

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 – Fiscal strains causing few ripples as yet

US equities continue to print new highs as investors contemplate the “No landing” scenario. Investors shrugged off a warning from former Treasury Secretary Robert Rubin that US fiscal policy was in a “terrible place”. Given the pace of growth in 2023 the deficit, at around 6% of GDP, is impressive. Neither of the candidates for the presidency has a reputation for fiscal prudence, hinting at continuing loose fiscal policy beyond 2024. Late yesterday, the Fed raised the rate on its Bank Term Funding Programme to limit arbitrage ahead of the programme’s expiration in March. In Asia, Chinese equities outperformed for a second session, while shares elsewhere were mixed. UST yields gave back some of yesterday’s rise. The DXY index has been volatile intra-day but remains little changed in the week to date. In Japan, the 40yr auction was soft, with the bid/cover the lowest since 2011. In recent weeks a number of major lifers have indicated they are in no rush to buy longer-dated bonds until the BoJ policy outlook is clearer. MoF’s weekly flow data showed small selling of overseas bonds in the week to 19 January but in general outflows into overseas bonds have been solid in the current fiscal year, despite elevated hedging costs. **USD/JPY sits around 147.70 as Europe opens.**

Bloomberg data show January as Europe’s busiest ever month for bond sales. All things considered, yields have held in well in the face of the supply surge. Government bond yields have risen but credit spreads remain tight. Eurozone markets were quiet ahead of today’s ECB meeting. **EUR/USD was little changed in Asian trade and sits around 1.0890 as Europe opens.** An IFS study noted the UK’s difficult fiscal position. **GBP tracked EUR and cable sits near 1.2725 as Europe opens.**

Today’s Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CBI Distributive trades survey (DI, Jan)	-16/-15
GE – IFO index (DI, Jan)	86.6/86.4
EZ – ECB meeting (%), (depo)	4.00/4.00
US – GDP (%saar, Q4)	2.0/4.9
US – Durable goods orders (%MoM, Dec)	1.5/5.4
US – Jobless claims (k)	200/187

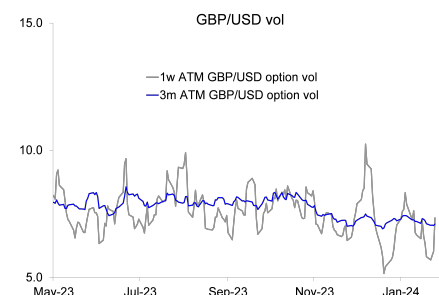
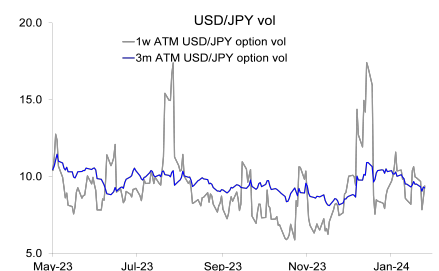
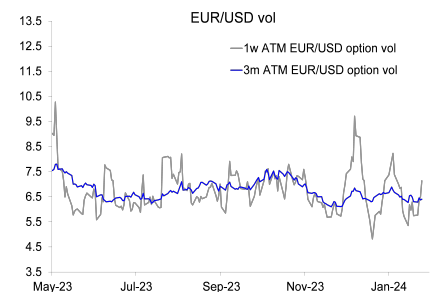
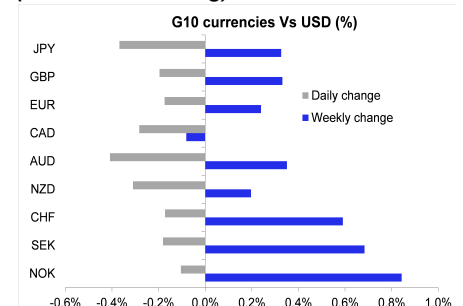
Source: Bloomberg

Europe. The PMI data suggest workers are flexing the muscles in wage bargaining negotiations and companies are able to push cost increases onto customers. This is something the ECB is watching closely. Although the PMI data suggest weaker activity, they also implied higher costs and thus do not greenlight easier ECB policy. At today’s ECB meeting we expect policy will be left unchanged and that President Lagarde will push back against market pricing of early rate cuts saying it is too early to make any decisions and that the ECB wants to see how the labour market develops in Q1 before taking any action. She is also likely to reiterate that inflation remains too high, especially core inflation. We continue to see the ECB as in no rush to ease policy and expect a first cut in summer.

US. US Q4 GDP is the focus today. After the surge in Q3, Q4 is seen at a trend-like 2.0% saar, which will leave 2023 GDP above average. This is an impressive performance given the policy tightening undertaken. In truth, the bulk of the policy tightening is on the monetary side. Fiscal tightening is conspicuous by its absence. Other data today include durable goods, jobless claims and new home sales. Jobless claims remain at very low levels. There are some question marks over the release but on the surface, they hint at a re-acceleration of the economy. New home sales are seen recovering much of the November drop in December.

Market summary

(Source: Bloomberg)



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