

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 – Calm ahead of next week’s central-bank fest

Oil prices pushed a little higher yesterday, with Brent crude futures just below \$85, the high end of the recent narrow range. UST yields have pushed a little higher in the Asian session, adding to Wednesday’s rise. 2yr yields are back where they started the month. US equities edged lower. Sentiment in the Asian session was mixed with Japanese shares managing mild gains, while Chinese shares dipped. The DXY index moved off yesterday’s lows. MoF’s weekly flow data showed heavy buying of overseas bonds and profit taking in overseas equities. Recall that the monthly data for February showed outflows by investment trusts (driven by changes to the NISA rules) almost fully countered by profit taking by trust banks (pensions). The first weeks of March suggests that trust banks’ profit taking is gaining the upper hand as we head into fiscal year end. The 20yr JGB auction saw weak demand ahead of next week’s BoJ meeting, although 2yr JGB yields, traditionally more policy sensitive, were little changed. **USD/JPY was also little changed with the pair ending the session around 147.95.**

The ECB’s framework announcement had limited impact on FX markets for now. Most of the changes will be introduced in September. **EUR/USD drifted lower through Asian trade unwinding yesterday’s gain to sit around 1.0940 as Europe opens.** The RICS house price index improved in line with expectations, rising to just -10, its highest level since autumn 2022 and more or less in line with pre-Covid levels. **GBP/USD was little changed for the bulk of the Asian session but nudged higher at the European open to sit around 1.2800.**

Today’s Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house price index (DI, Feb)	-10/-18
US – Retail sales (%MoM, Feb)	0.8/-0.8
US – Ex auto Retail sales (%MoM, Feb)	0.5/-0.6
US – PPI (%MoM, Feb)	0.3/0.3
US – Core PPI (%MoM, Feb)	0.2/0.5
US – Jobless claims (k)	218/217

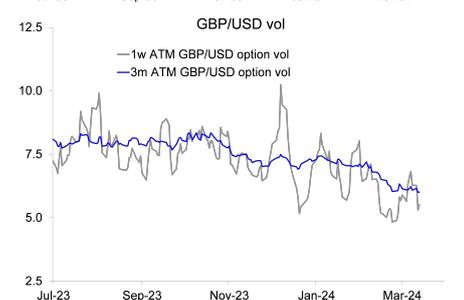
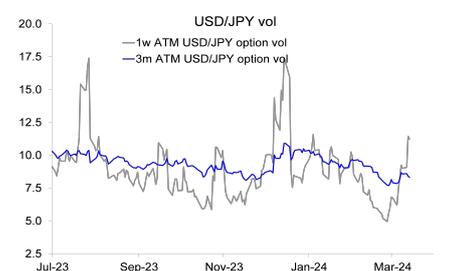
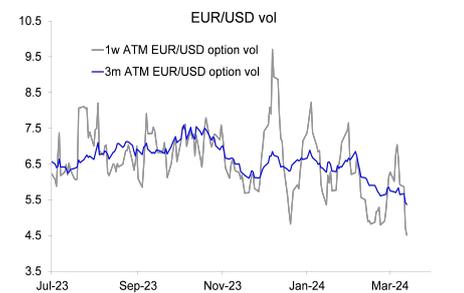
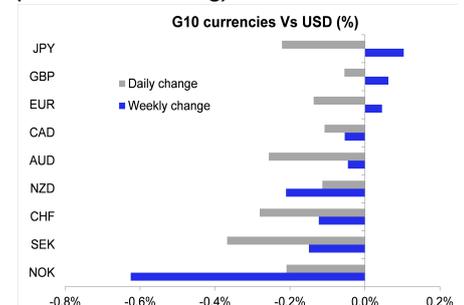
Source: Bloomberg

Europe. The RICS house price index is due. It has shown a steady improvement in recent months. The impact of high interest rates on the housing market has been more limited than we expected 3–6m ago. With inflation set to drop sharply in spring and remain low in summer, real activity in the UK should pick up.

US. The PPI data will feed into the PCE report at the end of the month. This report will not be available to the Fed at the 20 March FOMC meeting at which it will produce new forecasts. The combination of the CPI data and our forecasts for PPI suggest MoM increases in the PCE in the region of 0.3%. With prints of 0.14%MoM and 0.42%MoM in December and January, a consensus-like 0.3%MoM print in the PCE would leave the 3m annualised rate ~3.5%, well ahead of the Fed’s 2.0% target. This would mean that across all of the major price metrics (CPI, PPI and PCE) the 3m annualised rate is higher than it was at year end. It is possible that it is just volatility in the data but it is also possible that the Fed’s desire to project rate cuts have loosened financial conditions so much that policy is not restrictive and inflation is picking up. Rock solid jobless claims imply the labour market remains in good shape. Retail sales should bounce sharply after a weak print last month and will imply that the consumer remains in rude health.

Market summary

(Source: Bloomberg)



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