as inflation stalls out well above target. We suspect that Powell will reiterate the base case and say that holding rates at current levels is likely enough to bring inflation down to target but he will also say there is no rush to lower rates. There will be no new forecasts this time putting the statement and press conference in focus. Chair Powell's new-found patience looks to have rolled back the surprisingly dovish shift in the March forecasts, which suggested a Fed determined to cut no matter what. The data have not played ball, especially the slew of hot inflation prints. It will be a busy week for data and on balance the data should imply the Fed should proceed with extreme caution in discussing lowering the policy rate. The data highlight will be the non-farm payrolls report on Friday. This is expected to show the labour market remains in robust health, with payrolls remaining well above 200k. Ahead of payrolls there will be a number of labour market data including JOLTS, ADP, weekly jobless claims and the labour market sub-index in the ISM report. Other data on the week include the services ISM and auto sales. In addition, in the wake of the Fed meeting there are likely to be a number of Fed speakers reviewing the market reaction to the meeting.

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Japan – JPY under pressure from dovish BoJ

Major Events and Data releases

Date	Event	Survey	Prior
30-Apr	Unemployment (%, Mar)	2.5	2.6
	Job offers/unemployment ratio (Mar)	1.26	1.26
	Retail sales (%MoM, Mar)	-0.2	1.7
	Industrial production (%MoM, Mar)	3.5	-0.6
	Housing starts (%YoY, Mar)	-7.5	-8.2
2-May	Consumer confidence (DI, Apr)	39.7	39.5

Source: Bloomberg

It is no contest to see which currency is propping up the G10 rankings this week. JPY is the worst performing G10 currency by some margin, dropping sharply against the US dollar in a week when the US dollar itself underperformed. The big moves came on the Friday in the wake of the BoJ meeting. Ahead of the meeting there were some speculation that the BoJ might do something on the bond purchasing front. As it was they didn't. Hence the initial sell off in the yen when the announcement was made. Governor Udea was dovish in the press conference and USD/JPY pushed higher still, topping out at 156.82. USD/JPY then dipped in what initially looked like intervention but the absence of follow through suggests that it was fear of MoF intervention rather than actual intervention driving the move. Late in the session USD/JPY pushed up to a fresh high at 157.42. With Monday being the start of Golden Week, there was some speculation that MoF's window for action was limited. Of course MoF can intervene on Japanese holidays but we suspect that it would rather not. The weak Tokyo CPI data were broadly shrugged off as an idiosyncratic outcome driven by education subsidies unlikely to be repeated in the national data,.

The major lifers, in their semi-annual press interviews have suggested that they will mainly focus on JGBs in H1 FY24. They are looking for 30yr yields above the 2.0% level (currently 1.93%). 10yr JGB yields are currently just below 0.9%. Lifers saw 10yr JGB yields at 0.5~1.5%, up from 0.0~1.3% six months earlier. That said, they were more bullish on USTs with the range dropping to 3.0~5.5% to 2.0~5.5%, with an average of 3.87 (vs 4.12% prev). They also saw the yen a little firmer vs USD but not significantly so.

Outlook

The start and end of the week will see markets closed for Golden Week holidays and thus the data are squeezed into the middle of the week. The initial focus will be on intervention. As yet it looks like MoF has held off even as USD/JPY is pushing relentlessly higher. The real driver of a change in USD/JPY will be softer US data that allows lower US rates. Alas, there has been very limited signs of this in recent weeks. It's a data heavy week in Japan, with the main focus on the impact of the recovering auto sector on manufacturing output. The consensus is for a 3.5%MoM jump in March, which would still leave production down heavily on the quarter after a 6.7%MoM drop in January. Retail sales, unemployment and housing starts are also due, as is consumer confidence. Japan's earnings season begins to pick up steam too. The LDP is expected to lose all 3 by-elections adding to pressure on PM Kishida. He is lucky there is no obvious replacement.

