Mizuho Global Weekly

April 19, 2024

Weekly Highlights

- **DXY index trapped between solid US data and on-going risk appetite**
- **Core PCE less elevated than CPI but it's still elevated**

- **Intervention green light from US lifts JPY**
- **BoJ still seems dovish. Will a weak yen spur a change?**

- **Risk assets shrugging off geopolitical risks lifts EUR.**
- **PMI data to show on-going gradual improvement**

- **PBoC sets CNY fixing weaker to above 7.1**
- **Soft March data weighs on RMB sentiment**

- **Bank Indonesia may lean towards a hike as IDR pressure mounts**
- **South Korean GDP to accelerate on external demand**

- **Hungary to shift to lower rate cuts**
- **Turkiye to maintain policy rate**

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US – GDP and core PCE to boost disinflation stalling out narrative

Major Events and Data Releases

Date	Event	Survey	Prior
23-Apr	Composite PMI, flash (DI, Apr)	--	52.1
	New home sales (%MoM, Mar)	2.0	-0.3
24-Apr	Durable goods orders (%MoM, Mar)	2.5	1.3
25-Apr	GDP (%saar, Q1)	2.0	3.4
	Weekly jobless claims (k)		212
26-Apr	Personal income (%MoM, Mar)	0.5	0.3
	Personal income (%MoM, Mar)	0.4	0.8
	Core PCE (%MoM, Mar)	0.3	0.3

Source: Bloomberg

The week kicked off with rock solid retail sales, which in turn boosted forecasts of consumer spending in Q1, lifting GDP estimates. UST yields pushed higher, as did the DXY index. There have been a number of Fed speakers since the hot CPI data and some have suggested that despite the fact that 3m annualised inflation is rising fast, nothing has changed and rate cuts remain on the agenda. Powell's comments brought some much needed common sense. He noted that recent data were not providing the sought for confidence that the Fed was seeking and that it would take longer than expected before the confidence on rate cuts arrived. This sounds like dots moving higher. 2yr UST yields briefly pushed above 5.0% in the wake of the Powell's comments. In addition to US data and Fed speak, geopolitics have played a role in driving the DXY index this week, as have concerns about USD strength and co-ordinated intervention from Asian central banks. US equities end the week down sharply, their worst weekly performance this year. The DXY index ends the week little changed. It is interesting to note that CHF is the top G10 performer, boosted safe-haven demand and shorts being squeezed.

Outlook

At the start of the week investors will be able to reassess the likelihood of the US providing funds for Ukraine and Israel as the vote in the House of Representatives is scheduled to take place over the weekend. It is an important week for data. The twin highlights will be the Q1 GDP report and the March PCE data. The consensus for Q1 GDP is for a trend-like 2.0% saar gain after a 3.4% jump in Q4. If GDP comes in strong, it may cast additional doubt on the Fed's contention that policy is restrictive and that the next move in the policy rate is lower. The core CPI data were elevated for a third month in a row. Core PCE is likely to be up just 0.3%MoM in March vs 0.45%MoM in January and 0.26%MoM in February. This would leave the core PCE running above 4.0% on a 3m saar basis, which is not likely to provide much confidence for the Fed on inflation and the inflation outlook.

It will be quiet on the policy front ahead of the 1 May FOMC meeting with the Fed in the pre-meeting quiet period. Earnings season will continue. Earnings to date are running well ahead of expectations but equity markets are on the slide regardless. Geopolitics remains a focus too.

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Japan – BoJ boost for JPY not guaranteed

Major Events and Data releases

Date	Event	Survey	Prior
23-Apr	Composite PMI, flash (DI, Apr)	--	51.7
24-Apr	Services PPI (%YoY, Mar)	2.1	2.1
26-Apr	CPI (%YoY, Mar)	2.5	2.6
	Ex fresh food and energy CPI (%YoY, Mar)	2.7	2.9
	BoJ meeting (%, lower bound)	0.0	0.0

Source: Bloomberg

USD/JPY pushed higher in the wake of the strong US retail data early in the week moving as high as 154.79. With all the major policy makers in Washington for the IMF meetings the Japanese, South Korean and US finance minister met. Their joint statement noted "*We will also continue to consult closely on foreign exchange market developments in line with our existing G20 commitments, while acknowledging serious concerns of Japan and the Republic of Korea about the recent sharp depreciation of the Japanese yen and the Korean won*". This seems to give cover to Japan and South Korea to intervene. On Friday USD/JPY dipped sharply in the wake of the attack on Iran but rapidly recovered.

