

Mizuho Daily Currency Watch

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MIZUHO

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 – EUR remains under pressure

Chinese shares ran out of gas after a couple of upbeat sessions while US equity futures were lower after weak earnings after the close. UST yields were little changed in Asian trade, near the lows of the week, especially at the front end. The DXY index was little changed for most of the session but moved higher at the European open. Brent crude was also little changed in Asian trade after a sharp rally on Thursday, sitting around \$82.0/barrel.

Tokyo CPI for January came in soft across the board, with core core CPI down 3.1%YoY from 3.5%YoY (consensus 3.4%YoY). A big drop in the YoY rate of increase in hotel charges was a contributing factor. Services PPI was unchanged at 2.4%YoY in December. The CPI data certainly imply a slightly softer read for the national level CPI in a few weeks time. Tokyo apartment prices hit a new record for a third consecutive year in 2023. Anecdotal evidence on wages remains solid, with the airlines union asking for ¥10,000 increase after a ¥6,000 request last year. JGB yields nudged a little lower at the open, in line with global developments with the impact of the weak CPI muted. **The impact was also muted in FX markets with USD/JPY ending the session little changed around 147.85.**

The ECB's Kazaks noted that the worst mistake that the ECB could make would be cutting too early citing the mistakes of the 1970s. German consumer confidence dropped in January back to levels seen in spring 2023. **EUR/USD was already on the slide ahead of the weak German confidence data this morning but the report didn't help. EUR/USD sits around 1.0820 as Europe opens.** UK consumer confidence was a little less downbeat than expected in January coming in at -19 vs -22 in December. This is the highest level since January 2022. After the spectacularly weak distributive trades survey yesterday, some reassurance on the health of the consumer is welcome. **GBP/USD initially held up well but was dragged lower by EUR developments early in the European session to sit around 1.2685.** The respective moves in consumer confidence seem in line with the broader macro developments which suggests more downside for EUR/GBP in the near term.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Consumer confidence (DI, Jan)	-21/-22
EZ – M3 (%YoY, Dec)	-0.7/-0.9
US – Personal income (%MoM, Dec)	0.3/0.4
US – Personal spending (%MoM, Dec)	0.5/0.2
US – Core PCE deflator (%MoM, Dec)	0.2/0.1

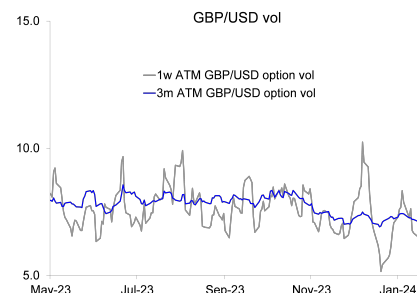
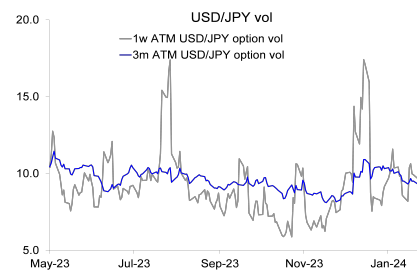
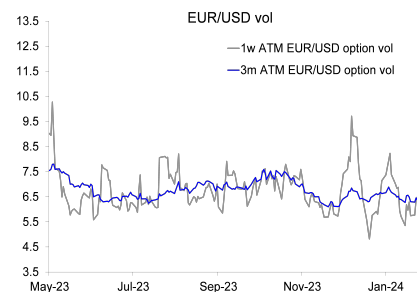
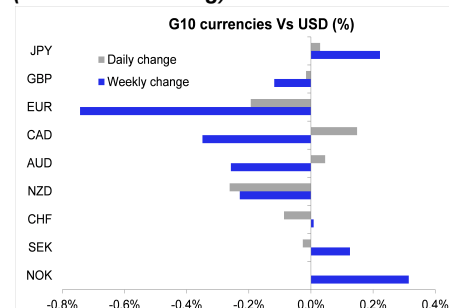
Source: Bloomberg

Europe. The eurozone money supply data round out a busy week. So far from a data perspective the support for the ECB's bottoming out narrative has been mixed with the Bank Lending Survey offering support and the flash PMI broadly neutral. The contraction in the money supply is expected to ease a little, further supporting the bottoming out narrative. President Lagarde did not push back as hard as she might have on current market pricing and as such EUR came under pressure. Weak money supply data would add to the pressure.

US. Today's PCE data can largely be backed out of the quarterly data that is part of yesterday's GDP report so there should not be any major surprises. The quarterly core PCE deflator was as expected suggesting that the consensus 0.2%MoM for December should not be too far wrong.

Market summary

(Source: Bloomberg)



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