

# 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 – Party on

The equity party rolls on with the S&P closing at a fresh high and the Nikkei approaching its 1989 high. The weekly MoF data showed overseas investors continuing to push money into Japanese equities. The Hang Seng was especially firm rising ~2.5%, ahead of the re-opening of mainland China's equity markets on Monday on the back of early indications of strong consumer activity during the lunar New Year break. UST yields drifted higher through Asian trade, dragging the DXY index a little higher too. The Fed's Bostic noted that there was no rush to cut interest rates and that victory (on inflation) was not clearly on hand.

Japan's weekly flow data from MoF showed heavy buying of overseas bonds. The data also show limited buying of overseas equities in February. It is possible that NISA flows via investment trusts remain elevated near the record levels seen in January and are simply being countered by heavy profit taking in overseas equities by trust banks (pensions), but more likely is that the NISA flows have eased somewhat in February. The weak Q4-23 GDP data mean that we will have to revise down our 2024 GDP forecast. It will be around trend rather than above trend. With the output gap currently negative, it weakens the argument for tighter BoJ policy. We still think the BoJ will hike in spring but the risks around the move have shifted towards less and later. Combined with the firm US data of late that will keep the Fed from cutting from some time, it is likely that USD/JPY will remain higher for longer. A move below 130 by end 2024 no longer looks likely. **USD/JPY sits around 150.15 as European trade gets underway.**

German wholesale prices look to be bottoming out, with the YoY rate little changed at -2.7%YoY. This morning the ECB's Villeroy noted that the risks of cutting too late were at least as high as the risks as cutting too early. **EUR/USD was little changed in the Asian session around 1.0765.** UK retail sales almost fully reversed the plunge in December, with headline sales up 3.4%MoM. This will boost estimates for Q1-24 GDP and limit the downward revision to 2024 GDP that will come from a weaker base effect from yesterday's weak Q4-23 GDP print. **GBP/USD edged a little higher after the release to sit around 1.2595 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Retail sales (%MoM, Jan)	1.5/-3.2
US – PPI (%MoM, Jan)	0.1/-0.2
US – Core PPI (%MoM, Jan)	0.1/-0.1
US – Housing starts (%MoM, Jan)	-0.2/-4.3
US – U Mich consumer sentiment (DI, Feb)	80.0/79.0

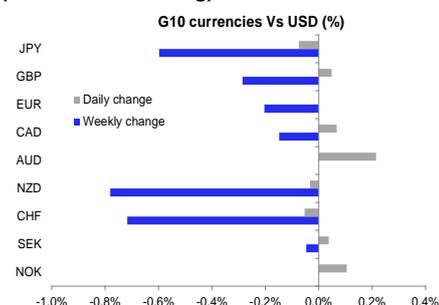
Source: Bloomberg

**Europe.** It is a quiet session in Europe, with limited data. The ECB's Schnabel speaks. She is the most authoritative of the hawks on the ECB and it will be interesting to see what she makes of recent developments. In the UK, retail sales data round out a heavy data week, while the BoE's Pill speaks.

**US.** The heavy data flows in the US continues with the PPI, housing starts and consumer sentiment all due. It will be a much quieter week for data next week. For the Fed, Bostic, Barkin and Daly speak. The PPI provide some of the source data that feed into PCE which is the Fed's official target. The solid CPI data hint at upside risks for the PPI too. The consensus forecasts are quite downbeat, with core PPI seen up just 0.1%MoM. Recent declines in gasoline prices and natural gas prices hint at on-going softness in energy prices at the very top of the price pipeline.

## Market summary

(Source: Bloomberg)



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