Mizuho Global Weekly

April 12, 2024

Weekly Highlights

- **Hot, hot, hot. Elevated CPI, risk off see USD surge**
- **Heavy activity data week, Fed speak, earnings season – busy week**

- **USD/JPY hits fresh multi-year high in the wake of the US CPI**
- **Still waiting for intervention**

- **ECB leaves policy unchanged, as doves push for a cut**
- **EUR/USD hits 6-month lows.**

- **PBoC ramps up efforts to defend the yuan**
- **China data for March remains soft**

- **Malaysia Q1 GDP to improve on both manufacturing and services**
- **Singapore electronics exports may affirm trade recovery**

- **Political situation in focus in Central and Eastern Europe**
- **Polish ruling party secures voters' trust in local elections**

Contact details:

Colin Asher
Senior Economist,
European Treasury Department
colin.asher@mizuhoemea.com
Tel: +44 20-7012-5262

Ken Cheung
Chief Asian FX Strategist,
East Asia Treasury Department
ken.cheung@mizuho-cb.com
Tel: +852 2306-3352

Vishnu Varathan
Head, Economics & Strategy,
Asia & Oceania Treasury Department
vishnu.varathan@mizuho-cb.com
Tel: +65 6805-4244

Tan Boon Heng
Economist,
Asia & Oceania Treasury Department
boonheng.tan@mizuho-cb.com
Tel: +65 6805-4246

Masayuki Nakajima
Senior EMEA FX Strategist,
European Treasury Department
masayuki.nakajima@mizuhoemea.com
Tel: +44 20-7786-2505

US – Hot, hot, hot

Major Events and Data Releases

Date	Event	Survey	Prior
15-Apr	Empire m’fact index (DI, Apr)	-5.0	-20.9
	Retail sales (%MoM, Mar)	0.4	0.6
	Ex auto Retail sales (%MoM, Mar)	0.5	0.3
	NAHB housing index (DI, Apr)	51	51
16-Apr	Housing starts (%MoM, Mar)	-2.7	10.7
	Industrial production (%MoM, Mar)	0.4	0.1
17-Apr	Fed’s Beige Book	--	--
18-Apr	Philly Fed m’fact index (DI, Apr)	-1.5	3.2
	Weekly jobless claims (k)	--	211
	Existing home sales (%MoM, Mar)	-5.1	9.5

Source: Bloomberg

3 hot CPI prints in a row! The Fed’s declaration of victory in the inflation battle looks increasingly premature. Supercore CPI is heading rapidly in the wrong direction and the Fed needs to reassure markets that it will ensure that inflation will not only come down but stay down. Its not doing a great job and it needs a change in rhetoric to assuage concerns that it has gone soft on inflation. In the wake of the unexpectedly firm US CPI print, UST yields surged, markets priced out Fed cuts (now just 45bp priced in this year vs 65bp ahead of the CPI) and the US dollar jumped, with the DXY index pushing above 105 to a new year-to-date high. The US dollar built on it’s Wednesday gains in a risk-off session on Friday alongside higher energy and gold prices. The US dollar is higher against all major currencies this week.

Outlook

It is a heavy data week but we see Fed speak as the key driver of events this coming week. Logan, Daly, Jefferson, Mester, Bowman, Williams, Bostic and Goolsbee all speak. We now see a June cut as out of the question, as the 3m moving averages will likely still be elevated by the June FOMC meeting. We expect that there will be some indication that dots are moving higher, as per Collins’ comments on Thursday where she noted it may be prudent to start later and cut less in 2024. We now see only 1 cut this year in Q3. The Fed will also release the Beige Book this week. US data on the week include retail sales and industrial production for March, which will round out Q1 avtivity. Both retail sales and production are seen coming in solid, helping the economy expand around trend in Q1. The NAHB housing index is due. It may show some signs of moving lower as mortgage rates have pushed back up to a new high for the year around 7.4%. Housing starts and existing home sales are also due, as are early sentiment data for regional manufacturing. Earnings season will ramp up during the course of the week. Higher yields may crimp potential margin expansion putting a heavier focus on earnings to maintain equity prices at elevated levels. On the political front ex-president Trump’s first trail gets underway on Monday. Oil and gold prices will remain in focus, as is the global outlook as the IMF’s spring meetings take place and the IMF produces its semi-annual World Economic Outlook, alongside the Fiscal Monitor and Financial Stability reports.

colin.asher@mizuhoemea.com

Japan – Intervention watch on-going

Major Events and Data releases

Date	Event	Survey	Prior
15-Apr	Machinery orders (%MoM, Feb)	0.8	-1.7
17-Apr	Trade balance, sa (¥bn, Mar)	-280	-451
	Exports, (%YoY, Mar)	7.0	7.8
	Imports, (%YoY, Mar)	-6.7	0.5
19-Apr	CPI (%YoY, Mar)	2.8	2.8
	Core CPI (%YoY, Mar)	2.7	2.8
	Ex fresh food and energy CPI (%YoY, Mar)	3.0	3.2

Source: Bloomberg

The US CPI was the key development for USD/JPY. In the wake of the release the pair rapidly pushed through the 152 level that jawboning from officials had managed to defend in the wake of the March BoJ meeting. 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. In the wake of the CPI USD/JPY pushed up above the 153 level, peaking out at 153.39 on the Friday. At these levels the is a clear consensus among politicians, policymakers and business leaders that the yen is too weak. The heavy sell-off against a risk off backdrop on Friday saw JPY gain some traction. Indeed, it ends the week 2nd in the G10 rankings, trailing only the US dollar. Safe havens top the G10 rankings this week.

We note that Tokyo office vacancies hit a 3-year low this week at just 5.5%. Policy in Japan remains very loose and interest rates remain very low, in contrast to most other developed countries. Whilst 2yr and 5yr JGB yields are at 13 year highs. 2yrs sit just above 20bp and 5yrs are just below 50bp. Real estate and property market activity remain a tailwind for the economy in a way that they are not in other developed economies, where higher rates have had a clear restraining impact on activity in the property sector.

Outlook

The gap between headline and ex fresh food and energy CPI has now largely normalised given that government subsidies have rolled off. March CPI is seen at 2.8%YoY, while ex fresh food and energy prices are seen rising 3.0%YoY. This is still well above the BoJ's inflation target. We see inflation only slowly moving lower. This week the press reported that the BoJ is set to revise up its inflation forecast for FY24, in the wake of the solid Shunto negotiations. The same report noted that the FY26 forecast was likely to be close to 2.0%, implying that the BoJ expects to hit its inflation forecast on a sustainable basis. The next set of BoJ inflation forecasts are due on 26 April. Forecasting 2% inflation at the back end of the forecast horizon is a key metric for tighter policy. Other data on the week include the trade data. Machinery orders are also due. With USD/JPY above the 150 level, investors will remain on intervention watch. Verbal intervention will remain elevated. Board member Noguchi speaks on Thursday.

colin.asher@mizuhoemea.com

Europe – EUR under pressure amid calls for earlier cuts

Major Events and Data Releases

Date	Event	Survey	Prior
15-Apr	EZ – Industrial production (%MoM, Mar)	0.7	-3.2
16-Apr	GE – ZEW expectations (DI, Apr)	34.0	31.7
	EZ – Trade balance, sa (€bn, Feb)	--	28.1
	UK – Average earnings (%3m YoY, Feb)	5.5	5.6
	UK – Payrolled employees (k, Mar)	--	20
17-Apr	EZ – CPI, final (%YoY, Mar)	2.4	2.4
	UK – CPI (%YoY, Mar)	3.1	3.4
	UK – Core CPI (%YoY, Mar)	4.1	4.5
18-Apr	EZ – New car registratons (%YoY, Mar)	--	5.1
	EZ – Current acounts, sa (€bn, Feb)	--	39.4
19-Apr	UK – Retail sales (%MoM, Mar)	0.1	0.0

