Mizuho Global Weekly

April 5, 2024

Weekly Highlights

- **Weak non-manufacturing ISM hits USD. Payrolls reverse the drop**
- **Core CPI to remain elevated. 3m annualised rate too high for cuts**

- **USD/JPY hovers just below the 152 level**
- **Much too early to see the strong Shunto outcomes in the wage data**

- **Eurozone inflation eases, unemployment remains at cycle low**
- **ECB meeting the focus but cuts not coming until June.**

- **USD/CNY spot almost hits upper trading band**
- **CNY fixing to be closely monitored**

- **MAS and BoK will retain policy settings amid elevated inflation**
- **BoT and BSP to stand pat while contemplating normalisation path**

- **Poland maintained a cautious stance on inflation risks**
- **Shocking defeat of Turkiye's ruling party at the local election**

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US – Inflation to remain elevated

Major Events and Data Releases

Date	Event	Survey	Prior
9-Apr	NFIB Small business sentiment (DI, Mar)	90.0	89.4
10-Apr	CPI (%MoM, Mar)	0.3	0.4
	Core CPI (%MoM, Mar)	0.3	0.4
	FOMC minutes (DI, Mar)	--	--
	Monthly budget statement ($bn, Mar)	--	-296
11-Apr	PPI (%MoM, Mar)	0.3	0.6
	Core PPI (%MoM, Mar)	0.2	0.3
	Weekly jobless claims (k)	--	221
12-Apr	U Mich Consumer sentiment (DI, Apr)	78.7	79.4

Source: Bloomberg

It has been a week of heavy Fed speak ahead of the 1 May FOMC meeting. Mester's comments were of interest. She noted that she had raised her estimate of the long-run Fed funds rate from 2.5% to 3.0%. The long-run Fed funds median dot rose from 2.5% to 2.625% in the March projections, suggesting that Mester's change was responsible for the bulk of the move. We see the 2.5% as far too low and suspect that others will follow in due course. Most Fed speakers suggested that they were willing to be patient and we see next week's CPI as underscoring that they may need to be patient a while yet, especially given the move higher in oil prices in recent weeks. The ISM data have been the driver for the US dollar, with manufacturing seeing the DXY index surge and then the non-manufacturing print reversing the earlier move and more. Non-farm payrolls came in very strong and the DXY index ends the week slightly firmer.

Outlook

The data highlight of the coming week will be the CPI data. The consensus is for a 0.3%MoM headline print reflecting rising gasoline prices. This would push the 3m annualised rate close to 4.0% and see the YoY rate accelerate to 3.5% from 3.2%. Core at 0.3%MoM would leave the 3m annualised rate around 4.5% - few signs of inflation coming back towards target. These are hardly numbers to give the Fed confidence that policy is working to bring inflation down to 2.0%, especially given labour market strength. There are still a lot of data to come before the June FOMC meeting but the March inflation data are not making a June start to the easing cycle a nailed on certainty. Other data on the week include the PPI, consumer confidence, the monthly budget statement and weekly jobless claims. In general, we see the data as not helping the view that cuts are starting soon. The minutes of the FOMC meeting are also due and there are a number of speakers on the docket. Post-CPI comments will be of most interest. Also earnings season kicks off late in the week with some of the larger US banks reporting.

BoC will likely leave policy unchanged (10 Apr), putting the focus on the BoC's June meeting for the start of the easing cycle. As of now it looks like a number of G10 central banks will start easing in June, with the BoC among the contenders. The RBNZ also meets this week (10 Apr). It looks set to be nearer the back of the pack in the race to ease policy.

