

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 – Caution

Late yesterday the Fed's Mester said that there was no urgency to slow the pace at which the balance sheet is shrinking and that she did not see any rush to lower rates, while Kashkari noted that much of the disinflation has been driven by supply-side improvements rather than the Fed bearing down on demand. He put himself on the hawkish side of the FOMC. These comments had limited impact on UST yields, which dipped late in the US session and were flattish during Asian trade. The DXY index tracked UST yields. Firm NZ labour market data saw NZD outperform. Asian equity markets were broadly positive, with mainland China leading the gains.

In Japan, a solid 30yr auction helped JGBs hold in ahead of a speech by Deputy Governor Uchida tomorrow. The tail was the lowest since August, while the bid/cover was the highest since November. **USD/JPY moved off the recent highs yesterday and was little changed during Asian trade around 147.85.**

In a FT interview, the ECB's leading hawk Schnabel cautioned against early rate cuts noting sticky services inflation, a solid labour market, looser financial conditions and tensions in the Red Sea meant that inflation risks remained and the ECB should be patient and cautious. German manufacturing data remain depressed, with industrial production dropping a more-than-expected 1.6%MoM. **EUR/USD edged higher during the Asian session and sits around 1.0770.**

UK house prices continue to defy expectations of a slide, with the Halifax index up 1.3%MoM in January, leaving prices up 2.5%YoY. It does seem as if prices are picking up again as mortgage rates ease off their highs. The less downbeat housing outlook is one factor behind our latest upward revision to 2024 GDP, which we now see at 0.7%. **GBP/USD was flat during Asian trade but nudged higher at the open to sit around 1.2620.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – Trade balance (\$bn, Dec)	-62.0/-63.2
US – Consumer credit (\$bn, Dec)	16.0/23.8

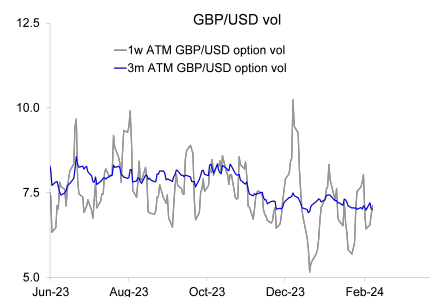
Source: Bloomberg

Europe. ECB's Muller speaks. German and Spanish industrial production for December are also due. In the UK house prices are due and the BoE's Breeden speaks.

US. The week of heavy Fed speak continues with Harker, Kugler, Collins, Barkin and Bowman all scheduled to speak. Kugler's speech will be her first since joining the FOMC and as such will be of most interest. It is widely assumed that she is on the dovish side of the debate.

Market summary

(Source: Bloomberg)



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