

# Mizuho Daily Currency Watch

22 March, 2024

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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 – SNB fires the starting pistol on G10 rate cuts

With the Fed being dovish on Wednesday and the SNB cutting rates yesterday, investors enjoyed a decent risk rally that saw a number of indices end at or near record highs. The positive sentiment failed to carry over into the Asian session, with China the main driver of lower equity markets. USD/CNH jumped as the PBoC moved the daily reference rate by the most since early February, suggesting more willingness to allow volatility. USD/CNH sits at a 4-month high. UST yields dipped in Asian trade while the DXY index pushed steadily higher.

Japan's national CPI data for February were a shade weaker than expected as the impact of energy subsidies rolls off. Headline CPI jumped to 2.9%YoY, while ex fresh food and energy CPI dipped to 3.2%YoY. Rising inflation is a good look for a central bank that is hiking. MoF's weekly flow data for the week to 15 March (so ahead of all this week's central bank action) showed overseas investors taking profits in Japanese equities. It also showed overseas investors as heavy buyers of JGB ahead of the BoJ meeting. Japanese investors mainly took profits in both equities and bonds. Finance Minister Suzuki said he was watching FX markets with a high sense of urgency, which possible helped the yen outperform through the session. **USD/JPY sits around 151.45 as Europe opens.**

German import prices were flat on the month and the YoY drop eased. **EUR/USD remained under pressure in Asian trade to sit around 1.0825 as Europe opens.** Headline UK retail sales were firmer than expected at 0.0%MoM in February, even as January was revised a little higher. Consumer confidence was unchanged in March. We would have expected some improvement. In the wake of this week's data we maintain our expectation that the BoE will start cutting in August, whilst acknowledging that the bias here is sooner rather than later. While its likely that inflation will be around 2.0% (and possibly slightly below) in spring and summer, Governor Bailey has made it clear that not only does inflation need to come down it needs to stay down and the Bank is less sure about this proposition. The price indices in the PMI report suggest wage/price pressures while the minimum wage increase this year will be large. The BoE will likely want to ensure that the wage bump in the spring doesn't persist before lowering rates. The June MPC meeting is ~80% priced for a 25bp cut. **GBP/USD sits around 1.2610.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Consumer confidence (DI, Mar)	-19/-21
UK – Retail sales (%MoM, Feb)	-0.4/3.4
GE – IFO business climate (DI, Mar)	85.9/85.5

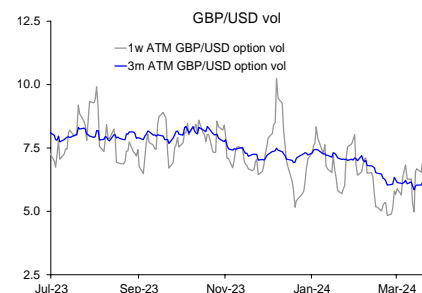
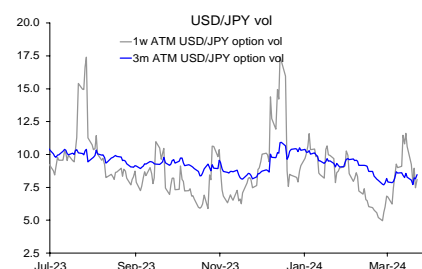
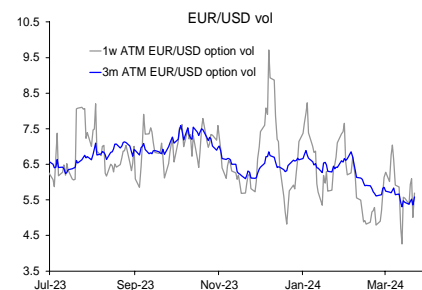
Source: Bloomberg

**Europe.** The German IFO business climate index is due. The news from the German PMI was mixed, with manufacturing shockingly weak and services surprisingly upbeat. There is a heavy schedule of ECB speakers due including Holzmann, Nagel, Lane and Centeno. The IFO will add to the debate one way or the other. UK retail sales and consumer confidence are due.

**US.** It has been an interesting week for US policy and with limited data on Friday investors will have scope to contemplate to what extent Fed Chair Powell is emulating Paul Volcker. Volcker is best remembered as the person that crushed the rampant inflation that persisted in the 1970s during his 1979-87 term as Fed Chair. It is less well remembered that he needed two bites at the cherry to get the job done. Having eased too early in 1980 he was forced to push rates significantly higher later in the year as inflation re-accelerated. This looks to be a risk that Powell's Fed seem happy to run. It now looks as if the Fed will kick off the easing cycle in June. That said, we continue to expect that it will not get very far and only see 2x25bp cuts this year as inflation gets stuck above target in H2.

## Market summary

(Source: Bloomberg)



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