

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Labour market cracks starting to show. EUR on the back foot
USD	CPI to underscore slow progress for core, still scope for more USD gains
JPY	BoJ concerns to keep JPY on the back foot
GBP	GBP momentum to remain in place

## Overnight comment – Drift

Asian equity markets started the week on the back foot, with China continuing to lead the declines against a backdrop of rising fears surrounding and generally weak sentiment. US equity futures were marginally lower. Over the weekend there was some modest progress on debt ceiling talks ahead of the 19 January deadline for some spending programmes. The plunge in the US ISM services employment sub-index seems to be an outlier when taken in the context of the labour market data as a whole. We expect the UST market to recalibrate its response to the payrolls report in due course and that UST yields will see upward pressure early in the week, likely dragging the DXY index higher too. Over the weekend, the Dallas Fed President Logan, said the Fed should slow the pace of QT. She noted “In my view, we should slow the pace of runoff as ON RRP balances approach a low level...Normalizing the balance sheet more slowly can actually help get to a more efficient balance sheet in the long run by smoothing redistribution and reducing the likelihood that we’d have to stop prematurely”. Recall that previously Logan was manager of SOMA when she worked at the NY Fed and is probably FOMC official most knowledgeable on QT. The topic was also discussed at the December FOMC meeting. Japanese markets were closed for the Coming of Age Day holiday. **USD/JPY eased lower through the session making JPY one of the better G10 performers. The pair sits around 144.30 as Europe opens.**

The weekly IMM data show limited changes in positioning in the last few weeks in most G10 currencies. CAD is an exception. Speculative CAD shorts were trimmed sharply over the last 3 weeks. Asset managers have been steadier sellers of USD over the last few months with positioning in most pairs shifting firmly against the US dollar.

German factory orders were a little weaker than expected but the German trade data for November were better than expected, with exports surprisingly firm. **EUR/USD blipped a little higher as Europe opens but ends the Asian session little changed around the 1.0945 level.** In the UK, the report on jobs for December was mixed. Candidate availability remains high as hiring slows. Both permanent and temporary hiring fell but at a slower rate than in November. Wage growth picked up a little on the month. **Like EUR/USD, GBP/USD initially dipped a little early in the Asian session but was little closed by the start of London trade around 1.2715.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Retail sales (%MoM, Nov)	0.3/0.1
EZ – Commission Economic sentiment (DI, Dec)	--/98.3
UK – Report on Jobs (Dec)	--/--
US – Consumer credit (\$bn, Nov)	9.5/5.1

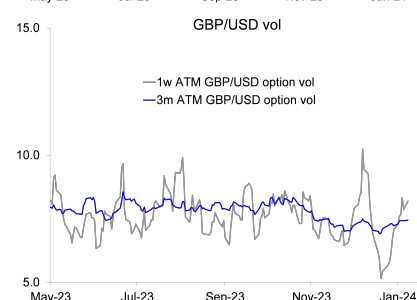
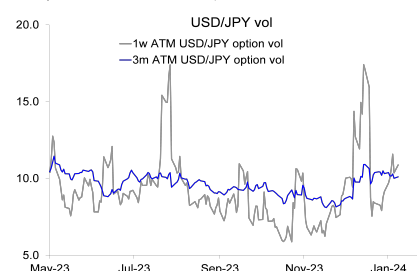
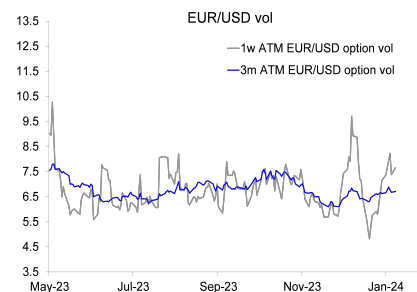
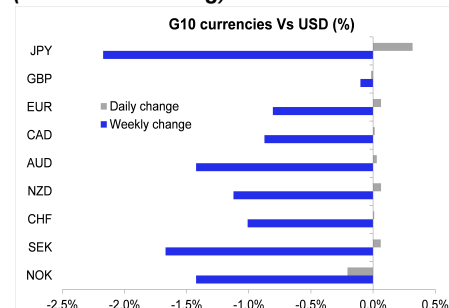
Source: Bloomberg

**Europe.** It is a quiet start to the week. In the eurozone the EU Commission sentiment indices will provide good cross-country comparisons within the region, however, these are usually the last of the sentiment indices each month and thus have limited market impact. Eurozone retail sales and German factory orders are also due.

**US.** In the US consumer credit is the lone release today. The focus this week is on prices, with CPI and PPI reports due late in the week as well as the first few earnings reports of earnings season, which are focussed on financials, and fiscal policy as the shutdown heaves into view (19 January). UST supply will also be a focus with 3yrs (\$52bn, Tues), 10yrs (\$37bn, Wed) and 30yrs (\$21bn, Thur) all due.

## Market summary

(Source: Bloomberg)



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