

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

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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 – Hot, hot, hot

3 elevated US CPI prints in a row! The Fed needs to underscore that it is willing to be patient for as long as it takes. Promising cuts just round the corner isn't working. With the 3m averages for the CPI far above target, a June cut looks to be out of the question. The DXY index and UST yields broadly held the post-CPI moves in the Asian session, drifting sideways. Asian bond yields tracked UST yields higher, while Asian stocks were mixed. The gap between the CNY fix and forecasts moved out to a record level as the Chinese supported their currency in the wake of the jump in the US dollar. The weak Chinese CPI implies scope for further stimulus.

In Japan, JGB yields jumped, tracking yields overseas, with 30yrs at their highest since 2013, while 2yrs are at their highest since 2009. Today's 20yr auction was, unsurprisingly, a little soft. USD/JPY surged through 152.0 in the wake of the CPI report and through 153.0 late yesterday to a 34-year high. **The pair currently sits just above the 153.0 level.** Obviously, verbal intervention is at fever pitch and yet MoF has not acted. In some ways this makes sense. The move higher was accompanied by a surge in 2yr UST yields and seems very much in line with fundamentals. There isn't much MoF can do about above target US CPI. Tactically, it would likely have been a poor time to intervene and would probably have provided relatively limited bang for the buck. MoF's resources are large but not unlimited. For now the tactical tail is wagging the strategy dog but sooner or later MoF will need to conduct actual intervention if it wants to limit yen weakness.

EUR/USD sits around 1.0735 ahead of today's ECB meeting. The RICS house price DI continued to improve bolstering our view that the recent dip in house prices is likely to be temporary rose from -10 to -4. The index sits at its highest since late 2022 and is set to turn positive soon. In an FT interview the BoE's Green said that cuts "should still be a way off", as she noted indicators of inflation persistence are improving but remain to high for now. **GBP/USD sist around 1.2540 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house price index (DI, Mar)	-6/-10
EZ – ECB meeting (depo, %)	4.0/4.0
US – PPI (%MoM, Mar)	0.3/0.6
US – Core PPI (%MoM, Mar)	0.2/0.3
US – weekly jobless claims (k)	215/221

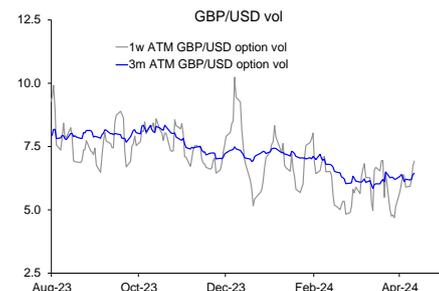
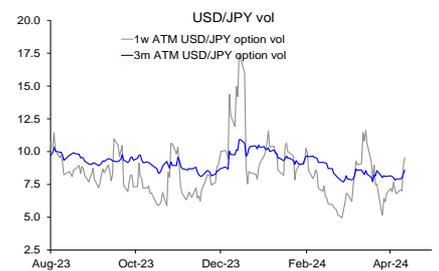
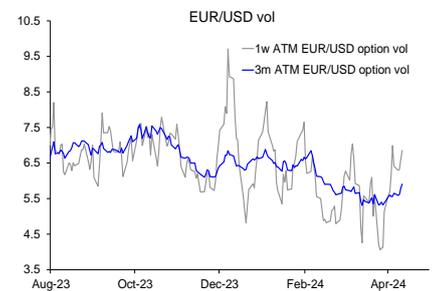
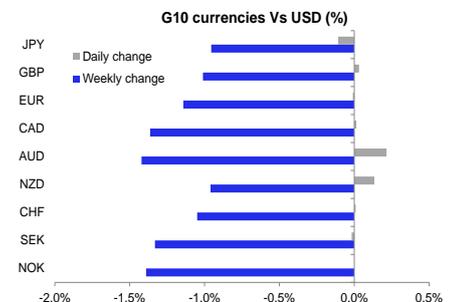
Source: Bloomberg

Europe. The ECB meeting does not seem likely to deliver much in the way of fireworks. There are no new forecasts and we suspect that the rock solid US CPI data will make the ECB even more determined to get the job done. The US is a good example of what happens to inflation when the central bank talks about easing too early and keeps financial conditions too loose. The ECB has already agreed to start easing in June. It would take a lot to shift the ECB away from this view. There is a lot of talk about back to back cuts in June and July but in previous speeches President Lagarde has pushed back against such pre-commitments. With the labour market still solid and energy price developments much less benign in recent weeks Lagarde is likely to stick with the view that future moves remain data dependent. The BoE's credit conditions survey is due today.

US. After a hot CPI, focus turns to the PPI. It seems likely to be more benign than the CPI. The main focus will be on the Fed speak and any potential response to runaway inflation.

Market summary

(Source: Bloomberg)



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