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Japan – Ueda turns less dovish to defend the currency

Major Events and Data releases

Date	Event	Survey	Prior
8-Apr	Cash earnings (%YoY, Feb)	1.8	2.0
	Cash earnings, same sample (%YoY, Feb)	2.0	2.0
	Current account, sa (¥bn, Feb)	1996	2727
	Eco watchers, outlook (DI, Mar)	53.3	53.0
	Eco watchers, current (DI, Mar)	51.6	51.3
9-Apr	Consumer confidence (DI, Mar)	39.6	39.1
10-Apr	Bank lending (%YoY, Mar)	--	3.0
11-Apr	M2 (%YoY, Mar)	--	2.5

Source: Bloomberg

Verbal intervention has been at fever pitch this week but seemed to have limited impact on the currency. Even PM Kishida joined in late in the week. The key development on the week was the more hawkish tone adopted by BoJ Governor Ueda in a press article late on Thursday and repeated in the Diet on Friday. We suspect that the BoJ is a little chastened by the failure of the yen to strengthen in response to the end of NIRP and is worried that the yen may weaken further. Ueda has been too dovish in insisting policy will remain loose in the wake of the end of NIRP. In his commentary this week the focus was more on what will push rates higher rather than stressing that policy will remain loose, as was the case in the post-BoJ press conference. He suggested wages might pick up between summer and autumn and that could lay the foundation for a further tightening of policy. He also noted that a weak yen could force a policy change via pushing up inflation or undermining consumer confidence. Obviously, he said the BoJ doesn't target the currency but that doesn't mean the currency doesn't have any impact on policy, especially at these levels. It is likely comforting for MoF to see this change of tone but it doesn't solve their problem. Currencies are relative prices and events in the US continue to suggest only limited rate cuts in the US this year, most likely meaning the US dollar remains relatively firm. Talk is likely insufficient to cap USD/JPY so MoF will likely have intervene. Intervention is best done with a tailwind, such as a weak US payrolls report or soft US inflation.

Outlook

Cash earnings for February will not reflect this year's elevated Shunto agreements. Indeed, as BoJ Governor Ueda noted it may not be until summer/autumn until the results show up in the national wage data (or not at all as was the case last year). Other data on the week include the current account, with associated FDI data for February and the monthly International Transactions in Securities data for the month of March, which round out activity for FY23. The main focus here will be the activity of investment trusts, which have attracted a lot of focus in the wake of the change in the rules for Nippon ISAs (NISA) at the start of the year, which have seen retail investors increase their investments in US tech stocks. The eco watchers' survey and consumer confidence are also due. FX intervention will remain a key focus with USD/JPY hovering below the key 152 level. Verbal intervention is likely to remain a constant backdrop but we see markets as having brushing off the warnings and waiting for MoF to actually put its hand in its pocket and spend some cash.

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Europe – ECB to remain focused on June

Major Events and Data Releases

Date	Event	Survey	Prior
8-Apr	UK – REC Report on jobs (Mar)	--	--
9-Apr	EZ – ECB Bank lending survey	--	--
11-Apr	EZ – ECB meeting, depo (%)	4.0	4.0
	UK – RICS house prices (DI, Mar)	-6	-10
	UK – BoE credit conditons survey (Q1)	--	--
12-Apr	UK – GDP (%MoM, Feb)	0.1	0.2
	UK – BoE Bernanke report on forecasting	--	--

Source: Bloomberg

Italian bonds underperformed early in the week as eurozone fiscal positions were back in the spotlight as the EU Commission gets closer to issuing Excessive Deficit Procedures to those countries that ran a deficit larger than 3.0% in 2023. France, Italy and Spain all ran large deficits last year. Eurozone inflation came in slightly below expectations at both the headline and core levels, while unemployment remains at the cycle low. As long as labour markets remain tight, central banks will worry about how restrictive policy really is and will ease only slowly. In the UK the Decision Makers' Panel (DMP) showed inflation and wage expectations moving lower. Whilst probably not slowing fast enough to impact the BoE in the near term, some on the MPC will likely be encouraged by the data. EUR and GBP both rallied in the wake of the soft non-manufacturing ISM report.

Outlook

The ECB meeting is likely to pass without much fuss. We see an almost zero chance of a rate cut and suspect that President Lagarde will continue to push the case for a first cut in June and then indicate that beyond June the ECB will be data dependent. This is very much in line with expectations. The market is pricing a less than 10% chance of a cut next week and a ~100% chance of a 25bp cut by the June meeting. The ECB has been clear that it has a preference to see compensation per employee data for Q1, before easing. This data, on a national basis, will be available just before the June ECB meeting. Ahead of the meeting will be the ECB's Bank lending survey. We suspect that it will show further modest improvement. The PMI has crept back above 50 suggesting that conditions are improving somewhat, although recent house price data in the region suggest prices are dipping which may limit appetite to lend for housing.

In the UK, monthly GDP for February is the data highlight. In the absence of the full labour market report the BoE is relying more heavily on other data, with the REC Report on Jobs one such survey. It is showing the labour market softening more rapidly that other surveys such as this week's DMP. The BoE will also be a focus this week. It will release its credit conditions survey early in the week and, at the back end of the week, Bernanke's review of BoE forecasting and communication is due. We are not sure this will be a market moving event as it is not likely to impact either the underlying macro data nor the BoE's reaction function. The Bank will still target 2% inflation. Media reports suggest a core scenario with a couple of risk scenarios replacing the fan charts.

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China – USD/CNY spot almost hits its upper trading band

Major Events and Data Releases

Date	Event	Survey	Prior
9~15 Apr	New loan growth (CNY bn, Mar)	3675	4914.3
	Money Supply M2 (%YoY, Mar)	8.7	8.7
	Agg. Financing (CNY bn, Mar)	4800	6536.4
11-Apr	CPI (%YoY, Mar)	0.4	0.7
	PPI (%YoY, Mar)	-2.8	-2.7
12-Apr	Exports (%YoY, Mar)	-1.5	5.6
	Imports (%YoY, Mar)	1.0	-8.2
	Trade Bal. (USD bn, Mar)	71.34	39.71

Source: Bloomberg

Spot CNH drifted sideways around the 7.25 level, while spot CNY weakened further rising towards the 7.2360 level. With the CNY fixing holding steady near mid-7.09 level, CNY spot hit the upper limit of its 2% trading band. The rebound in China PMIs for March showed improvements in business sentiment but did little to reverse bearish RMB sentiment, which intensified after the breakout above the 7.2 level. On the policy front, the PBoC dropped a reference to “strengthening cross-cyclical adjustments”, implying a stronger focus on counter-cyclical policy adjustments. Against the backdrop of mounting RMB depreciation pressure, the PBoC reiterated its firm stance to correct the pro-cyclical behaviour in the FX market, prevent the FX overshooting risks as well as the formation of self-reinforcing one-way expectations. After the quarter-end, the PBoC scaled down its reverse repo operations notably, net draining CNY 844bn liquidity via open market operations. The 7-day interbank repo rate pulled back towards 1.8% from 2.0% at March-end.

Outlook

Admittedly, RMB depreciation pressure has been intensifying after the CNY spot breakout above the 7.2 level, which raised concerns about a potential change in CNY fixing policy. The improvements in China’s data are encouraging but not sufficient to boost confidence in the recovery. We reckon that the PBoC holds a firm stance to keep FX market stability but may open the door for some RMB depreciation at an orderly pace by guiding the USD/CNY fixing higher if the US dollar rallies notably. On the data front, credit data is expected to slow given the status quo of Loan Prime Rates (LPRs). Struggling new home sales also indicate subdued growth in mortgage loans. CPI inflation will likely retreat alongside the fading Chinese New Year seasonality but remain positive while PPI deflation is set to continue. The strong rebound in new export orders in the manufacturing PMI sub-index indicates improvements in exports.

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EM Asia – Central banks to stand pat

Major Events and Data Releases

Date	Event	Survey	Prior
8-Apr	Malaysia Industrial Production (%YoY,Feb)	1.8	4.3
	Philippines BSP Overnight Rate (%)	6.50	6.50
	Taiwan CPI (%YoY, Mar)	2.5	3.1
2-Apr	Taiwan PPI (%YoY, Mar)	--	0.3
	Thailand BoT Benchmark Interest Rate (%)	2.50	2.50
	Philippines Unemployment Rate (Feb)	--	4.5
4-Apr	Taiwan Exports (%YoY, Mar)	6.0%	1.3
5-Apr	Philippines Exports (%YoY, Feb)	10.4	9.1
	India CPI (%YoY, Mar)	4.9	5.1
	India Industrial Production (%YoY, Feb)	6.3	3.8
	Korea BOK Base Rate (%)	3.50	3.50
	Korea Unemployment (%, Mar)	2.8	2.6
	Singapore GDP (%QoQ, Q1)	0.6	1.2
	MAS April 2024 Monetary Policy Statement	--	--

