

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

colin.asher@mhcb.co.uk | +44 20 7012 5262/+44 7387 139164

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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 – DXY drifts lower ahead of key data

The Fed's William spoke overnight and gave little succour to those hoping for a rate cut in March. He noted "I expect that we will need to maintain a restrictive stance of policy for some time". He also suggested no rush to slow QT. For a March cut from the Fed either the economy needs to tank or inflation decline sharply. Neither seems likely. Nonetheless, markets continue to price a 25bp cut in March from the Fed as more likely than not (current pricing is ~65% chance of a 25bp cut). UST yields and the DXY index drifted lower through Asian trade as investors await the US CPI data. Most Asian stocks pushed higher, led by Japan, where the main indices continue to print multi-year highs. US equity futures pushed higher too.

Yesterday's wage data in Japan disappointed amid concerns about reliability/sample bias. In a Wednesday poll conducted by the Conference Board, Japanese CEOs put labour shortages as their No.1 fear in 2024 while CEOs in Europe and the US saw an economic downturn/recession as their No. 1 worry. The tight labour market is clearly front and centre for Japanese CEOs and is one reason why we see the Shunto spring wage negotiations as giving wage growth a boost. The OECD's latest survey on Japan, released today, projects the CPI and ex fresh food and energy CPI to remain above 2% in 2024 and 2025. The OECD's Secretary General noted "Japan is at a turning point, with inflation more likely to settle durably around the 2% inflation target than at any time since its inception". The BoJ's Sakura Report, released ahead of the BoJ's quarterly outlook report (due on 23 Jan), upgraded the outlook in 2 regions and downgraded the outlook in one (driven by softer export activity). The big picture is of an economy picking up or recovering moderately. JGB yields initially headed higher ahead of tomorrow's 30yr auction but by the close yields were a little lower with the long end holding in well. **USD/JPY was a little off yesterday's high to sit around 145.45.**

Yesterday, the ECB's Schnabel and Guindos spoke. Both seemed more willing to accept that a short-lived recession was in the offing but neither implied that this would form the basis for early rate cuts. Schnabel explicitly stated that it was too early to discuss rates cuts (let alone implement them) while Guindos said disinflation was likely to pause temporarily as positive energy base effects kicked in. The Banque De France today noted that it sees negative Q4 GDP in France as a little less likely. We continue to see talk of an early ECB cut as premature. **EUR/USD pushed higher through Asian trade to sit around 1.0975 as European trade gets underway.** It was a quiet start to trade in the UK with the focus on tomorrow's November GDP report. **Like EUR, GBP pushed higher in Asian trade with GBP/USD trading around 1.2760 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – CPI (%MoM, Dec)	0.2/0.1
US – Core CPI (%MoM, Dec)	0.3/0.3
US – Initial jobless claims (k)	210/202
US – Budget statement (US\$bn, Dec)	-64/-85

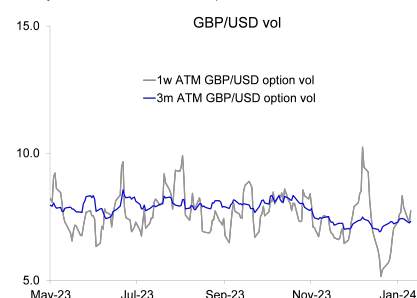
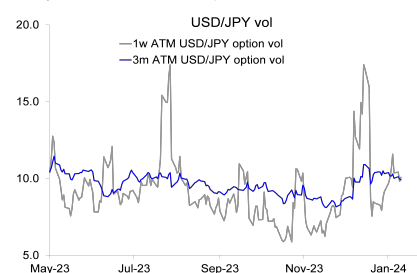
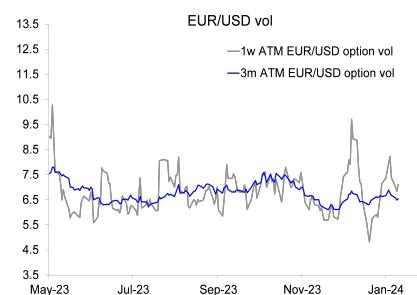
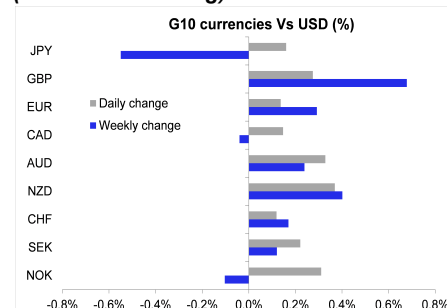
Source: Bloomberg

Europe. ECB economic bulletin is due. It often contains articles of relevance to the policy debate.

US. Today's CPI is the data highlight of the week. Core CPI remains a little high for comfort and with nominal GDP still elevated the likelihood of a smooth drop towards the Fed's target is not guaranteed. Services inflation is still running hot and if goods price disinflation start to ease then the return to target will be slow. The consensus for core CPI is for a 0.3%MoM print, which is ~4% annualised which is well above target. The Fed's Barkin speaks on the topic of a soft landing.

Market summary

(Source: Bloomberg)



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