

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Data concerns to keep EUR on the back foot
USD	Solid data to keep Fed hike later rather than sooner. USD supported
JPY	BoJ concerns to keep JPY on the back foot
GBP	Solid data to keep GBP momentum in place

## Overnight comment – Weak retail sales hit GBP

The US Congress passed a temporary funding bill kicking the can down the road until 1/8 March. US equities were upbeat, as tech stocks led the rally. The UST curve steepened amid fears that US inflation may not be under control. 10yr US breakeven rates are up 15bp off their December lows. The US strip still looks the most mis-priced in the near-term suggesting most upward pressure in front end UST yields and some scope for the US dollar to push higher in coming weeks. Whilst the case for a “No landing” scenario in the US can be made in the wake of recent data, one might argue that economies in Europe are in the process of landing. In the Asian session Taiwan led shares higher, while Chinese shares continued to lag. UST yields nudged higher and the DXY index was little changed.

Japan's CPI for December was more or less in line with expectations. Headline CPI dipped to 2.6%YoY while ex fresh food and energy CPI eased to 3.7%YoY. There was nothing in the inflation report that is likely to spur the BoJ into action at next week's meeting. There is a solid consensus that the BoJ will leave policy unchanged. We concur. Finance Minister Suzuki said that the authorities were closely watching the FX markets. If he is really worried – he should have a word with BoJ Governor Ueda, as loose BoJ policy is a major factor in JPY weakness. The BoJ left the Rinban size unchanged, implying reduced purchases this month at the long end as the number of operations has been reduced. Long-end JGBs underperformed, tracking UST yields higher. **USD/JPY ended the session little changed and sits around 148.30 as Europe opens.**

German PPI for December was a little weaker than expected at -1.2%MoM. Oil prices are near the highs of the week with Brent crude above \$79.0. Tensions in the Red Sea remain elevated but as yet there is limited impact on energy prices. The ECB continue to see the risks here as being on the upside in terms of the inflation impact both via energy prices, freight costs and supply chains. We note that the latest IEA report were upbeat about oil supply for 2024. The tension between oil fundamentals and geopolitical risks looks likely to run for the rest of the year. **EUR/USD is little changed in Asian trade to sit around 1.0885 as Europe opens.** In the UK, we expected retail sales for December to be weak but certainly nowhere near as weak as they actually were. Retail sales dropped 3.2%MoM, which likely means Q4 GDP will be negative. That said recent housing data have been much better than we expected and we still see the UK economy in better shape than we expected just a few months ago. Any recession seems likely to be short-lived. **GBP/USD dropped in the wake of the report and sits around 1.2685.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Retail sales (%MoM, Dec)	-0.5/1.3
US – U Mich consumer confidence (DI, Jan)	70.1/69.7
US – U Mich Inflation expectations, 1year (%)	3.1/3.1
US – Existing home sales (%MoM, Dec)	0.3/0.8

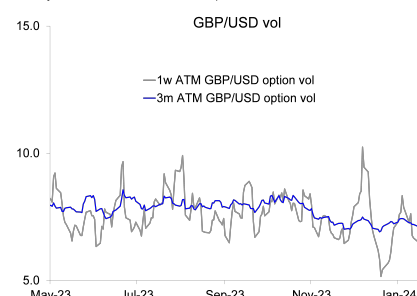
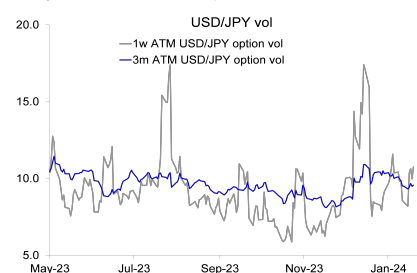
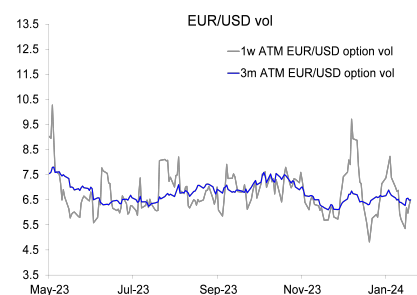
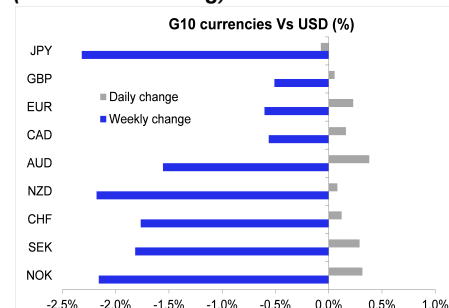
Source: Bloomberg

**Europe.** It is a quiet end to the week from a data perspective in the eurozone. There are no ECB speakers either as the ECB is in its pre-meeting quiet period. Next week will be packed with relevant data/events kicking off with the ECB's bank lending survey. In the UK retail sales are due.

**US.** In the US it is quiet too with just the Michigan consumer sentiment report, including inflation expectations and the San Francisco Fed's Daly speaks twice. We see her as one of the Committee's leading doves. It will be interesting to see to what extent she endorses current market pricing.

## Market summary

(Source: Bloomberg)



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