Outlook

In March the BoJ made major changes to its policy framework, ditching YCC and exiting NIRP. As such there are limited expectations that policy will be tightened further at the upcoming meeting on 26 April. That said the meeting is not without interest. The main focus will be on the BoJ's forecasts and to what extent these forecasts are driven by a weak currency. Since the BoJ's last forecast round in late January, USD/JPY has risen ~4%. Oil and gas prices have both risen almost 10%. This will show up in a weaker trade balance, worse terms of trade and higher near-term inflation. The BoJ also has to incorporate a much firmer-than-expected round of wage negotiations into its forecasts as well. Certainly near-term inflation is likely to be pushed higher. The impact will likely extend into FY25. The main focus, however, is on inflation at the back end of the forecast horizon. The FY26 forecast will be new. The media report that it will be close to 2.0%. This will imply the BoJ is close to achieving a virtuous wage/price cycle. There is still some hesitancy here to declare victory over deflation as comments from Noguchi who noted there was still some distance to achieve a virtuous cycle. Whilst being broadly dovish Noguchi also touched on the currency. MoF has secured the green light on intervention from the US but for intervention to be effective other things need to fall into place. MoF has already co-opting South Korea into a joint statement. It would also boost the effectiveness of intervention if the BoJ was to be seen to be less dovish. To date it has been pretty dovish implying any reaction to the weak yen will be via higher CPI forecasts, which in turn imply tighter policy. A mild change of tone on the risks of yen weakness undermining consumer confidence and thus the achievement of the wage/price cycle would be helpful for MoF. There is also some focus on the BoJ's balance sheet. Here we see it as too early for any major policy announcements but it's a topic that the BoJ will have to opine on soon. The main thing that would boost the effectiveness of intervention is weaker US data that allows investors to believe in US rate cuts.

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Europe – PMI reports the focus

Major Events and Data Releases

Date	Event	Survey	Prior
22-Apr	GB – CBI Industrial trends, orders (DI, Apr)	-16	-18
23-Apr	GB – Composite PMI, flash (DI, Apr)	52.6	52.8
	EZ – Composite PMI, flash (DI, Apr)	50.8	50.3
24-Apr	GE – IFO business climate (DI, Apr)	88.8	87.8
25-Apr	EZ – Economic bulletin	--	--
26-Apr	EZ – ECB 3yr CPI expectations (%)	--	2.5
	EZ – M3 (%YoY, Mar)	0.6	0.4
	UK – Consumer confidence (DI, Apr)	-20	-21

Source: Bloomberg

ECB speakers have managed to stay unified on the upcoming June rate cut without falling out over the subsequent steps on which there is much less agreement. During the week the Bundesbank noted that Q1 German GDP may be slightly positive, which would be a surprise. February production in Germany was strong boosting the chances of positive GDP in Q1. It was a mixed week for EUR which oscillated against the US dollar. EUR rapidly reversed the dip on Friday in the wake of the attack on Iran and ends the week little changed against the US dollar.

Despite dovish words from BoE Governor Bailey (in contrast to much more hawkish commentary from the BoE's Greene), the market continued to price out UK rate cuts. The labour market report was mixed, but investors set more store by the higher-than-expected wage data and paid less attention to the rising unemployment rate. The employment/unemployment data remain under a cloud so perhaps the market reaction is unsurprising. The UK inflation data were also a little higher than expected at both headline and core levels. Service price inflation remains elevated. GBP broadly tracked EUR through the week, with EUR/GBP ending the week little changed, respecting recent ranges.

