

Mizuho Daily Currency Watch

17 April, 2024

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Currency	Main focus of the week (S-T view)
EUR	Oversold, due a bounce
USD	Overbought, due a pullback
JPY	The cheap safe haven is due a break. This week?
GBP	Data to suggest cuts are coming but cable sell off is too fast. GBP to bounce

Overnight comment – Divergence

Policy divergence was in full view yesterday as Fed Chair Powell noted that it was taking longer than expected to get confident that rate cuts would be appropriate, while ECB President Lagarde said that unless something unexpected happens the ECB will start easing in June. 2yr UST yields briefly pushed above 5.0% in the wake of Powell's comments and remained just below that level in Asian trade. Asian shares were mainly soft with China the main exception, enjoying a post-GDP bounce. Taiwan shares also moved higher. NZ CPI was a little firmer than expected, helping NZD outperform in Asian trade.

Japan's seasonally-adjusted trade balance was a little weaker than expected in March, showing a deficit of ¥701bn. It remains the case that net exports will likely make a positive contribution to Q1 GDP. **USD/JPY was stable around the 154.65 level for much of the session.** The next BoJ meeting is on 26 April. The BoJ will need to factor a weaker currency into its near-term CPI forecasts, which will likely push them higher, as will the recent jump in oil prices, which will be exacerbated in JPY terms. The weaker the yen the more chance there is that the BoJ will have to hike to defend the currency. We doubt that this will happen in April but relative to our existing forecasts of a small hike in autumn, the risks are clearly that it may be either earlier or larger. 10yr JGB yields are pushing back up towards the early November high.

EUR remained soft in the wake of Lagarde's comments yesterday and sits near the low of the session as Europe opens, sitting around 1.0620. UK CPI came in a touch firmer than consensus, with headline at 3.2%YoY (vs 3.1% expected) and core at 4.2%YoY (vs 4.1% expected). UK CPI will drop a lot further next month when the impact of recent reduction in the energy price cap hits the numbers. Nonetheless, services CPI is still running at 6.0%YoY, suggesting that the BoE will be in no rush to ease. **GBP/USD edged off the lows in the wake of the data to sit around 1.2455.**

Market summary

(Source: Bloomberg)

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CPI (%YoY, Mar)	3.1/3.4
UK – Core CPI (%YoY, Mar)	4.1/4.5
EZ – CPI, 2 nd est (%YoY, Mar)	2.4/2.4
US – Beige book	--

Source: Bloomberg

Europe. The second estimate of eurozone inflation will provide details to look at some of the more esoteric inflation baskets. For the ECB Cipollone, Schnabel, Lagarde and de Cos speak. Schnabel's comments on policy in uncertain times will likely be the highlight. Markets are pricing 3x25bp for the ECB this year. For the BoE, Bailey, Haskel and Green speak. Haskel recently switched to voting for policy to remain unchanged when he was previously voting for hikes, but speaks at a panel for a book launch, which is not always a promising policy backdrop. Markets are pricing 1x25bp and a ~50 chance of a second one this year.

US. While Jefferson added to the sense that the Fed sees no urgency to lower rates, it remains the case that the Fed strongly expects to lower them at some time this year, with relatively few signs that they are concerned about policy being too loose. Mester speaks today. She is a hawk turned centrist which we see as interesting. We see few reasons to desert the hawkish camp at the current juncture. The Fed's Beige book will set the stage for the 1 May FOMC meeting and earnings will keep coming. The market currently prices one full 25bp cut and ~50% chance of a second one this year.

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