

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Downside is path of least resistance given developments elsewhere
USD	Risks are for higher dots, which would keep USD firm
JPY	JPY lift from firmer policy in doubt. JPY to remain under pressure
GBP	BoE on hold but limited sense of urgency to cut. Mild upside bias.

Overnight comment – Dovish Fed hits USD

A dovish Fed pushed US stocks to fresh highs. Despite forecasts of much stronger growth, alongside slightly lower unemployment and a slightly slower decline in core PCE, the median dot for 2024 was unchanged, implying that the Fed remains keen to cuts rates, with June the likely starting point. The UST curve bull steepened while the DXY index dropped in the wake of the decision and broadly held the closing levels through Asian trade, while Asian stocks mostly tracked US shares higher. The flash composite PMI data in the Asian (Australia, India, Japan) session all improved and Australian unemployment dropped sharply. AUD led the gains against the US dollar. Despite weak GDP data NZD also performed well.

Japan's flash composite PMI jumped from 50.6 to a solid 52.3, the highest since August 2023. The gains were mostly on the service side. The seasonally-adjusted Japan trade deficit was only around half as big as expected at ¥451.6bn. Governor Ueda said that Tuesday's move was designed to avoid sharp moves later, which implies that it is not likely to be a one-off move. Front end JGB yields pushed higher while longer-term yields were little changed. Repo rates moved above zero for the first time since 2016. A Nikkei report that the BoJ is weighing further hikes supposedly helped USD/JPY push lower early in the session. **USD/JPY dropped after the Fed move but retraced some of the dip in the Asian session to sit around 150.95 as Europe opens.**

Yesterday, ECB President Lagarde suggested that it would be hard to pre-commit to back-to-back cuts ahead of time, attempting to play down rumours that a deal had been struck to cut in both June and July as a quid pro quo for waiting until June for a first cut. It's a busy session in Europe with important data releases and plenty of central bank action, most notably the BoE. **Ahead of the data/event-fest EUR/USD was little changed through Asian trade with the pair sitting around 1.0940, even as front end Bund yields dropped sharply at the open.** In the UK the public finance data were a little worse than expected. GBP was not really impacted by the data and was broadly unchanged through the Asian session after rallying post FOMC. **GBP/USD sits around 1.2790 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Composite PMI, flash (DI, Mar)	53.1/53.0
UK – BoE meeting (%)	5.25/5.25
EZ – Composite PMI, flash (DI, Mar)	49.7/49.2
US – Philly Fed m'fact index (DI, Mar)	-2.8/5.2

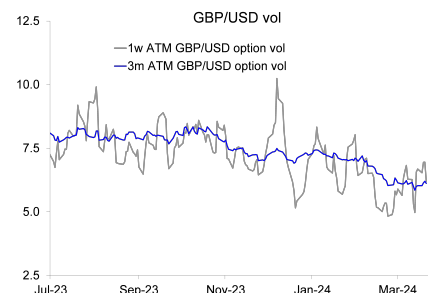
Source: Bloomberg

Europe. The main focus will be today's BoE meeting. We do not expect any policy change and the statement is expected to suggest the Bank is remaining patient. The vote will be of interest. The vote at the last meeting suggests a tightening bias with 2 MPC members voting for hikes and only 1 for cuts. There is a chance that the vote shifts to a more neutral 1-7-1 outcome. Ahead of the BoE meeting, the flash PMI data are due, as is the Eurozone current account report. The ECB publishes its meeting account while Norges Bank and the SNB also meet with investors watching to see if the SNB kicks off the G10 easing cycle. Switzerland does not have an inflation problem in the way that many other G10 central banks have and there are fewer risks in an early loosening in policy. In mid-February markets were pricing a 25bp hike at around 75% but pricing has since slipped to ~40%.

US. In the US we have the weekly jobless claims, the flash PMI, Philly Fed business conditions index, the leading index and existing home sales.

Market summary

(Source: Bloomberg)



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