Outlook

The flash PMI reports are the key data releases for the eurozone in the coming week. Currently, they suggest that a very weak recovery is underway. The surveys also contained useful information on prices and labour markets. The PMI price/labour market indices are one metric that the ECB uses to cross check its view on wages and prices, where it is increasingly optimistic that developments are positive and will allow easier policy in coming quarters. The UK flash PMI data are also due. They paint a more upbeat picture for the UK. Aside from the PMI data, eurozone money supply and ECB price expectations are the main focus. I the UK, Haskel and Pill speak early in the week before the BoE's quiet period starts ahead of the 9 May BoE meeting. Earnings season in Europe starts to build this coming week.

Finally, France (Fitch and Moody's), Belgium (S&P) and Italy (DBRS) will see sovereign ratings updates at the tail end of the week. The French debt/GDP ratio is near levels where Italy lost its AA rating and France is already on negative watch from S&P who deliver their verdict in late May.

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China – PBoC sets CNY fixing weaker, above 7.1

Major Events and Data Releases

Date	Event	Survey	Prior
22-Apr	1Y LPR (%, Apr)	3.95	3.95
	5Y LPR (%, Apr)	3.45	3.45

Source: Bloomberg

To absorb RMB depreciation pressure amid the USD rally, the PBoC set the CNY fixing to above the 7.1 level for the first time since 22 March. As a result, spot CNY dropped to a fresh 5m low of 7.2431, approaching the 2% trading band limit. Meanwhile, spot CNH remained relatively well supported around the 7.25 level due to tighter offshore RMB liquidity conditions, leading to the CNH-CNY gap narrowing to around 100 pips. Despite RMB depreciation against USD, the RMB basket index hit an 18-month high due to the persistent CNY fixing policy support. The PBoC reiterated its commitment to maintain RMB market stablility but its impact was largely muted. It was a busy week for China data releases. Despite the upside surprise in Q1 GDP growth figures (actual +5.3% YoY vs. expected +4.8% YoY), this did not significantly boost risk appetite for Chinese investments. Uneven growth, characterized by weak consumption and industrial production compared to manufacturing and infrastructure FAIs supported by government measures, combined with the ongoing property market downturn, just maintained bearish expectations for China's growth. Given the drag from the property sector, consumption demand remained weak while investors were lacking in confidence on investment. After all, the slowdowns in March data are worrying and more stimulus measures will be needed to achieve the annual growth target of around 5%.

On the monetary policy front, the PBoC kept its 1Y Medium Term Lending Facility (MLF) rate unchanged at 2.5% as expected, while net draining liquidity of CNY 70bn via MLF roll-overs. Reverse repo operations remained subdued, with a weekly liquidity drainage of CNY 2bn. Onshore RMB liquidity conditions were adequate, with the 7-day interbank rate climbing to 1.9%. Conversely, offshore RMB liquidity conditions tightened notably. Overnight CNH HIBOR moved above 6% again, while the CNH-CCS curve was being paid up across tenors.

Outlook

We expect the PBoC to allow RMB depreciation at an orderly pace by setting the CNY fixing gradually weaker. The CNY fixing will remain the primary tool to control the pace of RMB depreciation as it serves as an effective tool to communicate the central bank's policy guidance. The 2% trading limit band, coupled with state-owned banks' USD selling, will protect the downside for CNY spot as well. We do not look for sharp RMB depreciation as the capital outflow risks will further intensify the de-China risks and destroy the fragile domestic confidence on growth. On the policy front, Chinese banks are set to keep 1Y and 5Y Loan Prime Rates (LPRs) unchanged at 3.45% and 3.95%, respectively, given the status quo of MLF rate and narrow net interest margins.

