# Mizuho Market Comment

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## G10 outlook – SNB leading the race to cut

- **In general, we look for policy easing by G10 central banks to be mainly an H2-24 affair…**
- **…but one or two may start a little earlier. The SNB is leading the pack, possibly easing in March**
- **Labour markets remain solid, allowing central banks time to ensure inflation comes down**
- **The BoJ should finally get its hiking cycle underway soon, giving JPY a lift**

**Lots of reasons for the SNB to ease policy**
There seem to be few reasons of the SNB not to cut rates at its late March meeting. January saw a benign inflation print that saw headline CPI dip from 1.7%YoY to 1.3%YoY. Unlike other G10 countries, current inflation is not a problem for the SNB. The SNB targets inflation in a 0.0~2.0% range and inflation has been within that range since June 2023. Core inflation has been well behaved too and has also been in the target range since May-2023. Switzerland never really experience an inflation surge - rather a mild period of above-trend inflation which rapidly eased. The SNB has less need to adopt a muscular anti-inflation stance to persuade investors of its inflation fighting credentials, as these are still intact. Inflation is expected to remain within the target range both this year and next. Growth has been on the soft side and could do with a boost. Swiss financial conditions remain tight and the SNB may start to worry about currency strength if the trade-weighted Swiss franc appreciates. It has scope to lower rates. The main risk is that the SNB has a history of being a "hard money" central bank. Whilst it may see the case for a cut, it may also see no rush and leave policy unchanged in March. As the SNB only meets every quarter, maintaining policy at the 21 March meeting could mean one of the other G10 central banks pips it to the post.

SNB has few reasons to be hawkish

| | Headline CPI | Core CPI | Policy rate | 6m OIS implied policy rate | Current real policy rate | CPI target % | Q4 23 GDP (%YoY) | BBG Q4-24 CPI forecast |
|---|---|---|---|---|---|---|---|---|
| Switzerland | 1.30 | 1.20 | 1.75 | 1.33 | 0.45 | 0~2 | 0.70 | 1.5 |
| Japan | 2.60 | 3.70 | -0.10 | 0.05 | -2.70 | 2 | 0.60 | 1.8 |
| Canada | 2.90 | 3.30 | 5.00 | 4.64 | 2.10 | 2 | 0.90 | 2.2 |
| US | 3.10 | 3.90 | 5.375 | 5.07 | 2.28 | 2* | 3.10 | 2.5 |
| Norway | 4.70 | 5.30 | 4.50 | 4.40 | -0.20 | 2 | 0.50 | 2.5 |
| New Zealand | 4.70 | 4.50 | 5.50 | 5.57 | 0.80 | 1~3 | 0.10 | 2.5 |
| Eurozone | 2.80 | 3.30 | 4.00 | 3.52 | 1.20 | 2 | 0.10 | 2.2 |
| Australia | 4.10 | 4.30 | 4.35 | 4.21 | 0.25 | 2~3 | 1.40 | 3.1 |
| UK | 4.00 | 5.10 | 5.25 | 4.96 | 1.25 | 2 | -0.20 | 2.3 |
| Sweden | 5.40 | 4.40 | 4.00 | 3.61 | -1.40 | 2 | -0.80 | 1.7 |
| * The Fed's inflation target is a PCE not a CPI target | | | | | | | | |

Source: Mizuho from Bloomberg data (Blue implies policy is tight, easing may be appropriate. Red implies policy is loose. Easing not advised)

**ECB – looking at summer**
The eurozone narrowly escaped recession in Q4 and the outlook for activity in Q1 does not look especially upbeat. That said looking at the minutes of the ECB's January meeting, it seems as if there is no rush to ease policy given concerns about the strength of the labour market and wage catch up after real wage declines in 2022 and 2023. This position has been enforced by a series of ECB speakers in recent weeks. At the earliest the March meeting will be used to lay the groundwork for a move in April but June looks much more likely, especially as a number of ECB speakers have expressed a desire to see how wages develop early in the year and this data is published alongside the GDP accounts and will not be available in time for the 11 April meeting. President Lagarde has noted that summer seems the most likely timing for a first move and we concur, looking for a first cut in June.

**BoC – CPI drop not enough for an early pivot. Summer still the baseline.**
The January CPI print dropped to 2.9%YoY from 3.4%YoY. Trimmed core CPI dropped to 3.4%YoY from 3.7%YoY. The BoC is also a candidate for a move in late Q2, although higher government spending may push back the start of the easing cycle. The British Columbia state budget is not helpful for the prospect of early rate cuts.

**Scandinavian inflation too high for near-term action**

The Riksbank looks like a challenger in the race to cut. It is sitting on an economy already in recession as well as a difficult property market. The economy looks like it could use some relief on the interest rate front. Alas, it also has very elevated inflation leaving real rates still deeply negative. Whilst headline CPI is due to fall below 2.0% by year end, CPIF (the Riksbank's official target) is seen falling less and remaining above 2.0%. Further progress on inflation is likely required for the Riksbank to consider easing. It remains a key part of our baseline view that DM central banks will be more sensitive to prices and less to growth in the current cycle. Weak growth doesn't necessarily mean rate cuts – the inflation outlook has primacy. Most G10 central banks have inflation mandates and given the inflation scare in 2022 and 2023 central banks will be keen to get inflation down and more importantly keep it down in 2024/2025.

Norges Bank, like the Riksbank, also has elevated inflation and expectations remain that it will only come down slowly. Growth in Norway is also a lot less downbeat than it is in Sweden. In a recent speech Governor Wolden Bache suggested that it paid to be patient. Norges Bank rhetoric suggests no cuts in coming months.

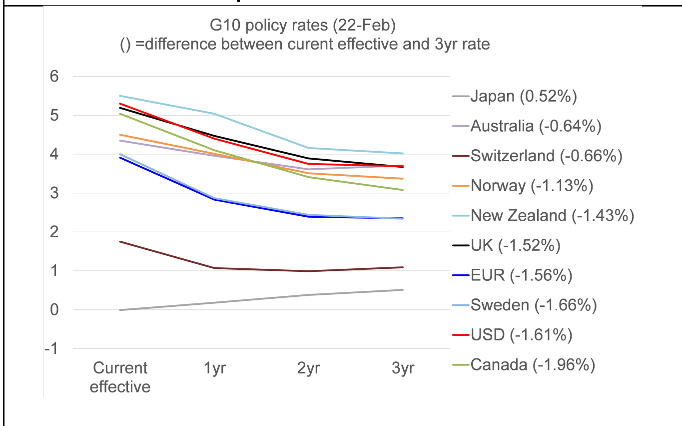
**BoE hawkish vote skew to disappear soon but still some distance until cuts**

In the UK, whilst recent comments from the Governor suggest the BoE has recently switched focus from "How high do rates need to go?" to "How long they need to remain at current levels?", the vote skew remains hawkish. This is despite a first vote for a cut at the early February meeting. Two MPC members continue to vote for hikes, leaving a hawkish bias. The recent appearance at the TSC implies that Dhingra will be the lone dove for some time yet. We see the first BoE cut in Q3. The H2-23 recession in the UK is technical in nature and is mostly likely already in the rear view mirror. Indeed, UK prospects have picked up sharply in recent months, despite the elevated policy rate.

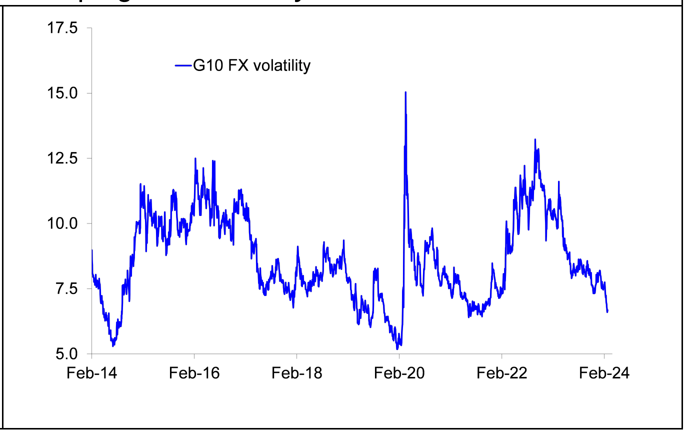
**Fed not talking about hikes – but perhaps it should be?**

The minutes of the January FOMC meeting underscored how odd Powel's pivot in December was. The Fed is back to seeing the risks of easing too soon as larger than those of easing too late, as most G10 central banks currently believe. This makes sense given tight labour markets, the lessons of the 1970s on premature easing and the large upside miss in inflation in 2022/2023. Central banks would be better advised to miss the inflation target on the downside than the upside in coming years to counter concerns that they are soft on inflation, which would see longer-term inflation expectations rise. Whilst Fed rhetoric puts is near the front of the queue for a cut, the data have been pushing back hard against premature action. We expect the Fed to start easing in Q3 but cuts will come slowly.

Modest cuts are priced…




…keeping G10 volatility low




Source: Bloomberg

**Antipodean hikes discussed but not likely to be delivered**

Most G10 central banks believe that rates have peaked, although both the RBNZ and the RBA have noted a willingness to push rates higher if required in recent weeks. For the 28 February RBNZ meeting markets are pricing a small chance of a hike. For the RBA there is minimal action priced in for the March and May meetings. Our macro-dashboard shows both not only have quite high current inflation but that the CPI is expected to remain above target into early 2025. The slow pace of any drop in inflation will mean cuts come later rather than sooner. We would be surprised if either cutting cycle starts before Q4.

**BoJ set to get hiking cycle underway soon**

The long-awaited BoJ hiking cycle is likely to get underway soon. Despite a string of weaker-than-expected activity data in recent months, the spring wage round appears on track to deliver a firmer result than in 2023. The BoJ seems to be preparing the ground for a move, while stressing that policy will remain loose for some time yet. We expect that the BoJ will hike in April, although a March move is not unthinkable.

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