

Mizuho Daily Currency Watch

15 March, 2024

Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

MIZUHO

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 – wage hurdle cleared

Yesterday's elevated US PPI data saw UST yields push sharply higher, especially at the long end as investors reassess whether US inflation really is on a glide path to 2% or whether the Fed will need to keep policy tighter for longer. A 25bp June cut from the Fed was fully priced as recently as the end of January but is now only 55% priced. UST yields were fractionally lower in the Asian session. Asian stocks mainly tracked US stocks lower. The Topix managed a small gain but still ends the week ~2.0% lower. Mainland China stocks shrugged off weak house price data and managed small gains as well, even as the PBoC left the 1-yr policy rate unchanged at 2.5%. The DXY index remained elevated even as it eased off yesterday's high.

In Japan, Finance Minister Suzuki noted that the economy was no longer in deflation and that the trend in wage hikes was strong. Late in the session Rengo reported that wages hikes were 5.28% which is well above the 3.80% achieved a year ago. Base pay was up 3.70% vs 2.33% last year. These increases are the largest for 30 years. We believe these results will meet the hopes of most BoJ members and that the wages hurdle has been met with regard to starting to tighten policy. **USD/JPY initially drifted higher but dipped in the wake of the news and sits around 148.15 as Europe opens.** From a currency perspective, it is interesting to note that in a week full of strong Japanese wage data that most people believe will open the pathway for a BoJ hike, USD/JPY is higher rather than lower. This underscores that currencies are relative prices. Elevated US price data have driven 2yr UST yields up 15bp this week, while 2yr JGBs are almost flat on the week. The US dollar is stronger across the curve. It also the case that JPY has not really outperformed vs other G10 currencies this week.

Yesterday, the ECB's Knot said that he was pencilling in a first cut in June. Given that Knot is among the more hawkish members, it's a solid bet that it will be June and indeed, that remains our call. He also noted that "where we take it from there is data dependent". This is a bit of a contrast to Stournaras who said the ECB should cut twice before the summer break. Stournaras' comments implies back to back cuts in June and July, which we see as unlikely at this stage. Rehn noted that easing was possible in the summer. **EUR/USD edged off overnight lows but broadly held Thursday's drop to sit around 1.0885 as Europe opens.** It was a quiet start to trade in the UK. GBP tracked EUR and **GBP/USD sits around 1.2745 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – Empire State m'fact index (DI, Mar)	-7.0/-2.4
US – Industrial production (%MoM, Feb)	0.0/-0.1
US – U Mich Consumer sentiment (DI, Mar)	77.2/76.9

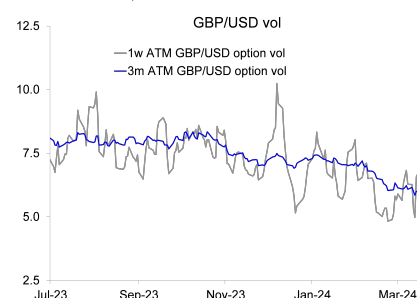
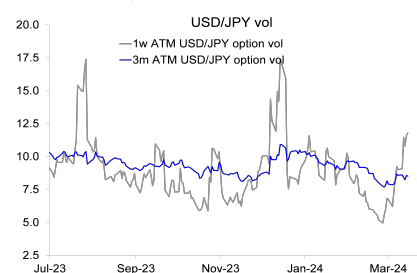
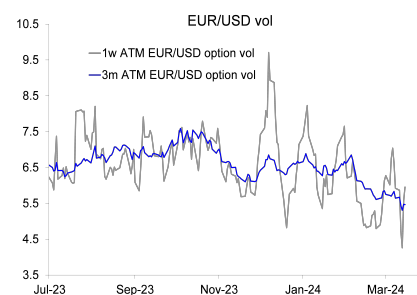
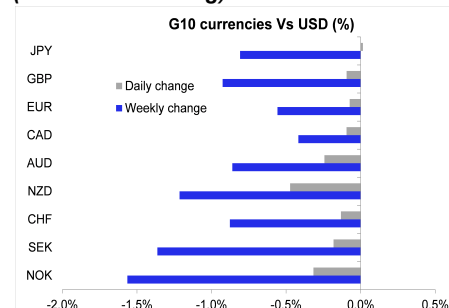
Source: Bloomberg

Europe. There are no eurozone data due. For the ECB, Panetta, Vujcic and Lane speak. The BoE/Ipsos inflation expectations measure has been showing a steady decline in inflation expectations since the peak in late 2022 although the pace of decline has slowed a little of late. At 3.3% is still well above the peak immediately pre-Covid.

US. The US data just keep coming. The Fed seems keen to brush off recent poor news on prices. Perhaps the main focus in the University of Michigan Consumer sentiment release will be the inflation expectations. Earlier in the week the NY Fed survey showed these picking up. The US also released industrial production data. There are hints of a bottoming out in global production cycle as inventories become better aligned with current output/demand. Finally, the Empire State manufacturing index is among the first of the sentiment indices for March.

Market summary

(Source: Bloomberg)



This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies' financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you. Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

Brazil: Banco Mizuho do Brasil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd