

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Due a little upside.
USD	DXY due a breather against a light data backdrop
JPY	JPY lift from firmer policy vs intervention risks. JPY to remain under modest pressure
GBP	Quiet week, GBP sentiment has softened a little. Flattish

Overnight comment – Intervention watch

US stocks nudged lower. Asian indices were mixed with China leading the declines and Japan, Australia and India the gains. It was a quiet session for data, with the Australian CPI a touch weaker than expected at 3.4%YoY. **The focus was on the currency markets, especially the yen, with USD/JPY pushing up to a high of 151.97, the highest level since 1990 in the wake of comments from BoJ Board member Tamura, who re-iterated that policy would remain accommodative.** Finance Minister Suzuki noted that the government would take “*bold measures against excessive moves without ruling out any options*”, which saw USD/JPY ease off the highs. UST yields were little changed in Asian trade, while the DXY index was a fraction higher.

The last time Japan intervened in the currency markets was back in autumn 2022, when USD/JPY peaked at 151.95. The trade deficit had surged alongside energy prices. This time round its elevated USD policy rates that are the main problem. Last week, the BoJ made modest steps towards narrowing the spread but investors were disappointed with Governor Ueda’s reiteration that policy would remain loose. The verbal intervention in recent sessions has proved ineffective suggesting that if the authorities want to cap the rise in USD/JPY they need to act rather than just talk. Verbal intervention is already at fever pitch. Intervention seems likely should USD/JPY push much above today’s high. One problem with intervention is that it likely needs lower UST yields to be successful. With the US core PCE on Friday likely to be elevated, tactically it may be better to wait. JGB yields pushed lower following a strong 40-yr auction, which dragged yields lower across the curve. Governor Ueda said that the BoJ would keep buying longer-dated JGBs at the same pace for now. Last year, Japan’s land prices rose at the fastest pace since 1991 the MHLW reported yesterday. The 2.3% jump only put prices back to pre-Covid levels but implies limited scarring from the pandemic.

The ECB’s Kazaks spoke early today noting that it looks like the inflation dragon is pinned to the ground for now and that he didn’t have any objection to financial markets pricing the first ECB cut in June. He suggested that the ECB would want to see the reaction to cuts before moving again. There is a high degree of consensus from ECB speakers that June will be the start of the easing cycle and there needs to be a big surprise in the data to shift them away from June. **EUR/USD was little changed in Asian trade and sits around 1.0835 as Europe opens.** In the UK, the Lloyds business barometer was little changed. **GBP/USD sits around 1.2625.**

Today’s Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Commission economic sentiment (DI, Mar)	96.2/95.4

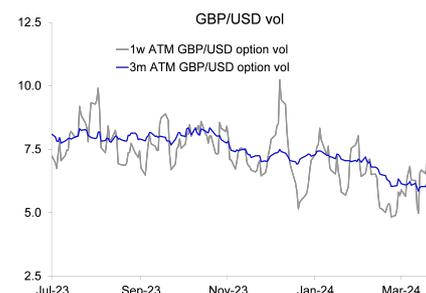
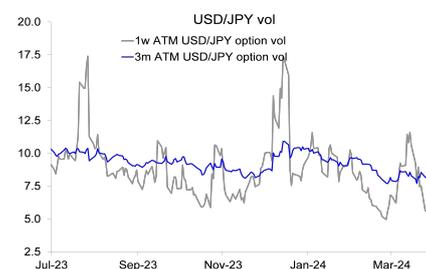
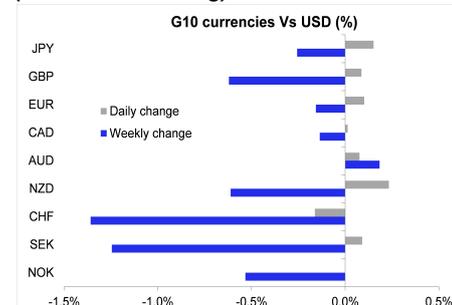
Source: Bloomberg

Europe. Spain’s CPI is due. A large jump is expected driven by base effects. European policy actions in response to the energy crisis taken in late 2022/early 2023 mean that inflation in the individual eurozone countries is showing limited co-movement as policy effects outweigh underlying economic effects. The EU Commission sentiment indices are the last of the sentiment indices in the eurozone region. They don’t usually move markets but they do provide useful cross country comparisons. The EU has also added a labour hoarding index to the report, which is also useful. The ECB’s Cipollone speaks and will likely push the dovish view of scope for multiple cuts this year. The Riksbank will likely leave policy unchanged at its policy meeting today.

US. Today the focus in the UST market is the 7yr auction. Yields have been pushing higher this week into quarter end.

Market summary

(Source: Bloomberg)



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