Mizuho Daily Currency Watch

9 April, 2024

Colin Asher
Senior Economist
colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

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 – USD/JPY still stable below 152

Asian equities were mainly higher on the day. Taiwan and Japan led the gains, while China and South Korean shares were a little soft. UST yields nudged lower, especially at the long end while the DXY index was little changed after a drop late yesterday. NZD was firm ahead of the RBNZ meeting tomorrow. Brent crude futures bounced off yesterday's lows and sit above $90/barrel.

In Japan, USD/JPY has hovered just below the 152 level for much of the last 3 weeks. In that period 2yr JGB yields are up ~5bp but 2yr UST yields are up ~15bp, widening the spread. Many models suggest that the wider yield spread would imply a higher USD/JPY. The threat of intervention does seem to be having some impact. The run-up to the US CPI data tomorrow will be interesting, especially given the uptick in gasoline prices in March. Despite concerns about tighter BoJ policy driven by yen weakness in the wake of BoJ Governor Ueda's recent comments, today's 5yr auction saw decent demand with the tail unchanged at 0.02 and the bid/cover only slightly lower at 3.88x vs 3.99 previously. Despite the solid auction, JGB yields nudged higher in line with global developments, with the long end especially soft ahead of Thursday's 20yr auction. Consumer confidence rose in line with expectations, to 39.5, its highest level since 2019. Governor Ueda's comments in the Diet had little impact on trade. **USD/JPY sits around 151.90 as European trade gets underway**.

German truck milage was down 1.0%MoM in March but generally the YoY declines are shrinking towards zero suggesting German is past the worst. It was a quiet open ahead of the ECB's bank lending survey today and policy meeting on Thursday. **EUR/USD was little changed in Asian trade and sits around 1.0860 as Europe opens**. The UK BRC retail sales for March came in firm, rising 3.5%YoY after a soft print in February. Food sales were the driver, while non-food sales remain soft. **GBP/USD was essentially flat through Asian trade but sits near the highs of the session as Europe opens, around the 1.2665 level**.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
EZ – ECB's Bank lending survey (Q1)	*--*
US – NFIB small business sentiment (DI, Mar)	*89.9/89.4*

Source: Bloomberg

Europe. The quarterly bank lending survey is a key tool the ECB uses for assessing credit demand and supply via the banking system. The survey is especially important for the ECB given how much corporate borrowing is done via banks rather than in the capital markets. Recent surveys have show financing developments becoming less negative in recent quarters, with the nadir for the banking sector coming ~12 months ago. Nonetheless, the survey will still likely indicate that credit activity remains a weak point for the region. Money and credit data remain soft, even if not quite as soft as they were in H2 23.

US. NFIB survey of small business sentiment for March is due. Quiet ahead of Wednesday's CPI report. UST 3yr supply ahead of 10yr and 30yr auctions on Wednesday and Thursday, respectively. Yesterday, UST yields hit new highs for the year amid concerns that the soft landing many were hoping for is increasingly looking like no landing at all as the Fed seeks to keep the labour market solid running risks on the inflation side of the mandate.

Market summary

(Source: Bloomberg)