Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	*CPI bounce to ease rate cut pressure, support EUR*
USD	*Still healthy labour market data not likely to lift USD*
JPY	*PM Kishida's woes no barrier to further JPY gains*
GBP	*Mixed data to leave GBP little changed*

Overnight comment – DXY edges higher ahead of payrolls

While US equites closed lower on Thursday the tone in Asian equity markets, excluding China, was a little less negative, even as European/US equity futures remained in the red. It was a quiet Asian session ahead of the US payrolls data later today, with UST yields little changed for the bulk of the session only to push a little higher towards the European open. In turn, this accentuated the DXY's gains. Energy prices remain volatile with a jump in inventories yesterday seeing crude unwind gains driven by concerns about rising tensions in the Middle East. Brent sits around $78.0, up just over 1% so far this year. Japanese equites outperformed, rising for a second day and JGB yields were little changed. Japan's final PMI nudged lower to 51.5 in December from a flash estimate if 52.0. However, consumer confidence pushed a little higher to 37.2, its highest since early 2022. Anecdotally, the annual New Year Tuna auction at the Toyosu fish market secured the 4th highest price since record began in 1999. The buyer noted "*I'd been feeling the economy was getting better*". Wages will remain in focus. As was the case last year the anecdotal evidence of elevated wage settlements is strong. But it remains the case that big payments make the news but it is the overall wage data that are important. It has been a tough start to the year for the yen, as higher overseas yields and doubts about BoJ hiking in the wake of the recent earthquake combine to weaken the currency. Expectations for a BoJ policy change in January have faded this week. **USD/JPY flatlined for most of the session, only pushing higher late in the day to trade around 145.10**. The yen is the worst performing G10 currency in the year to date, down almost 3% against the US dollar. It was a quiet start in Europe. Dutch CPI data came in a little weak, adding to the mild downside risks for the Eurozone inflation data from yesterday's reports. German retail sales were also weak. **EUR/USD drifted lower through the Asian session and sits around 1.0930 as European trade gets underway**. In the UK, retailers reported lower footfall in the shops in December, as bad weather took its toll. Halifax reported that house prices were up for a third consecutive month, pushing YoY growth positive. As with the economy in general, the housing market is proving to be resilient. **GBP/USD nudged higher after the date and sits around 1.2680**.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – CPI (%YoY, Dec)	*3.0/2.4*
EZ – Core CPI (%YoY, Dec)	*3.4/3.6*
EZ –PPI (%YoY, Nov)	*-8.6/-9.4*
US – Non-farm payrolls (k, Dec)	*171/199*
US – Average earnings (%YoY, Dec)	*3.9/4.0*
US – Unemployment (%, Dec)	*3.8/3.7*
US – ISM non-manufacturing (DI, Dec)	*52.5/52.7*

Source: Bloomberg

Europe. Eurozone prices are in focus with both the CPI (for Dec) and PPI (for Nov) due. Yesterday's French and German data hint at minor downside risks for the eurozone print. The big picture remains that, at the headline level, the bulk of the November drop will be reversed, while the core CPI continues to edge slowly lower. We suspect that an in-line print will modestly temper early ECB rate cuts bets, although much of the information in the eurozone measure is already out given the German data. The PPI is also due. Energy costs have been the big driver of the plunge in the PPI but we see the impact here as mainly behind us. Peak goods price disinflation is likely in the rear view mirror.

US. Non-farm payrolls is the data highlight of the week. The leading indicators this week have been mixed but mainly on the firm side. The consensus call of 171k jobs implies the labour market remains tight. Average earnings are seen edging lower but they remains above pre-Covid levels. The non-manufacturing ISM index is also due. Services continue to outperform manufacturing by some margin.

Market summary

(Source: Bloomberg)