Mizuho Daily Currency Watch

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Colin Asher
Senior Economist
colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

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 – June

At the tail end of his testimony Fed Chair Powell noted that he felt the Fed was "not far" from having the confidence that inflation was coming down. Markets have now almost fully priced in June as the start of the Fed's easing cycle. US equities and bonds rallied and the upbeat sentiment carried over into Asian equity markets, with shares higher across the region. UST yields edged a little lower in Asian trade. The DXY index was little changed after Thursday's large decline.

Japan's current account surplus was larger than expected. In addition, the February eco watchers survey was also better than expected offsetting a disappointing household spending report for January. 2yr JGB yields touched 0.2% for the first time since 2011. JGBs bear steepened, led by 20yrs. MoF's monthly International Transactions in Securities data for February showed Japanese investors as net buyers of overseas bonds to the tune of …while equity purchases were close to flat. Nonetheless, within the equity category heavy investment trust buying (a function of the new NISA legislation) was almost totally offset by heavy trust bank (pension) selling. **USD/JPY was mostly flat in Asian trade consolidating Thursday's drop to a one-month low. The pair sits around 147.85 as Europe opens**. The market pricing of an end to NIRP are now more in favour of a March move than an April one. The BoJ has a lot of elements to its super easy policy with forward guidance, YCC and NIRP the main planks. Not all of these are likely to be dismantled in one swoop.

Yesterday, President Lagarde noted that the Council was more confident that inflation was coming back towards target but not yet sufficiently confident to ease policy. There was a firm agreement that there would be some additional data in April but a lot more data by June. This was a strong hint that, absent any big surprises, June is the likely starting date for the easing cycle. This morning Nagel conceded that "The probability is increasing that we could see an interest-rate cut before the summer break". The ECB is targeting June. Once revisions are taken into account German industrial production was weak and the German PPI implies easing disinflation pressures. **EUR/USD sits around 1.0945 as Europe opens, with GBP/USD around 1.2810**.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
EZ – GDP, 3rd est (%QoQ, Q4)	*0.0/0.0*
US – Non-farm payrolls (k, Feb)	*200/353*
US – Unemployment (%, Feb)	*3.7/3.7*
US – Average hourly earnings (%YoY, Feb)	*4.3/4.5*

Source: Bloomberg

Europe. The 3rd estimate of Q4 eurozone GDP, which contains data on compensation/employee, is due. These are the data that the ECB want to see for Q1 before moving on policy.

US. The past 2 payrolls reports have come in much stronger than expected. They have been instrumental in the market pricing out aggressive rate cuts in 2024. Central banks don't like to pin too much weight on a single data point given how volatile many data series are. 3m averages are commonly cited by central bankers. Would a third consecutive above-trend payrolls report change the narrative on Fed cuts in 2024 and see them priced out altogether? We suspect that it might go some way to doing so. In contrast, a very weak payrolls of close to zero would still leave the 3m average over 250k – still well above the natural growth of the labour force. To us this suggests the market will be most sensitive to upside surprises in the headline payrolls figure. Average earnings and unemployment are also due. The unemployment rate has been stable for a while, while earnings look to have been easing steadily.

Market summary

(Source: Bloomberg)