Mizuho Global Weekly

March 8, 2024

Weekly Highlights

- **Dovish Powell, payrolls revisions leave USD under pressure**
- **CPI print not expected to be benign**

- **Wages looking good. Yen jumps, supported by BoJ speculation**
- **H2 recession to be revised away…watching wages**

- **Solid UK data to mean no rush for BoE**
- **ECB post-meeting sparring on policy expected.**

- **China sets a challenging 5% GDP growth target**
- **PBoC signalled further room for a RRR cut**

- **India CPI dis-inflation remains insufficient for RBI doves to reign**
- **Korea unemployment rate uptick amid strikes and supply increases**

- **Poland kept its policy rate and hawkish stance**
- **ZAR appreciated sharply amid risk-on environment**

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US Fading disinflation momentum?

Major Events and Data Releases

Date	Event	Survey	Prior
12-Mar	NFIB small business confidence (DI, Feb)	--	89.9
	CPI (%MoM, Feb)	0.4	0.3
	Core CPI (%MoM, Feb)	0.3	0.4
	Monthly budget statement ($bn, Feb)	--	-21.9
14-Mar	Retail sales (%MoM, Feb)	0.7	-0.8
	PPI (%MoM, Feb)	0.3	0.3
	Core PPI (%MoM, Feb)	0.2	0.5
	Weekly jobless claims (k)	--	217
15-Mar	Empire m'fact (DI, Mar)	-7.0	-2.4
	Industrial production (%MoM, Feb)	0.0	-0.1
	U Mich Consumer sentiment (DI, Mar)	77.0	76.9

Source: Bloomberg

In his semi-annual testimony Fed Chair Powell said that the Fed was "not far" from having the confidence to start dialling back the level of restriction. How far is "Not far"? To us this suggests a move by June in Powell's mind should the data come in as expected. This built on the momentum from a slightly soft non-manufacturing ISM (the headline was much firmer than the details, esp on the demand side, where both output and orders were rock solid). Ahead of the payrolls report the US dollar was under pressure, experiencing one of its worst weeks for some time, losing ground against all G10 counterparts. Non-farm payrolls were a little firmer than expected for February at a still healthy 275k, but there were major downside revisions to January. Average hourly earnings were also a little softer than expected and the unemployment rate rose to 3.9% from 3.7%. The 3m average of payrolls is still a healthy ~265k. UST yields dropped, equities jumped and the US dollar pushed even lower in the wake of the payrolls data. In the wake of the payrolls report OIS swaps are pricing in a little more than 25bp for the June meeting.

Outlook

The focus will swing back to prices this week and after the higher-than-expected CPI and PPI for January. The news from the February data is not likely to be especially comforting. The consensus forecast for the February CPI is another 0.4%MoM jump, while core CPI is seen up 0.3%MoM. The YoY rate for the CPI has been flat for almost 6 months, while the YoY rate for core is only drifting lower slowly. With the 3m averages moving higher we don't expect this weeks data to add to the Fed's confidence that prices are coming down and likely to stay down! The PPI data will not be especially comforting either. Outside the CPI and PPI, retail sales and industrial production will help analysts fine tune their estimates for Q1 GDP. The Atlanta and NY Fed nowcasts are running above trend. Small business, consumer confidence and the Empire manufacturing indices are all due too. These will give a hint at of sentiment in Q4.

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Japan – Still watching wages. What recession?

Major Events and Data releases

Date	Event	Survey	Prior
11-Mar	M2 (%YoY, Feb)	--	2.4
	GDP, 2nd est (%QoQ, Q4)	0.3	-0.1
12-Mar	PPI (%YoY, Feb)	0.6	0.2
	MoF business sentiment (DI, Q1)	--	4.8

Source: Bloomberg

On Thursday USD/JPY dropped sharply. First up, the monthly wage data were a little firmer than expected. Next, the BoJ's Nakagawa noted that the conditions for a wage hike were coming together. Then late in the session, Rengo reported than its wage demands were running at 5.85% vs 4.49 last year. These events boosted expectations that the BoJ will hike and pushed USD/JPY down to a 1-month low below the 148 level. Indeed market pricing of the end of NIRP implies that the likelihood is similar for both March and April. 2yr JGB yields briefly toughed 0.2% at the tail end of the week, their highest for over a decade. Whilst the Nikkei is down on the week, the broarder Topix is up 0.6%, up for a 6th consecutive week and the 9th week in 10. After the Japan close on Friday a number of media stories on the likelihood of a March BoJ move pushed USD/JPY briefly below 147.0.

Outlook

Two key developments in the coming week should help the BoJ feel more comfortable in undertaking its first rate hike for over a decade. Q4 GDP is seen revised sharply higher when the second estimate is published on Monday. Indeed, the H2 recession is likely to be revised away. Hiking when the economy is in recession is a bad look for a central bank and thus the BoJ will be pleased that the recession will be revised away. Then the focus is on wages. The period between 12~14 March is expected to be the peak period for companies to respond to union demands, which should come piecemeal. On 15 Rengo is expected to publish a summary of progress to date. In the wake of the elevated Rengo demand, that was revealed this week, and the report from UA Zensen that noted that some of its member unions had had their demand met in full, it seems assured that wage growth will easily top last years rise, that was the biggest for ~30 years.