Source: Bloomberg

The Fed's inflation troubles are a warning sign for central banks across the globe against prematurely declaring victory in the inflation battle. We expect the ECB and the BoE to learn the lesson and be cautious in easing policy. The ECB left policy unchanged as expected. EUR recovered in the wake of the decision but that seemed to as much a function of a marginally softer PPI report in the US than any euro area developments. The statement noted "*The incoming information has broadly confirmed the Governing Council's previous assessment of the medium-term inflation outlook. Inflation has continued to fall, led by lower food and goods price inflation. Most measures of underlying inflation are easing, wage growth is gradually moderating, and firms are absorbing part of the rise in labour costs in their profits.…But domestic price pressures are strong and are keeping services price inflation high*". In the wake of the meeting it emerged that as many a 5 members had been pushing for immediate cuts. Subsequently, EGBs rallied and EUR plummeted. Indeed, EUR is almost the worst G10 currency on the week. The day after the US CPI, the BoE's Greene spoke. She noted that UK was supply constrained in a way that the US was not and that inflation persistence in the UK remained elevated, even if the signs were better than they were. It is clear from the FT interview that Greene will not be voting for cuts any time soon. However, it is unlikely that her vote will be important in driving the timing of the next move. If we assume Bailey, Breeden, Pill and Broadbent vote as a block (which has been the case over the past year) then it will be when they shift to join Dhingra that drives the pace of cuts rather than moves by the hawks. Late in the week UK GDP in February was a touch firmer than expected. The late 2023 recession is firmly in the rear-view mirror. GBP outperformed EUR modestly this week.

Outlook
It will be a busy week for UK data with wages, inflation and retail sales all due. The drop in the CPI will likely dominate. EU leaders meet in Brussels to discuss industry and competitiveness. There are lots of ECB speakers due. Italy's credit rating will be reviewed late on Friday by S&P, as is the UK's.

colin.asher@mizuhoemea.com

China – PBoC ramps up efforts to defend yuan

Major Events and Data Releases

Date	Event	Survey	Prior
15-Apr	1Y MLF yield (%, Apr)	2.5	2.5
16-Apr	GDP growth (%YoY, Q1)	4.9	5.2
	Retail Sales (%YoY, Mar)	5.0	7.4
	Industrial Production (%YoY, Mar)	6.0	6.8
	Fixed Assets Investment YTD (%YoY, Mar)	4.0	4.2
	Surveyed Jobless Rate (%, Mar)	5.2	5.3

Source: Bloomberg

The PBoC ramped up its efforts to defend CNY against the strong USD after the release of hot US CPI. As the PBoC kept its CNY fixing steady near 7.096, the CNY fixing – estimate gap widened to its record of -1597 pips. Consequently, the PBoC's FX support pushed the RMB basket index up to the 100 level for the first time in a year. The PBoC's persistent policy support managed to contain RMB depreciation bias, with the $CNH-$CNY gap hovering near +200pips. While the offshore RMB forward market remained relatively stable, 1Y CNY FX swap slid to -2800 points, the lowest level since 2008. This reflected expectations of PBoC-Fed monetary divergence under the differing inflation dynamics. Separately, the high-level meeting between US Treasury Secretary Janet Yellen and PBoC Governor Pan Gongsheng did not cover specific discussion on China FX policy, suggesting that the CNY fixing policy mechanism and the debate on a convergence towards the fixed exchange regime are not the major concerns among policy makers. Domestic China data remained weak, with disinflationary figures and sliding export growth in March.

The media reported that some Chinese banks cut deposit rates across tenors, paving the way for further monetary easing in the near term. Onshore RMB liquidity conditions remained adequate. The PBoC net injected CNY 6bn of liquidity via the open market operations, in comparison to CNY 844bn liquidity withdrawal in the prior week. The 7-day interbank repo rate held steady around 1.7%.

Outlook

We reckon that the PBoC will maintain CNY fixing support to defend the currency, as preserving FX stability will remain a top priority. Admittingly, the recent USD rally brought extra RMB depreciation pressure and the possibility that CNY spot touches its upper trading band can not be ruled out. There are plenty of data to digest in the coming week. In light of data improvement, Q1 GDP growth is expected to stay around 5%YoY. The stimulus measures will likely support retail sales in March. The rebound in the manufacturing PMI indicated stabilization in industrial production, while the struggling property sector will continue to be a drag on Fixed Assets Investments. Consider significant RMB depreciation pressure, the PBoC is set to keep its 1Y Medium Lending Facility (MLF) yield unchanged and will attempt to drive interest rate lower via deposit rate cuts and Required Reserves Ratio (RRR) cut.

ken.cheung@mizuho-cb.com

EM Asia – Trade recovery tailwinds

Major Events and Data Releases

Date	Event	Survey	Prior
8-Apr	India Exports (%YoY, Mar)	--	11.9
	India Wholesale Prices (%YoY, Mar)	0.6	0.2
	Philippines Cash Remittances (%YoY, Feb)	--	2.7
2-Apr	Singapore Electronic Exports (%YoY, Mar)	--	5.2
	S'pore Non-oil Dom Expt YoY (%YoY, Mar)	-5.9	-0.1
	Australia Unemployment Rate (Mar)	--	3.7
4-Apr	Malaysia Exports (%YoY, Mar)	--	-0.8
5-Apr	Malaysia GDP YoY (1Q A)	--	3.0%
	Philippines BoP Overall ($mn, Mar)	--	-196

Source: Bloomberg

The BSP held rates as expected and even pushed back expectations for RRR cuts in Q3. Downside growth risks were cited as a plausible reason for cuts while hikes are now a very high bar as the data needs to be "really bad". In Thailand, despite the PM's repeated calls for rate cuts, the BoT continued to hold firm this week keeping policy rates unchanged, retaining a similar 5-2 voting outcome. The BoT continued to expound on the dangers of lowering rates which can lead to a further run up of already elevated levels of debt in the long run. On the fiscal front, digital wallet funding avoiding a borrowing bill by sharing the burden of addition debt between FY2024, FY2025 and borrowing from Bank of Agriculture and Agricultural Cooperative. The latter's legality remains questionable. In Korea, general elections saw the opposition Democratic Party expanding their existing parliamentary majority but fall short of the two thirds share which allows for overriding the presidential veto and impeaching the President. Policy reforms by President Yoon will become harder to push. Meanwhile, the BoK remained unanimous in its decision to keep rates unchanged with only one member open to a rate cut in the next three months. Governor Rhee in fact appears more restrained on rate cut signals as he highlighted heightened inflation uncertainty. Similarly keeping policy unchanged, the MAS asserts that the current S$NEER slope (incremental appreciation) is necessary "to keep a restraining effect on imported inflation as well as domestic price pressure".

Outlook

We expect Malaysia's first quarter GDP to expand by 3.9% YoY from 3.0% in Q4 '23. While the acceleration is in part due to favourable base effects, this would nonetheless be a growth rebound from Q4 '23, where growth slowed -2.1% sequentially on a seasonally adjusted basis. In particular, with encouraging industrial production data in recent months, a modest expansion of the manufacturing sector from the slight 0.1% YoY contraction in Q4 '23 is expected services sector growth is also likely to accelerate on improved tourism spending helped by schemes such as visa free travel for China tourist. Meanwhile, Singapore's electronics exports are likely to persist with robust growth given the robust uptick in Taiwan and Korea thus far. As for Malaysia, export growth is also likely to venture into growth territory after the February contraction on improving electronics and commodity demand.

boonheng.tan@mizuho-cb.com

EMEA – Polish ruling parties secure narrow victory in local election

Major Events and Data Releases

Date	Event	Survey	Prior
16-Apr	Poland Core CPI (%YoY, Mar)	4.6	5.4
17-Apr	South Africa CPI (%YoY, Mar)	5.3	5.6

Source: Bloomberg

Last week, most EMEA currencies depreciated against USD, against the backdrop of renewed USD strength fuelled by strong US March CPI data. But most firmed against EUR.

There were few market catalysts in the EMEA region last week, but political development are worth noting. Slovak presidential run-off elections were held on April 6, and local elections in Poland were held on April 7.

In the Slovak presidential election, Pellegrini, who is close to the pro-Russian Prime Minister Fico, won. Although the Slovak government itself is centre-left, there is a strong view that the election results underscore the risk of the far-right gaining ground across the EU. In addition to European elections in June and German state elections in September, Romania will hold general elections in December.

In local elections in Poland, the vote share of each party has not changed significantly since the October 2023 general election. This could be seen as confidence in Tusk's government, but it could also be seen as an emphasis on the fact that the EU-sceptic Law and Justice (PiS) party remains the most popular single party. By state, however, the ruling KO party won 9 out of 16 states, beating PiS (7 states).

Outlook

Next week, Poland Core March CPI and South Africa March CPI will be announced.

masayuki.nakajima@mizuhoemea.com

This publication has been prepared by Mizuho Bank, Ltd. (“Mizuho”) and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies’ financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom’s Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc (“MHI”). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United States: This publication is not a “research report” as defined in Commodity Futures Trading Commission (“CFTC”) Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. (“MSUSA”) is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

Brazil: Banco Mizuho do Brazil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.