Source: Bloomberg

This week, the RBI expectedly kept rates on hold in a 5 hold -1 cut outcome as Governor Das continues to emphasize the volatility of food inflation and the need for policy to remain actively dis-inflationary. The RBI also pointed out that real rates are not as restrictive as it seems considering likely higher potential growth which may point to a higher neutral rate. A study on this is in the pipeline.

Outlook

While 2 members out of 7 opted for a rate cut at the previous BoT policy meeting, we still expect the BoT to keep rates unchanged in April even as headline inflation remained in deflationary territory in March. Persistent THB weakness and looming fiscal worries on the digital wallet prevent thoughts of contemplating a lower neutral rate on structurally lower growth from turning into policy action.
Similarly, the BSP will also refrain from taking policy action especially with an uptick in headline inflation in March as food inflation remains unrelenting. Even RRR cuts which remain a possibility are unlikely to materialise as it would signal an implicit easing bias and worsen depreciation pressure on PHP.

Meanwhile, the MAS will keep their S$NEER policy stance unchanged in order to temper imported inflation and lean against upside risks to prices from energy shocks and tighter services capacity as well as second round effects from GST hikes. Their inflation outlook continues to be premised on the appreciation stance of the S$NEER. The BoK will also stand pat even as they are inclined to emphasise on-going dis-inflation. Nonetheless, the headline and core CPI prints of 3.1% and 2.4% respectively in March remain insufficient for easing policy considering significant government efforts to dampen food inflation via discounts, expanding import quotas and releasing stockpiles.

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EMEA – Poland maintains a cautious stance on inflation risks

Major Events and Data Releases

Date	Event	Survey	Prior
10-Apr	Czech CPI (%YoY, Mar)	2.1	2.0
11-Apr	Hungary CPI (%YoY, Mar)	3.6	3.7
12-Apr	Czech Current Account (CZKbn, Feb)	15.00	6.85
12-Apr	Poland Current Account (EURmn, Feb)	842	1179

Source: Bloomberg

Last week, EMEA currencies bounced against USD, in line with broader USD weakness.

The National Bank of Poland (NBP) kept its policy rate unchanged at 5.75% as widely expected. The NBP signalled that interest rates will likely stay unchanged, noting that the recent CPI drop will be "temporary" and price growth might "significantly" accelerate in the second half of the year if energy prices rise.

In Turkiye, there was a shock defeat for President Erdogan and the ruling AKP in the local elections. In the Istanbul mayoral race, Imamoglu, the incumbent mayor of the main opposition CHP party, won. Nationwide, with 99.99% of the vote counted, the CHP received 37.76% of the vote, ahead of Erdogan's AKP, which received 35.48%. The AKP won 24 of the 81 mayoral elections nationwide, down from 39 in the 2019 local elections.

Inflation, which remains high despite a sharp hike in the key interest rate, and wages and pensions not keeping pace with the acceleration of inflation may have caused Turkish voters to leave the AKP.

As for future developments, some policy observers say that regardless of the results of the local elections, there is no prospect of a deviation from the orthodox monetary and fiscal policies of June 2023. Given Turkyie's dire need for foreign investment, this view carries some weight. Lessons from the May 2023 tight presidential election and the March 2024 local elections' big defeat could prompt Turkiye's officials to focus more on controlling inflation ahead of the next presidential election in 2028.

However, as the results of the local elections were a historic defeat for Erdogan and the AKP, we cannot rule out the possibility of some kind of economic and monetary policy shake up. USD/TRY will remain choppy.

Outlook

Next week, March CPI and February current account data will be published in some of the countries in central and eastern Europe.

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