The wage data will feed into the BoJ meeting on 19 March. We judge that recent events have boosted the likelihood of a move at the March meeting but we still expect that the BoJ will wait until the April meeting before hiking rates. Firstly, the Governor has been extremely patient and cautious to date and we suspect that he would like more data on wage before committing. Rengo are due to publish updated 3 times between the March and the April BoJ meeting. In addition, the BoJ will publish new forecasts at the April meeting. These offer the BoJ a chance to put down a 2.0% forecast at the end of the horizon, signalling confidence that the inflation pick up is not just a short-term blip. If the BoJ doesn't do this it leaves itself open to the accusation that it never believed price gains would be sustained. Waiting also potentially allows the government the chance to asses whether to declare an end to deflation, which would allow the BoJ end the inflation overshooting commitment.

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Europe – heavy UK data week

Major Events and Data Releases

Date	Event	Survey	Prior
11-Mar	UK – Report on jobs	--	--
12-Mar	UK – Unemployment (3m%, Jan)	3.8	3.8
	UK – Average earnings, ex bonus (%YoY, Jan)	6.1	6.2
	UK – Payrolled employees (k, Feb)	--	48
13-Mar	UK – GDP (%MoM, Jan)	0.1	-0.1
	EZ – Industrial production (%MoM, Jan)	-1.5	2.6
14-Mar	UK – RICS house prices (DI, Feb)	-10	-18

Source: Bloomberg

The ECB meeting ended as we expected – with the Governing Council strongly hinting that the first easing move would come in June. President Lagarde noted that the Council was more confident that inflation was coming back towards target but not yet sufficiently confident to ease policy. There was a firm agreement that there would be some additional data in April but a lot more data by June. This was a strong hint that, absent any big surprises, June is the likely starting date for the easing cycle in the eurozone. Lagarde noted that the compensation/employee data for Q1, as well as various wage trackers and the ECB's own monitoring of collective bargaining would provide a foundation for determining that inflation was on track. Lagarde also noted that the conclusion of the Framework Review was likely on 19 March. In the wake of the meeting, EUR/USD pushed up above 1.0950, although Powell's testimony had something to do with the move. The UK budget was more or less as leaked in the press and the market impact was limited. GBP broadly tracked EUR higher and end the week as one of the better performing G10 currencies on the week.

Outlook

It will be a quiet week for data in the eurozone. In the wake of the ECB meeting we suspect that ECB members will be out pushing their view on the balance of risks around a June cut. This started on Friday with Nagel vs Villeroy. President Lagarde also noted that 13 March was the most likely date for the ECB to publish the results of its review of its policy framework. She said that it was not straightforward and that the ECB was still considering how to publish the results.

It's a heavy data week in the UK with the official labour market data, the Report on Jobs, January GDP and house prices. The official labour market data (especially the employment/unemployment section) remain under a cloud and so markets will mainly focus on the wage data for January and the payrolled employees for February. The Report On Jobs is attracting more focus too. In contrast to the BoE's Decision Makers' Panel, it is portraying a much softer labour market. GDP in January will likely bounce after the weak December print, especially given the surge in retail sales. The RICS UK house price index is seen continuing to improve. The surprisingly robust recovery in the housing market is one factor behind the upward revisions to GDP that we have made over the past few months. Late last year we saw annual growth in the UK at 0.0% but that now sits at 0.6%. Catherine Mann's speech on the 12 March is the last speech currently scheduled ahead of the 21 March BoE meeting.

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China – 5% GDP growth target will be a challenge

Major Events and Data Releases

Date	Event	Survey	Prior
9~15 Mar	Money Supply M2 (%YoY, Feb)	8.8	8.7
	New loan growth (CNY bn, Feb)	1500	4920
	Agg. Financing (CNY bn, Feb)	2275	6501.7
9-Mar	CPI (%YoY, Feb)	0.3	-0.8
	PPI (%YoY, Feb)	-2.5	-2.5
15-Mar	1Y MLF rate (%, Mar)	2.5	2.5
	New Home Prices (%MoM, Feb)	--	-0.37

Source: Bloomberg

Spot CNH remained within its recent trading range as headlines from the China National People Congress (NPC) were largely in line with expectations. At the NPC, Chinese leaders kept the GDP growth target unchanged at “around 5%” for 2024, along with a 3% budget deficit. The government also plans to issue new special local government bonds of CNY 3.9trn and CNY 1trn of ultra-long special government bonds. However, considering the high base of GDP after the reopening, the ambitious ~5% GDP growth target has raised skepticism among investors. On the data front, the solid China trade figures for first two months showed some improvement in the growth outlook and the headwinds from external sector may not be as strong as expected.

PBoC Governor Pan Gongsheng signalled there is further room for a Required Reserve Ratio (RRR) cut. He said the central bank would implement various monetary policy tools to increase counter cyclical adjustments and maintain reasonably ample liquidity conditions. Over the week, the PBoC net drained CNY 1114bn liquidity via the Open Market Operations (OMOs), in comparison to a CNY 632bn liquidity injection in the prior month.

Outlook

In our view, the policy signal for an RRR cut is not likely to trigger a new wave of RMB depreciation. First, CNH has shown limited reaction to RRR cuts since 2023, as the primary aim of such cuts is to inject liquidity into the market while having a limited impact on the widening interest rate differential. Second, the PBoC shows its preference for implementing RRR cuts, reducing the chances of deep policy rate cuts. The experience of 5Y LPR cut in February indicated that the PBoC could drive the long-term LPR cut via the RRR cut and saving rates cuts, while keeping policy rates unchanged. The incoming data flow will provide more information to assess the growth outlook in 2024. Credit expansion is expected to slow due to fewer working days in February, but government bond issuance will help limit the downside. CPI inflation is expected to turn positive due to rising food prices but it is too early to assume the end of the deflation trend. The PBoC is expected to keep its 1Y Medium Lending Facility (MLF) rate unchanged and will probably stand pat before the Fed begins its rate cut cycle later this year.

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EM Asia – External and internal demand rebalancing act

Major Events and Data Releases

Date	Event	Survey	Prior
12-Mar	India CPI (%YoY, Feb)	5.1	5.1
	India Industrial Production (%YoY, Jan)	4.1	3.8
	Malaysia Ind' Production (%YoY, Jan)	2.0	-0.1
	Malaysia M'fact Sales Value (%YoY, Jan)	--	-4.2
	Philippines Trade Balance ($mn, Jan)	-4695	-4013
13-Mar	India Trade Balance ($mn, Feb)	-190000	-17491
	Korea Unemployment (%, Feb)	--	3.0
14-Mar	India Wholesale Prices (%YoY, Feb)	0.1	0.3
15-Mar	Indonesia Trade Balance ($mn, Feb)	2500	2015
	Philippines Cash Remittance (%YoY, Jan)	2.8	3.8

Source: Bloomberg

This week, in Malaysia, the BNM kept rates unchanged with an explicit allusion to the MYR being undervalued. Down Under, Australia's GDP Q4 GDP growth outturn at 0.2%QoQ as expected reflects stretched household consumption. Household spending only rose 0.1%QoQ as higher spending on necessities managed to marginally offset the sharp fall in discretionary expenditure. This was also reflected on a sectoral basis as accommodation and food services valued added contracted 3.2%QoQ. Worryingly, the manufacturing sector also saw a 1.2% decline in output QoQ. All in, while RBA hawks may not want to rule out rate increases, growth concerns make any additional hiking action a very high bar. Nonetheless, given the lack of RBA dovish tendencies, the AUD outperformed regional peers this week.

Outlook

We expect Korea's unemployment rate for February to rise despite our estimates for improvement in overall employment after 3 consecutive months of hiring contraction. The uptick in hiring will likely come from the seasonal surge from health care and social sector as well as public administration and defence but this increase may fall short of a full recovery considering the medical school enrolment debacle. Manufacturing employment is also expected to remain flat with any possible pickup likely subdued given the capital intensive nature of the improving export demand. All in, even the seasonally-adjusted unemployment rate will have rise to account for these idiosyncratic woes amid cautious services and narrow manufacturing hiring.

With lower retail prices for onions and stabilising tomato and wheat prices, India's headline inflation may moderate further but remains insufficient for the RBI to remain comfortable with near term easing. This is especially so in consideration of the significant outperformance in Q4 GDP growth which was broad based across sectors ranging from mining, manufacturing to professional services. Private consumption growth also accelerated and may continue to underpin price pressures ahead. Nonetheless, election related subsides and price adjustments may bring headline CPI inflation lower.

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EMEA – Poland kept policy rate and hawkish stance

Major Events and Data Releases

Date	Event	Survey	Prior
11-Mar	Czech CPI (%YoY, Feb)	2.2	2.3
12-Mar	Turkiye Current Account (USDbn, Jan)	-2.90	-2.09
15-Mar	Poland CPI (%YoY, Feb)	3.1	3.9

Source: Bloomberg

Last week, the outperformance of ZAR was significant, while the pace of TRY depreciation accelerated. The currencies of central and eastern Europe (CEE) were mainly stable.

ZAR appreciated more than 2% against USD. Risk assets were back in favour with investors amid signs that cuts from the Fed remain likely. The Fed Chair Powell's remarks on Wednesday did not derail expectations that the central bank will deliver three x 25bp rate cuts this year.

TRY depreciated. The one-month volatility of USDTRY has been spiking higher ahead of critical local elections scheduled on 31 march.

The National bank of Poland (NBP) kept its policy rate at 5.75% as widely expected. The Governor Glapinski said the Council held rates due to the high uncertainty regarding fiscal and regulatory policies as well as the strength of the economy. New economic projections cut the CPI view but revised up the GDP outlook.

Outlook
Next week, February CPI data of Czech and Poland, as well as January current account of Turkiye are due.

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