

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. EUR to firm
USD	DXY to be driven by inflation
JPY	GDP jump to help JPY
GBP	CPI blip to cast doubt on cuts. GBP supported

Overnight comment – Lower confidence

The Fed is searching for greater confidence that the disinflationary trend will see inflation drop to (and remain at) 2.0%. Yesterday's hot CPI print may dent what confidence the Fed currently has, especially when combined with the rock solid payrolls data and above trend growth in H2 2023. It's a little less difficult to make the case that the US economy is re-accelerating than it was at the start of the year. Higher UST yields in turn dragged the DXY index higher. In the Asian session a number of markets remain closed for the Luna New Year break. Liquidity remains thin. Those equity markets that were open mostly moved lower, tracking US developments. UST yields edged off yesterday's highs but the bulk of the post CPI jump has stuck. It was the same for the DXY index – drifting lower during Asian trade but still well above its level at the start of the week.

In the wake of yesterday's CPI, USD/JPY pushed up above the 150 level. We do not think intervention is imminent, despite comments from Fin Min Suzuki (watching fx markets with an even stronger sense of urgency) and MoF's top currency official Kanda (recent moves have been rapid, ready to step in if needed). For starters, the best response to a weak currency would be tighter monetary policy, which looks increasingly likely. We believe that in general MoF will be reluctant to intervene unless the depreciation occurs a lot faster and markets look disorderly. Whilst Kanda may be right that the yen has moved along way over the last month, it is broadly flat over the last 3 months. JGB yields jumped at the open and then drifted lower, especially at the long end. The sales of ¥800mn Climate Transition bonds attached solid demand to leave them yielding less than regular JGBs. **USD/JPY trades around 150.35.**

Yesterday the ECB's Lane note that the inflation fight was going well but more time was needed to be sure that the CPI was heading back towards 2.0%. He said the rate path would be decided meeting by meeting. **EUR/USD sits round 1.0710 as Europe opens.** The UK CPI for January was a little softer than expected, with the headline CPI unchanged at 4.0%YoY, core unchanged at 5.1%YoY and services CPI up a tick at 6.5%YoY. **GBP had recovered much of yesterday's post US CPI drop through the Asian session but reversed course in the wake of the UK CPI to sit around 1.2580 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CPI (%YoY, Jan)	4.1/4.0
UK – Core CPI (%YoY, Jan)	5.2/5.1
EZ – Industrial production (%MoM, Dec)	-0.2/-0.3
EZ – Employment (%QoQ, Q4)	--/0.2

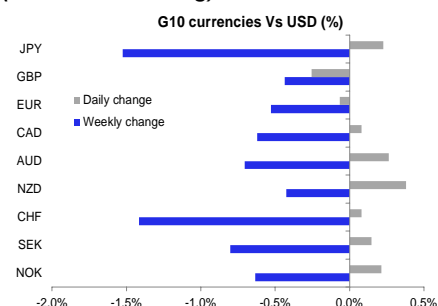
Source: Bloomberg

Europe. In the eurozone, industrial production for December, employment for Q4 and the 2nd estimate of Q4 GDP are due. Industrial production remains depressed and the December data should bolster that narrative with a 4th consecutive negative MoM print. ECB's Vujcic, Guindos, Cipollone and Nagel. BoE Governor Bailey. The UK CPI in January is widely seen as interrupting the flow of good news on the disinflation front. That said most observers see the uptick as temporary and expect a resumption of the downtrend in the spring, with the drop in energy prices in April expected to be especially large given recent developments at the wholesale level.

US. After the CPI data on Tuesday there is a break today before the retail sales, industrial production, import prices, NAHB, weekly claims, Philly Fed and TICS reports on Thursday. It is quiet on the Fed speak front too with just Goolsbee and Barr scheduled.

Market summary

(Source: Bloomberg)



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