Mizuho Daily Currency Watch

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Currency	*Main focus of the week (S-T view)*
EUR	*Downside is path of least resistance against a light data backdrop*
USD	*Inflation data not likely to provide confidence…USD firm*
JPY	*JPY to remain solid as recession is revised away and wage reports look upbeat*
GBP	*Recession in the rear-view mirror*

Overnight comment – JPY softens despite solid wage reports

Concerns about US inflation potentially reaccelerating failed to dent US equity sentiment and the S&P closed at a new high. In Asian, equity market sentiment was less upbeat. Shares were mixed with Japan again nudging lower amid policy concerns. In the Asian session, UST yields broadly consolidated yesterday's rise while the DXY index was little changed.

In Japan the focus was on corporate wage announcements with a number of companies agreeing large increases with some companies meeting union demands in full. As with last week's Rengo demand's which were higher than last year, it seems the responses will also be higher. At the same time BoJ Governor Ueda, speaking late in the session, continued to sound as if he is in no rush to alter policy. He noted that wages were just one important factor for the policy decision but also said that the BoJ would make a comprehensive check of the economy and would mull changes once the price target came into sight. The "comprehensive check" rhetoric makes one wonder if he would like to see the BoJ's quarterly Tankan and have input from the quarterly Branch Managers' meeting as well as the BoJ's semi-annual Financial System Report before deciding on policy. All 3 reports come after the March meeting but before the April meeting. In addition, the April meeting comes alongside new BoJ forecasts. April has a more "comprehensive" feel even as the wage data make a solid case for March. **USD/JPY reversed an early dip despite the strong wage announcements to sit around 1747.65 as Europe opens**.

Yesterday, the Banque de France trimmed its GDP forecast for 2024 from 0.9% to 0.8% and sharply reduced its CPI forecast from 2.8% to 2.4%. The ECB's Villeroy said there was a broad agreement on the ECB to cut rates in the spring and that the risks of policy being too tight were now balanced vs being too loose. He noted that spring extends to 21 June. The ECB meeting is on 6 June, which is when we expect the first cut. German wholesale prices were little changed at -3.0%YoY. **EUR/USD was little changed through the Asian session around the 1.0925 level**.

UK monthly GDP for January came in line with expectations at 0.2%MoM. Markets showed limited reaction. We expect that the H2-23 recession is already in the rear-view mirror and today's release suggests that is the case. **GBP/USD dipped a fraction after the data and sits around 1.2780 as Europe opens**.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
UK – GDP (%MoM, Jan)	*0.2/-0.1*
EZ – Industrial production (%MoM, Jan)	*-1.8/2.6*

Source: Bloomberg

Europe. It is likely that the ECB will release the outcome of its Operational Framework Review today. The impact on fx markets is not immediately clear. The ECB's Cipollone and Stournaras speak. They represent the dovish wing of the ECB. Eurozone industrial production is expected to have dropped sharply in January mainly as a result of volatility in activity in Ireland. In the UK, monthly GDP for January is expected to show the recession is already in the rear view mirror. We have become a lot more upbeat on the UK outlook since the start of the year, especially housing developments. With inflation set to drop much faster than wages in coming months, real income should jump.

US. It is a quiet session in the US with no data and no Fed speak leaving investors to mull over recent price developments and whether they will lead to the Fed revising up its median dot at the 20 March FOMC meeting. We think the case to do so is solid but expect the Fed to leave the dots unchanged. The Fed's confidence that inflation is coming down will not have been enhanced by developments this week.

Market summary

(Source: Bloomberg)