

Mizuho Daily Currency Watch

9 January, 2024

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MIZUHO

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 – GBP remains firm, despite soft Dec spending data

The drop in the NY Fed inflation expectations yesterday lifted sentiment and helped US equities push sharply higher. Oil prices declined yesterday as Saudi Arabia lowered prices for February delivery adding to the disinflationary impulse. Brent futures dropped towards \$76/barrel and was little changed in Asian trade. Overnight the Fed's Bowman spoke. She is among the more hawkish members of the FOMC and her comments reflected that. Whilst she conceded that rate cuts would be appropriate eventually if inflation fell further she noted important upside risks and said she was still cautious. Most Asian shares tracked US higher. UST yields were little changed and the DXY index pushed marginally higher.

Japanese equities pushed higher with the Nikkei closing at a 34-year high. Tokyo ex fresh food and energy CPI for December remained elevated, dipping only slightly from 3.6%YoY to 3.5%YoY. Household spending in December was a little soft, down 2.9%YoY. JGB yields pushed lower, even as the BoJ left the scale of its purchase operations unchanged. Given that the BoJ will buy 10–25yr less often this quarter, this implies a reduction in Rinban operations in the 10–25yr sector vs Q4 2023. USD/JPY initially dipped but ended the session little changed around the 144.00 level.

Yesterday, the ECB's Vujcic noted "We're not talking about cutting interest rates now, and probably won't before summer". We see this as close to the consensus position of the ECB. We also see the ECB's view on the labour market as optimistic and if the labour market softens as we expect then the bias for the first ECB cut will move forward. The market sees the first move as likely being in April with 31bp priced for the meeting. Vujcic's comments suggest that it will be later. June seems the most likely timing to us at present. Germany industrial production declined more than expected in November, falling for a 6th consecutive month, underscoring the conditions remain difficult in the eurozone largest economy. **EUR/USD was little changed in Asian trade and sits around 1.0960 as Europe opens.**

In the UK, the BRC data suggest that November's surge in the official retail sales data was largely seasonal rather than a sign of underlying strength. BRC retail sales slowed in December to 1.7%YoY, down from 2.7%YoY in November. Credit card data also suggested weakness in December. More broadly, the prospects for the UK look a little brighter over the past month, with the PMIs suggesting activity is now expanding again, inflation falling a little faster than expected, house price data less downbeat than we anticipated and the prospects of more fiscal loosening in the March budget. **GBP/USD was little changed in Asian trade and sits around 1.2750 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Unemployment (% , Nov)	6.5/6.5
US – NFIB small business sentiment (DI, Dec)	91.0/90.6

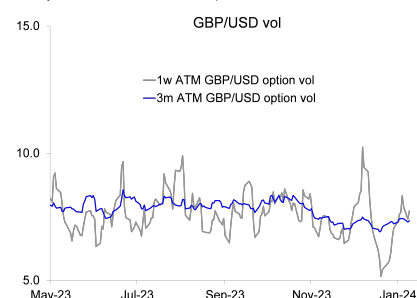
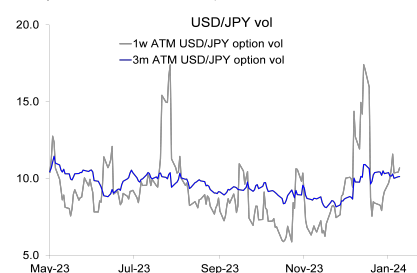
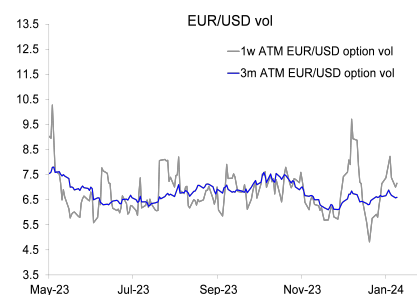
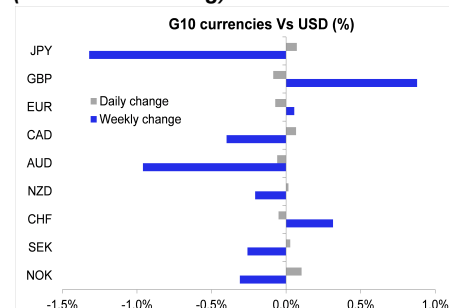
Source: Bloomberg

Europe. The ECB's forecasts for the unemployment rate in 2023/24/25 are 6.5%, 6.6% and 6.5%, respectively. The consensus is for 6.5%. 6.8% and 6.7%. The ECB expects that the solid labour market will keep wage growth elevated. As long as the ECB expects the labour market will remain firm, it is likely to be reluctant to start lowering rates. Today's unemployment print for November is expected to show the rate unchanged at 6.5%. We see the bias as for a weaker print.

US. With just the NFIB small business sentiment due, the data are not likely to be much of a driver of markets today. The Fed's Barr speaks but the topic is banking regulation rather than policy.

Market summary

(Source: Bloomberg)



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