FX Daily: The start of an intervention campaign in Japan?

Japan has likely intervened in the FX market, but this has not yet been made official and intervention figures for yesterday should only be published at the end of May. More support to the yen may well be needed as markets still have reasons to push USD/JPY higher.
The focus today is on US data and eurozone CPI after slightly above-consensus German figures

The historic old town of Kyoto, Japan

USD: Focus on two US data points today

Yesterday, the dollar was driven lower by Japan's likely intervention to support the yen and a good day for bonds. Today, however, data will start taking over in the FX market. First, the Federal Reserve's preferred measure of wage inflation – the employment cost index – will be released, and consensus expects an acceleration from 0.9% to 1.0% in the first quarter.

The Conference Board Consumer Confidence index is the other big release of the day. Last month, it surprised on the downside (104.6) and temporarily sent the dollar lower; for April, consensus expectations have been adjusted lower (104.0).

With the yen stabilising and a potential acceleration in the employment cost index encouraging bets on a hawkish Fed tomorrow, the dollar has some room to appreciate today. Still, DXY may struggle to trade much higher if Japan deploys more support to the yen (14% DXY weight) and the eurozone inflation figures come in a bit stronger than expected (58% weight).

In the dollar bloc, NZD will be very sensitive to New Zealand's first quarter jobs figures overnight. Unemployment is expected to rise from 4.0% to 4.3%, and wage growth is expected to slow down. We suspect consensus is slightly too optimistic on the loosening of the labour market, and we see upside risks for NZD as markets should scale back rate cut bets further if employment figures beat expectations and raise additional concerns on non-tradeable inflation.

Francesco Pesole

EUR: Inflation test

The eurozone CPI data is published today after German figures surprised slightly the upside yesterday. The harmonised CPI print showed inflation in Germany rebounding from 2.3% to 2.4% year-on-year (consensus was 2.3%), although the core measure continued to grind lower. As discussed by our economics team here, those numbers signal how the last mile in the European Central Banks's inflation battle may be the longest. We currently expect CPI to remain sticky in Germany into next month, with the headline rate potentially rebounding all the way to 3%.

That – and probably today's eurozone-wide CPI – should not be enough to cast real doubts on a June ECB cut, which still matches the direction of members' communication over the past few months. Instead, it may suggest a less clear path for policy beyond June, especially considering sticky inflation in the US.

We think slightly higher inflation in the eurozone can give some support to EUR/USD as the very wide short-term swap rate differentials may slightly tighten. Later this week, we see the Fed event (tomorrow) as carrying downside risks for EUR/USD, although payrolls on Friday might miss the 240k consensus and hit the dollar. Ultimately, we would not be surprised to see EUR/USD still trading around the 1.07 handle at the end of this week.

Francesco Pesole

CAD: Watch for a weak GDP print

Canada releases its GDP report for February this afternoon, and consensus is looking at an acceleration from 0.9% to 1.1% YoY. However, retail sales were softer than expected in February, and the latest GDP miss in the US also suggests some downside risks to the print.

While not a game-changer for the Bank of Canada, evidence of slower growth – paired with that in the US, where most Canadian exports land – can give some extra incentive to start lowering rates. Our current call is that the BoC will cut by 25bp in June thanks to inflation within the target range and a cooling jobs market. The next two key releases are jobs figures on 10 May and the inflation report on 21 May.

We think markets are under-pricing a cut in June (around 50%) mostly due to the repricing higher in Fed rates. There is a chance that a hawkish Fed prompts further unwinding of dovish bets in Canada too tomorrow, but we think that data will ultimately convince the BoC to move autonomously on easing. We see USD/CAD trade in the 1.37/1.38 range near term.

Francesco Pesole

JPY: More yen support in the pipeline?

USD/JPY has stabilised around 156/157, which is in line with the price action dynamics after FX intervention on 22 September 2022 (as noted yesterday). If we continue to follow the September 2022 script, then USD/JPY should grind higher in the coming days. This time, USD/JPY appreciation would not just be consistent with yield differentials, but can also be triggered by a more hawkish Fed tomorrow, in our view.

The yen dynamics had investors speculating that the Ministry of Finance intervened in multiple blocs yesterday, at least once in Japanese trading hours, once as European markets started trading and then in the afternoon during the US session. So far, there is no official communication by Japan on FX intervention, and despite the MoF publishing intervention figures at the end of each month, those include purchases only until two days before the last trading day of the month. In March, that was the 27th, and today's release should have its cut-off date on the 26th of April – so likely before any FX intervention. This means markets will likely need to wait until the end of May to know the size of any market intervention.

Our base case is that the MoF has started an intervention campaign and remains open to selling more FX as USD/JPY faces further upside risks. Japanese officials' hope is probably that a softening in US data will ultimately release pressure on the yen, especially considering that the Bank of Japan has not signalled it wants to include the currency in its monetary policy decision function. A move in USD/JPY back above 157.0 should see intervention risk rise exponentially.

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