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EM Asia – FX headwinds dictate action

Major Events and Data Releases

Date	Event	Survey	Prior
22-Apr	Indonesia Exports (%YoY, Mar)	-10.9	-9.5
	Taiwan Unemployment Rate (%, Mar)	--	3.4
23-Apr	Singapore CPI (%YoY, Mar)	--	3.4
	Taiwan Industrial Production (%YoY, Mar)	7.5	-0.1
24-Apr	Australia CPI (%YoY, Mar)	3.4	3.4
	Bank Indonesia Policy Rate (%)	6.0	6.0
25-Apr	Korea GDP (%YoY, Q1)	2.4	2.2
	Malaysia CPI (%YoY, Mar)	2.1	1.8
26-Apr	Singapore Ind' Production (%MoM, Mar)	-1.5	3.8
	Australia PPI (%YoY, Q1)	--	4.1

Source: Bloomberg

EM-Asia FX came under significant pressure from elevated UST yields and haven demand. The PHP weakened against USD to cross the 57 mark which was previously signalled possible intervention and is now being viewed as a weak support level. While the BNM signalled readiness to intervene alongside their GDP outturn affirming growth recovery, the SBV and Bank Indonesia both intervened to stabilise their currencies. Aside from USD pressures, VND may have faced pressures from reports on huge amounts needed to rescue a troubled local bank. IDR depreciating around 2.6% against USD turns the spotlight on BI's decision next week.

Outlook

Absent any relenting in USD strength, we lean towards a hike albeit marginally, attributing a 60% probability to a hike and 40% to an uncomfortable hold on IDR stability concerns. A hike could restore part of IDR's diminished real-rate advantage amid the bumpy US dis-inflation process and a higher for longer Fed; and domestic inflation ticking up on persistent food price pressures. Meanwhile, fiscal woes cast a shadow on IDR. Even as promises to keep within fiscal deficits are made, the incoming administration's plans are still a concern amid external growth headwinds. The silver lining is that domestic growth remains supported amid ongoing festivities providing room to hike should they chose to.

Q1 GDP growth in Korea is likely to accelerate from Q4 23's 2.2%YoY to hit around 2.7%YoY as low base effects lend a helping hand. This is in part an acknowledgement of a firmer external demand recovery with nominal exports recording a respectable 8.3%YoY growth which drove a US$9bn trade surplus as the semiconductor sector recovers. The domestic situation remains less rosy with real retail sales down 1.2%YoY over Jan-Feb with inflationary effects likely to have taken a toll on household spending. On a broader basis, the services index still chalked a robust 2.8%YoY growth driven by the likes of the financial and insurance services, information and communication services and real estate activities. In all likelihood, this print is likely to also delay expectations for a BoK rate cut especially as the labour market remains tight.

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EMEA – Hit by deteriorating risk appetite

Major Events and Data Releases

Date	Event	Survey	Prior
22-Apr	Poland Industrial Output (%YoY, Mar)	-1.9	3.3
23-Apr	Poland Retail Sales (%YoY, Mar)	6.8	6.7
23-Apr	Hungary Policy Rate (%)	7.75	8.25
24-Apr	Poland Unemployment Rate (%, Mar)	5.3	5.4
25-Apr	Turkiye Policy Rate (%)	50	50

Source: Bloomberg

Last week, most EMEA currencies depreciated against USD. Risk appetite has deteriorated significantly, due to robust US CPI and retail sales figures, coupled with geopolitical tensions.

We believe local issues did not have much impact on markets in the past week. But it is worth noting the political situation in South Africa. A recent poll conducted by SRF clearly indicates the ruling ANC is likely to lose its majority in the lower house of parliament in upcoming the general election on 29 May. But the ANC probably have enough support to form a coalition with other parties and continue to lead the government. So “Who will be the coalition partner?” will be in focus.

Looking forward, we believe external conditions notably the US rate outlook and middle east tensions will be dominant factors for EMEA FX markets.

Outlook

Next week, the National Bank of Hungary (NBH) and the Central Bank of Turkiye (CBRT) will announce their monetary policy decision respectively. The NBH’s pace of policy rate cut is likely to slow down to 50bp from 75bp in March, following the 100bp rate cut in the previous month. Deteriorating risk appetite and HUF fluctuations will push the NBH to shift to a more cautious stance. For the CBRT, it is likely to keep its policy rate at 50%. We believe the CBRT will keep its hawkish stance and do not exclude the chance of additional hike.

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