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Europe – Eurozone GDP and flash CPI in focus

Major Events and Data Releases

Date	Event	Survey	Prior
29-Apr	EZ – EU Commission econ confidence(DI, Apr)	96.7	96.3
30-Apr	EZ – GDP (%QoQ, Q1)	0.1	-0.1
	EZ – CPI flash (%YoY, Apr)	2.4	2.4
	EZ – Core CPI flash (%YoY, Apr)	2.7	2.9
	UK – M4 ex OIFCs (3m % saar, Mar)	-	3.9
3-May	EZ – Unemployment (%, Mar)	6.5	6.5

Source: Bloomberg

Early in the week the flash PMI data, especially in the service sectors, implied on-going improvement in the outlook for both the UK and the Eurozone. BoE speakers cancelled each other out with the formerly hawkish Ramsden sounding dovish but Chief Economist Pill suggesting its still too early to be looking for interest rate cuts. Both GBP and EUR pushed steadily higher for most of the week only to come under pressure late on Friday, giving up much of the earlier gains.

Outlook

The highlight of the week will be the eurozone GDP data for Q1. We expect a number close to but slightly above zero, implying the region has exited the H2-23 recession. The PMI data improved through the quarter but still implied contraction. The eurozone flash CPI data for April are also due. Headline CPI is seen little changed at 2.4%YoY with energy pushing prices higher and food pushing prices lower. The core should dip a little but remain somewhat above target around 2.7%YoY. German and Spanish CPIs, out on Monday, will give a solid guide as to the eurozone release on Tuesday. Late in the week, eurozone unemployment is due. It remains at the cycle low. The labour market has been surprisingly robust so far given the weakness in economic activity in 2023. There are signs that the economy is now past the worst. Growth is likely to be below trend for H1-24 and possibly some of H2-24 but only marginally so. The ECB's view that the labour market may not weaken much this year may prove prescient yet. The EU Commission confidence surveys for April are due early in the week. The surveys will likely show mild improvement in line with other surveys in the eurozone. The labour hoarding index will be of interest. It shows labour hoarding is still a thing even if it is not quite as much of a thing as it was 12 months ago. The only UK release of note will be the money supply data. Final manufacturing PMI data late in the week will attract little interest. The local government election in the UK are likely to go badly for the government. The polls are unremittingly gloomy.

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China – PBoC guides CNY depreciation gradually

Major Events and Data Releases

Date	Event	Survey	Prior
27-Apr	Industrial Profits YTD (%YoY, Mar)	--	10.2
30-Apr	Mfg. PMI (DI, Apr)	50.3	50.8
	Non-mfg. PMI (DI, Apr)	52.2	53.0
	Caixin China PMI Mfg. (DI, Apr)	51.0	51.1

Source: Bloomberg

With the CNY fixing hovering around the 7.105 level, market participants perceived PBoC's signal to guide RMB depreciation at a very slow pace and the CNY spot drifted to a 5-month low of 7.2474. Admittedly, RMB depreciation pressure remained significant, with CNY spot trading close to the weak-end of its trading band against USD. The US-China interest rate widening sent 1Y CNY FX swap to a 17-year low of -2933 points. Apart from USD strength, sharp JPY depreciation may further compel the PBoC to keep CNY weak to preserve China's exports competitiveness. In the offshore RMB market, spot CNH range-traded as CNH liquidity conditions eased notably. The RMB basket index softened modestly to 100.4 level from an 18-month high of 100.73.

On the policy front, Chinese banks left their 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95% as expected. PBoC's open market operations took a backseat, keeping liquidity injections neutral over the week. The China Government Bond market displayed a biddish tone, with 10Y CGB yield sinking to a record low of 2.22%. In the offshore RMB market, CNH liquidity conditions eased notably, with Overnight CNH HIBOR down to 1.4% from 6.1% on the previous Friday. We reckon that Chinese banks might start to inject CNH liquidity when the CNH-CNY spot gap narrows.

Outlook

The PBoC's CNY fixing will likely remain the primary tool to guide RMB market movement. Considering the return of "higher for longer US rates" expectations and PBoC's CNY fixing weakening, we expect the CNY spot to drift towards 7.25 level in the near term. In parallel, the suspected USD selling flow from Chinese banks and CNH liquidity management will help anchor RMB sentiment and guide RMB depreciation at an orderly pace. On the data front, China manufacturing and non-manufacturing PMIs are expected to hold above 50 expansion mark in April, while the slowdown in March data may bode ill for Chinese production activities in Q2.

