

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	ECB pushing back on early rate cuts,
USD	DXY index to enjoy post payrolls glow
JPY	Wages to look less downbeat
GBP	Labour market the driver

## Overnight comment – DXY eases off 10-week highs

Asian stocks were mixed, with Chinese shares jumping after indications of additional support from policymakers, including wider trading curbs on institutional investors and a commitment from the sovereign wealth fund to boost ETF holdings. Chinese indices were up over 3.0%, with small caps especially firm and CNH outperformed most other Asian currencies. The RBA left policy unchanged as expected. It lowered its near-term growth forecasts but noted that inflation remained too high, further rate hikes could not be ruled out and that there would likely be fewer cuts in Australia relative to other developed markets. AUD outperformed modestly in the Asian session. UST yields edged off yesterday's highs and the DXY index gave back a little of yesterday's gains in Asian trade but remains close to 10-week highs.

Japan wages for December were a little soft with headline wages rising from 0.7%YoY to 1.0%YoY. On a same sample basis, wages dropped to 1.5%YoY from 2.0%YoY. Household spending was also on the soft side. Today's data are not likely to be decisive for the BoJ but they support the doves on the Board. JGB yields were little changed with the long end firm ahead of tomorrow's 30yr auction amid speculation of better lifer participation compared to the last few auctions. **USD/JPY was fractionally lower in Asian trade and sits around 148.55.**

German factory orders soared, rising 8.9%MoM, enough to drag the YoY rate into positive territory. The picture now looks a little less downbeat but we continue to see negative growth in Q1 for Germany. EUR/USD gradually pared yesterday's drop through Asian trade and nudged higher after the German data. **The pair sits around 1.0755 as Europe opens.** UK BRC sales were on the soft side. Late yesterday the BoE's Pill noted that rate cuts were likely if inflation continued to fall as expected. Nonetheless, he did note it was premature to talk about cuts. **GBP/USD nudged higher to sit around 1.2555.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – ECB 1-year inflation expectations (%YoY, Jan)	--/3.2
EZ – Retail sales (%MoM, Dec)	-1.0/-0.3

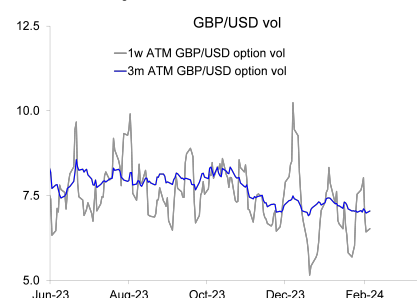
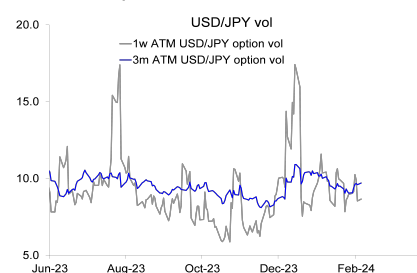
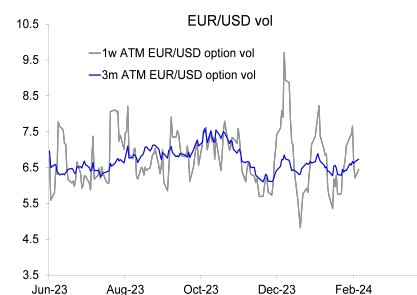
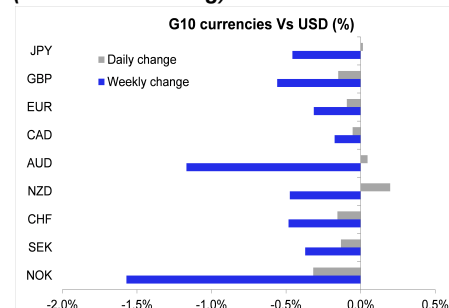
Source: Bloomberg

**Europe.** ECB's inflation expectations survey for the 1 year and 3 year horizons will be the main focus. At 3.2% 1-year inflation expectations are well below the peak of 5.4% seen in autumn 2022. Nonetheless, its still well above the ECB's target rate. At the 3-year horizon, expectations are just 2.2%, below the 3.0% peak but close to target.

**US.** The focus will be on the Fed, earnings and geopolitics. Fed speakers include Mester, Kashkari and Collins. On Monday Kashkari published a note on the Minneapolis Fed website updating a previous paper on looking at how loose policy is. He argued for looking at longer-dated real rates rather than spot inflation vs the policy rate and noted that it showed conditions a lot less tight than is implied by the real Fed funds rate. Mester is a well known hawk, while Collins will likely be dovish. That said, even the doves are likely to concede there is no rush to ease policy.

## Market summary

(Source: Bloomberg)



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