

Mizuho Daily Currency Watch

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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 – Safe havens in demand

The S&P closed lower for a 5th consecutive session and events overnight hint at a 6th consecutive lower close, with futures down sharply. In the early hours of the London morning news of a strike on Iranian targets saw risk assets take a hit. The fact that Iran seemed to try and downplay the attack helped markets reverse much of the initial move. UST yields dropped sharply, with the 2yr yield down over 10bp before recovering half the drop. USD/JPY also dropped as low as 153.60 before recovering. Brent futures jumped almost \$4 but again pared the rise in subsequent trade. The one asset that did not reverse much of the initial move was equities. Asian equities remained under pressure. The traditional currency safe havens - JPY, CHF and USD - have outperformed in the Asian session. Short positioning in both CHF and JPY are elevated. Short covering likely added to the gains.

Japan national CPI data for March came in a touch lower than expected with headline down from 2.8%YoY to 2.7% and ex fresh food and energy CPI down from 3.2%YoY to 2.9%YoY. The CPI data are not likely to have much impact on the BoJ deliberations next Friday. The BoJ is likely to leave policy unchanged having made major changes in March but the new forecasts and colour on how the BoJ is seeing the impact of a weak yen are in focus as is any commentary on the balance sheet. Yesterday, in Washington the BoJ Governor hinted that yen weakness could drive the Bank to tighten policy. The main focus for markets was geopolitics but the marginally soft CPI helped JGB yields decline for a second consecutive session, with the 10~20yr sector leading the way. **USD/JPY dropped sharply but recovered to sit around 154.40 as Europe opens.**

German producer prices for March showed the YoY decline easing from 4.1% to 2.9%. This normalisation up the price chain suggests that goods price disinflation at the consumer level will tail off in coming months. The ECB's Kazaks noted that it was too soon to declare victory in the inflation fight even as the ECB remains on track to lower rates in June. He said there was no need to rush back to levels where borrowing costs stop holding back activity. **EUR/USD sits around 1.0640 as Europe opens.** UK retail sales were soft, with headline sales in March flat at 0.0%MoM. Ex auto sales were down 0.3%MoM. The ONS noted that sales were up 1.9% on the quarter and will likely contribute around 0.1pp to Q1 GDP. **GBP dipped in the wake of the report and sits around 1.2405 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Retail sales (%MoM, Mar)	0.3/0.0

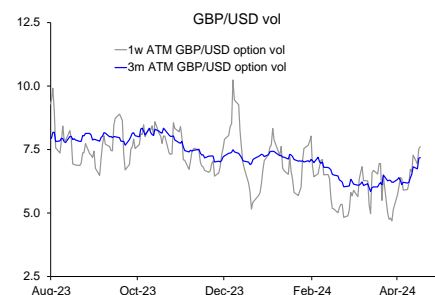
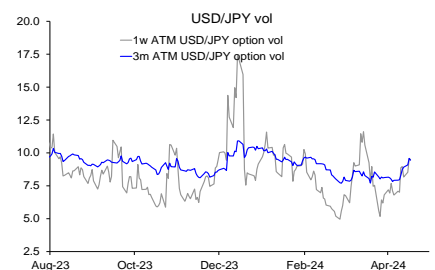
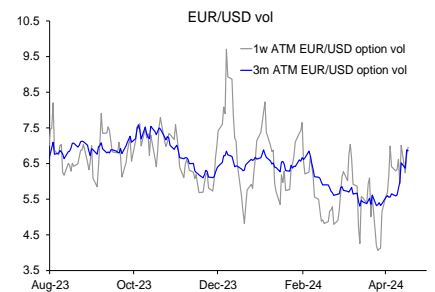
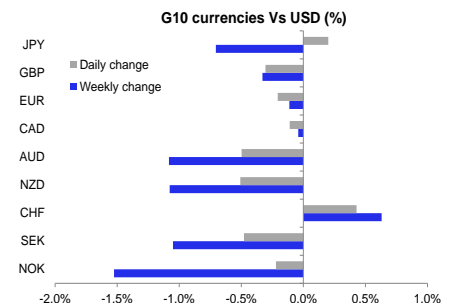
Source: Bloomberg

Europe. It is quiet on the data front today. The ECB's Nagel is scheduled to speak. The BoE's Ramsden and Mann both speak. Ramsden's comments, should he talk about the current policy outlook, will be of interest as he is a hawk turned centrist. Of the BoE core, he seems the most likely to keep voting for policy to remain on hold rather than vote for easier policy, although whether that is enough to limit rate cuts is uncertain as he presumably would need to persuade one other colleague to join him (alongside Mann, Greene and Haskell) to be in the majority. Of late Greene has spoken of UK risks relative to the US noting how supply impaired the UK economy is. In contrast, Governor Bailey seemed more focused on the demand side when he noted potential divergence vs the US. Note that the next BoE meeting will see the Bank produce new forecasts. It seems early for the Bernanke Review to have had much impact. Both the forecasts and the vote count will be closely watched. For now, we see no change in BoE policy until August, but the risks seem to be earlier rather than later.

US. There are no US data today. Goolsbee is the final scheduled speaker ahead of the 1 May FOMC meeting. As a dove, It will be interesting to see how he views the recent re-acceleration of inflation.

Market data

(Source: Bloomberg)



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