

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 – Recession complicates BoJ exit

Asian equities broadly tracked US stocks higher. UST yields edged a little lower in the Asian session, especially at the long end and the DXY index nudged lower too. Soft unemployment data in Australia were partially offset by firm household spending. Oil prices were down yesterday amid a rise in US inventories. Brent crude futures trade around \$81.40.

Japanese GDP was weaker than expected with activity sliding 0.1%QoQ in Q4, placing Japan in a technical recession after a 0.8%QoQ drop in Q3. This complicates the BoJ's exit path. For us it makes March a less likely month for the exit from NIRP, with April giving the BoJ time to ensure that the economy is recovering after the sluggish growth seen in H2 2023. Interestingly, equities rose, 2yr JGB yields, which are traditionally the most sensitive to changes in policy expectations, were little changed and USD/JPY pushed lower. The market reaction implies that the GDP data is old news and will have limited impact on the policy debate. **USD/JPY drifted back towards the 150.10 level** as an official noted that the government was in the final stages of its assessment in declaring victory over deflation.

It was a quiet start in European trade. Yesterday Nagel noted that history showed it was worse to cut too early than too late. **EUR/USD sits around 1.0735**. UK Q4 GDP was also on the soft side, with QoQ GDP down 0.3% vs expectations of a 0.1%QoQ dip. The market reaction here too was subdued with GBP dipping less than it did after yesterday's soft CPI data. **GBP/USD sits around 1.2550 as European trade gets underway**.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – GDP (%MoM, Dec)	-0.2/0.3
EZ – Trade balance, sa (€bn, Dec)	15.6/14.8
US – Retail sales (%MoM, Jan)	-0.2/0.6
US – Industrial production (%MoM, Jan)	0.2/0.1
US – NAHB housing index (DI, Feb)	46/44
US – Weekly jobless claims (k)	220/218
US – Philly Fed m'fact index (DI, Feb)	-8.2/-10.6

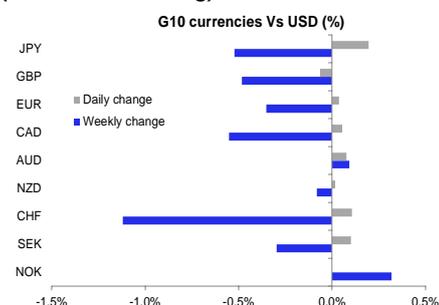
Source: Bloomberg

Europe. Data are thin on the ground, with just the eurozone trade balance and UK GDP due. The trade data rarely move markets, especially now that the massive swing in energy costs of 2022/23 is behind mainly us. The session is not without interest. The EU Commission releases its spring forecasts which will provide some more colour on the prospects for the individual eurozone economies, especially on the fiscal front. For the ECB, it's a heavyweight line up featuring both Lagarde and Lane, as well as De Cos and Nagel. Lane has spoken frequently of late and may not have much to add. The BoE's Green and Mann both speak. As the leading hawk, it will be interesting to know what Mann makes of the recent data.

US. It is a data packed session in the US. Retail sales and industrial production will detail activity at the start of the quarter. The NAHB housing index is likely to suggest that the sharp easing in financial conditions in Q4 is boosting housing activity. Weekly jobless claims and industrial sentiment for February are also due, as are import prices. Waller speaks on the US dollar's international role.

Market summary

(Source: Bloomberg)



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