Mizuho Daily Currency Watch

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MIZUHO

Currency	*Main focus of the week (S-T view)*
EUR	*ECB on hold, weaker forecasts, EUR downside is path of least resistance*
USD	*Solid data to keep USD supported*
JPY	*CPI jump, wage estimates to keep BoJ hike on track and JPY firm*
GBP	*Responsible budget to do little for GBP*

Overnight comment – Shifting BoJ odds lift JPY

Powell's testimony to Congress and the Fed's Beige Book contained few surprises and the UST curve flattened and the US dollar dipped. In the Asian session, UST yields were little changed while the DXY index pushed a little lower mainly vs JPY. In Japan, the BoJ's Nakagawa spoke noting that a potential rats hike was coming closer. January's wage data were firmer than expected and late in the session Rengo noted that wage demands this year were 5.85% vs 4.49% last year. UA Zensen noted that some of its members have had this year's demand met in full. Today's wage data imply that the wage growth ion 2024 will be higher than in 2023. It also shifts the odds for a BoJ hike a little towards the March meeting but we still see April as more likely, despite the good news on wages. Today's 30yr JGB auction was a little soft, while 2yrs rose towards 0.2%, their highest since 2011. Late in the session Governor Ueda confirmed that the BoJ would continue to buy bonds to avoid policy discontinuity. **USD/JPY dropped sharply to sit around 148.20 as Europe opens**.

This morning's German factory orders for January were very weak reversing a large jump in December. Orders fell over 10%MoM leaving the YoY rate down 6.0% but the data had limited impact on EUR. Strikes on German railways mean some ECB members will attend remotely. **EUR/USD was little changed in the Asian session, sitting near Wednesday's highs around 1.0895**. The UK budget was largely as expected and had limited impact on asset prices, with GBP a fraction higher in the morning ahead of the event and a little weaker afterwards. UK house prices rose for a 5th consecutive month. GBP/USD also hovered near yesterday's high around 1.2740.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
UK – DMP 12m inflation expectations (%)	*3.0/3.4*
EZ – ECB meeting (%, Depo)	*4.0/4.0*
US – Weekly initial jobless claims (k)	*217/215*
US – Consumer credit ($bn, Feb)	*10.0/1.56*

Source: Bloomberg

Europe. ECB members have been quite open in marking June as the meeting most likely to see the start of the easing cycle. Only a few doves (Panetta, Centeno) are pushing for an earlier move pushing the data dependency angle as they believe the weak macro data will drive and earlier cut. Everyone else has lined up behind the need to see wage developments in Q1 which will not be available by the 11 April meeting. There will be no move in policy rates at today's meeting. However, the meeting will not be without interest. The ECB is due to release new forecasts. These will likely see lower CPI and GDP in the near term, with lower energy prices a big factor in a lower headline CPI forecast. The longer-term forecasts are more likely to be unchanged, although the bias here is also lower. The ECB expects to make an announcement on its framework review soon. Consequently, there is some speculation that the ECB will provide an update on its discussion on the framework today, although this seems a little early to us. In the UK the BoE's Decision Makers Panel is due. It has been pointing to elevated wage growth of late and will see on-going scrutiny, especially as the official labour market data remain under a cloud.

US. Powell will testify in the Senate today but will likely repeat the comments he made to the House yesterday. These suggest the direction of travel for the policy rate is lower but that more confidence is required for that process to start. We continue to see the Fed holding out until H2 before cutting rates. Consumer credit is due as is the Fed's quarterly flow of funds data that should detail healthy consumer and corporate balance sheets. Weekly jobless claims will remain low implying that the labour market remains in rude health.

Market summary

(Source: Bloomberg)