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EM Asia – Growth pick up

Major Events and Data Releases

Date	Event	Survey	Prior
29-Apr	Vietnam Trade Balance ($mn, Apr)	--	2930
	Vietnam Industrial Production (%YoY, Apr)	--	4.1
23-Apr	Vietnam CPI (%YoY, Apr)	4.4	4.0
	Australia Retail Sales MoM (Mar)	0.2	0.3
24-Apr	Korea Industrial Production (%YoY, Mar)	5.5	4.8
	Thailand C/A Balance ($mn, Mar)	1900	1965
	Taiwan GDP (%YoY, Q1)	5.6	4.9
	Korea Exports (%YoY, Apr)	15.0	3.1
	Singapore PMI (DI, Apr)	--	50.7
	Australia Trade Balance (A$mn, Mar)	7400	7280
25-Apr	Indonesia CPI (%YoY, Apr)	3.1	3.1
	Korea CPI (%YoY, Apr)	3.0	3.1
26-Apr	Singapore Retail Sales (%YoY, Mar)	--	8.4%
	Australia PPI (%YoY, Q1)		

Source: Bloomberg

This week, Australia CPI's rising slightly to 3.5% in March from 3.4% in February assisted AUD's regional outperformance rising towards 65 cents. IDR also received support from Bank Indonesia. As we expected, BI raised their policy rates by 25bp to stabilise IDR and vowed to ramp up intervention in the FX spot, domestic NDF and bond markets, if necessary. Top of mind IDR concerns contrasted with their confidence in maintaining inflation within their target range.

In Korea, Q1 GDP growth outperformed posting 3.4%YoY growth with a significant pick-up in sequential momentum at 1.3%QoQ on a seasonally adjusted basis. Unsurprisingly, net exports were the key driver of growth contributing 3.5pp while inventory drawdown posed a drag. Notably, private consumption remained resilient and raised its support to growth in turn validating the BoK's stance to remain wary of upside risks to inflation.

Outlook

We also expect Taiwan's growth print to show significant upside vs the consensus estimate. It may even accelerate above 6%. Strong industrial production momentum alongside exports growing 16.3%YoY bodes well for the manufacturing sector. Meanwhile, service sector activity is likely robust with wholesale trade growing 8.2%YoY and food and beverage services up 4.0%YoY in Q1. Soft spots though are retained in a contraction of consumer goods production which is also evident in retail trade weakness. The improving external environment is also likely to impart firmness for Vietnam's industrial production amid signs of rising imports from Korea which is a more upstream input source. Meanwhile, headline inflation is likely to stay elevated and may even touch the 4.5% upper bound on higher petrol price and food inflation.

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EMEA – Czech central bank to cut 50bp

Major Events and Data Releases

Date	Event	Survey	Prior
30-Apr	Hungary GDP (%YoY, Q1)	1.3	0.0
	Czech GDP (%YoY, Q1)	0.3	0.2
	Poland preliminary CPI (%YoY, April)	2.4	2.0
2-May	Hungary Manufacturing PMI (DI, April)	--	52.3
	Poland Manufacturing PMI (DI, April)	--	48.0
	Czech Manufacturing PMI (DI, April)	46.6	46.2
	Czech Policy Rate (%)	5.25	5.25

Source: Bloomberg

Last week, most EMEA currencies rebounded against USD, following sharp depreciation over the prior 2 weeks.

The National Bank of Hungary (NBH) cut its policy rate by 50bp to 7.75% on 23 April. The pace slowed from 75bp in March, following a 100bp rate cut in February, against the back drop of deteriorating risk appetite and HUF fluctuations. The NBH should not rush with policy rate cuts, NBH Deputy Governor Virag said after the April rate-setting meeting.

The Central Bank of Turkiye (CBRT) kept its policy rate at 50% on 25 April. The overall tone of statements has not changed since March. The CBRT remains cautious on inflation risks, pledging a continuation of tight monetary policy.

Outlook

Next week, the Czech National Bank (CNB) will announce its policy rate on 2 May. The CNB is likely to cut 50bp, the same magnitude of cuts as its previous meeting. The CNB will justify its cautious stance via risks to the inflation outlook. We believe the 5-2 vote split, where 2 members voted larger cuts in March meeting, will not change.

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