

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	ECB to confirm June cut. EUR soft
USD	Elevated CPI to keep USD supported
JPY	Intervention risks. JPY to remain under modest pressure
GBP	GDP to show imply Q1 activity. GBP neutral

## Overnight comment – JPY shorts building

Friday's upbeat payrolls report have left a June cut from the FOMC in the balance, with the market pricing a ~50% chance. The Fed wants to cut. The data say it's a bad idea, especially given the uptick in energy prices. UST yields pushed higher in the Asian session building on the rise on Friday, despite a sell-off in crude oil futures, which was driven by a possible lowering of tensions in the Middle East. 2yr UST yields are now at their highest since late November last year. Brent crude futures approached \$92/barrel on Friday but now sit just below \$90/barrel. Asian equities moved higher led by Japan, while Chinese shares were subdued as they re-opened after a 2-day break. Friday's IMM positioning data showed solid support for the US dollar with both speculative and asset managers showing additional support.

Japan cash earnings were more or less in line with expectations. It does look like the large gap between the headline and same sample measures has closed for now. Cash earnings rose 1.8%YoY in February. It will be a few month yet before the Shunto negotiations impact the wage data. Real wages were down 1.3%YoY. The eco watchers survey was disappointing with both the current and outlook indices lower. MoF's monthly International Transaction in Securities data for March showed Japanese investors as heavy sellers of overseas equities (¥1393bn) while net foreign bond buying was muted (¥404bn). Trust banks were the main driver. They were heavy sellers of equities (¥2358bn) and solid buyers of bonds (¥1304bn) as they took profits on overseas equities and recycled the money in to bonds. Investment trusts remained heavy buyers of overseas equities (¥942bn) but their flows were swamped by trust bank activity. 2yr JGB yields are creeping higher, hitting 0.22%, the highest since 2011. The IMM data showed JPY shorts increasing last week to sit near the most elevated level since 2007, although this time round the speculative/asset manager split is much more balanced. In 2007 it was almost entirely speculative. One might also note that FX markets are considerably larger now than in 2007. **USD/JPY pushed higher through the session to sit around 151.80 as Europe opens.**

German industrial production for February was a lot firmer than expected, rising 2.1%MoM, while the trade balance surprised to the downside as imports jumped. **EUR showed limited reaction. EUR/USD drifted sideways during Asian trade to sit around 1.0835.** It is interesting to note that EUR didn't suffer much in the wake of the strong payrolls report, although one might argue that the reaction to the solid non-manufacturing ISM was exaggerated. In the UK, the report on jobs showed permanent placement easing a little further, with the DI sliding to 43.3. The rate of salary increase eased too for both permanent and temporary staff, while vacancies declined at a slower pace. The survey is among the most downbeat on the outlook for the labour market – much more so that the BoE Decision Makers' Panel. But they are both moving in the weaker/softer direction. The Deloitte survey of CFOs saw optimism rising for a 3<sup>rd</sup> consecutive quarter. **GBP/USD was little changed in the Asian session to sit around 1.2630 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Report on Jobs (Mar)	

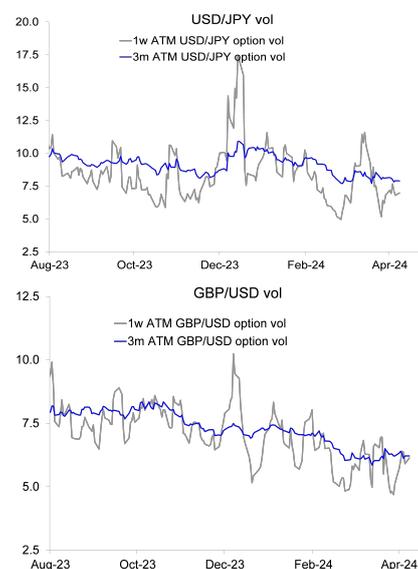
Source: Bloomberg

**Europe.** German industrial production and trade data are due. While production has been very weak, the trade data have been a bright spot for EUR, despite being driven by weak imports. The Sentix investor confidence index for the eurozone may nudge a little higher. BoE's Breeden speaks on an SNB panel late in the day (16.30 BST).

**US.** It will likely be a quiet session in the US ahead of the start of earnings season on Friday. The Fed's Kashkari (non-voter) speaks. Recall he raised the prospect of no cuts in recent comments, which he may well repeat in the wake of the rock solid payrolls last Friday.

## Market summary

(Source: Bloomberg)



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