

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	ECB to push back on rate cuts, soft data expected...EUR
USD	Solid data to keep Fed hike later rather than sooner. USD supported
JPY	BoJ on hold. No hint on hikes. JPY to drift lower
GBP	PMI data looking good...GBP doing well

## Overnight comment – Solid data, Delayed reaction to BoJ support JPY

Former US president Trump won the New Hampshire primary and, assuming no impact from his legal problems, looks highly likely to be the Republican presidential candidate. India's flash PMI pushed higher, as did Australia's. Indeed, the flash PMI data so far imply a turn for the better in global activity in January. UST yields pushed lower in Asian trade in turn dragging the DXY index lower. While the DXY index is well off yesterday's highs, it sits near the middle of the sizable range in the week to date.

Japan's flash composite PMI made a welcome move higher in January, pushing up from 50.0 to 51.1. The December trade data also showed exports a little firmer than expected at 9.8%YoY, although the trade deficit was still close to the consensus forecast at ¥413bn. In calendar 2023, the deficit halved from the previous year. The 10yr breakeven rate rose 2bp to a 7-week high just below 1.4%. JGBs were soft as fixed income investors reassessed yesterday's BoJ move, with the curve steepening. Japanese equities declined but the Topix banking sub-index outperformed, rising over 3.0%, on the prospect of higher rates. The yen is a firmer on the day but, like many currencies, is little changed against the US dollar over the last 24 hours. **USD/JPY sits around 147.85 as Europe opens.**

The IFO Institute lowered its German 2024 GDP forecast from 0.9% in mid-December to 0.7%. It estimated that the savings in the new budget for 2024 were just under €19bn. It was a quiet start to trade as investors await Thursday's ECB decision. **EUR/USD bounced off the overnight lows to sit around 1.0670 as Europe opens.** In the UK, OIS markets are now pricing in less than 100bp of rate cuts, down from 170bp of cuts in late December. Pricing now looks a lot more reasonable if still slightly aggressive. Recent UK data have been upbeat (Dec retail sales notwithstanding), lowering the downside risks to the outlook. **GBP/USD pushed off yesterday's lows in the overnight session to sit around 1.2710 as European trade gets underway.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Composite PMI, flash (DI, Jan)	52.1/52.1
UK – CBI Industrial trends, orders (DI, Jan)	-23/-23
EZ – Composite PMI, flash (DI, Jan)	48.0/47.6
US – Composite PMI, flash (DI, Jan)	51.0/50.9

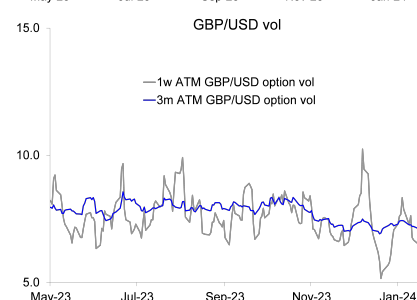
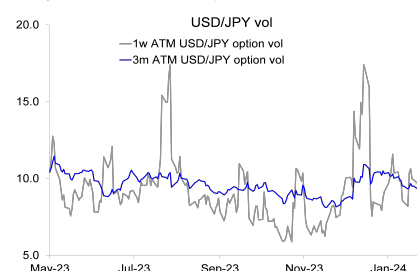
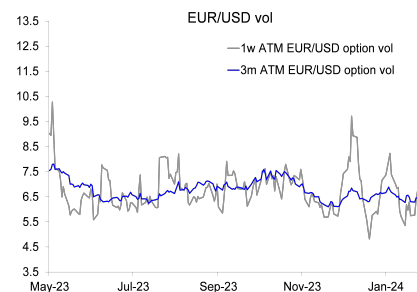
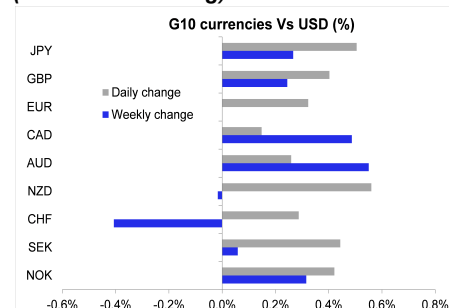
Source: Bloomberg

**Europe.** Yesterday's ECB bank lending survey added support to the ECB's contention that the economy is bottoming out and that better times are round the corner. Today's flash PMI data are expected to do the same. The composite PMI is seen continuing to move off the lows (of 46.5 in Oct). Note, it remains below 50 and implies contraction but the pace of contraction continues to moderate. A number of ECB speakers have conceded that the region is probably in recession but see any downturn as mild and short-lived. In general, recent data have seemed to support this view. In contrast, the UK PMI is back above 50, which we see as in line with the less downbeat UK developments over the last few months, including the prospect of looser fiscal policy.

**US.** It remains quiet on the data front in the US with the composite PMI data not enjoying the same regard in the US as they do in other countries due to the availability of both regional Fed indices and the long-established ISM reports. Earnings and supply are in focus, with a 5yr UST auction due. The BoC meets today. Policy is expected to remain on hold. The market is pricing the first cut in April. We see the BoC as a good candidate to be the first G10 central bank to ease.

## Market summary

(Source: Bloomberg)



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