Mizuho EMEA

G4 Rates & FX Monthly

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USD

The Background

The problem for the US outperformance trade is that it is starting to look well owned and subject to sizable position squeeze drawdowns. Take a step back from "Toto" (tariffs on, tariffs off), **the macro backdrop supports continued USD outperformance in Q1** with upside risks to growth (confidence post election and front running of import tariff risks), CPI from Global goods prices and employment intentions in surveys suggesting firmer labour markets too. It's a clear macro divergence trade vs Europe and China.

It's why **our US Econ expect only one more 25bps cut at the March meeting with a 4.125% terminal rate, with the risk rising for no cuts this year at all.** We expect the US data from Q2 onwards may however lose its shine vs peers as tariff uncertainty starts to bite. Risks to the view are that Trump's fiscal plans run into opposition in Congress, tighter immigration and DOGE's labour force cuts lead to negative NFP growth and tariffs get postponed indefinitely.

The View

FX: The market to front load USD strength, then fade in the second half of the year. DXY at 110 (Mar-25), 104 (Dec-25). The main risk is this is a consensus position and the USD is following the 2016/17 analogue well, that was the moment to sell the USD in 2017 as Trump disappointed on policies and Europe had Macron's 2017 election optimism too. 2025 isn't the same setup. But once tariffs are announced we expect the market to have priced in "maximum pain" for EUR, GBP and others, to then be faded in H2.

Rates: We still think duration will sell off through most of 2025, but Q1 may see some relief, especially if there are delays regarding Trump's policies (that will also make the Fed more cautious). The risk of lower global growth and near-term inflationary pressures may put a cap to near-term steepening, but we think **the steepening has more way to go in 2025** as long-end USTs price in a higher inflation premia and the issuance story gains traction again from Q2 onwards.

EUR Rates

The Background

Europe still faces severe structural problems. China's continued economic slowdown and impressive acceleration of Car exports is challenging the German export machine.

Then you have very high industrial energy prices with the recent spike in natural gas prices making it worse for European competitiveness. In the near term CPI prints will be firm thanks to energy, but declining growth expectations in Q1 will keep the ECB **cutting 25bps per meeting with the terminal rate at 1.5% in Q3 2025.**

It's not all doom and gloom, countries like Spain continue to witness declining unemployment rates despite job losses in Germany. The German elections in February could see the debt brake suspended or reformed allowing fresh spending to meet NATO and Ukraine commitments. And the EU may use tariffs from the US as a trigger to spark EU market reforms (the Draghi plan). It's why we expect a Global cyclical recovery to start in Q2 after "peak tariff fear".

The View

The latest bout of USD bear-steepening, together with renewed inflationary worries and data surprises have derailed part of the bullish EUR duration story that everyone was expecting for 2025 – a positioning washout. But it eventually made a comeback late Jan. Just on the macro alone, it makes sense to fade the January selloff. We are still looking for **10yr Bund yields to move below 2.0% and touch the 1.75% handle around mid-year**. While we are biased for more steepening into the long-end in 2025, we see room for some **tactical flattening in coming weeks** given how much the curve has steepened lately and the risk of harmful tariffs. In EUR swap spreads, we think **the future of the debt brake** will be the key. Unless it's clear that the Germans will keep the debt brake and tight fiscal policy (which is not), this will prevent any widening in the German swap spread complex in the short term.

France is enjoying a period of relative stability, which is driving some compression to Bunds. Supportive risk sentiment have also helped the spread-compression theme. We still think both Germany and France remain in a difficult situation – 75-85bp is our FV range for 10yr OAT-Bund spreads and we see good tailwinds for further tightening in peripherals to Bunds.

EUR FX

Tariffs are the near term factor that will drive EUR returns, but **the growth differential between Europe and the US is likely to widen**. Germany's manufacturing slump to eventually lead to weaker services too. It's why we expect continued EUR weakness in Q1. But we expect a recovery from late Q2 onwards due to a) German elections leading to fresh issuance plans b) European cyclical recovery after an ECB cutting cycle c) potential stimulus in China (in reaction to tariffs).

EUR/USD at 1.00 (Mar-25), 1.08 (Dec-25). With the risk of further downside in Q1 if a) US data surprises manage to hold up for NFP and CPI writing off a March cut (when typically they would mean revert lower given the rates selloff we've had) b) Trump follows through on tariffs more aggressively c) the EU doesn't respond to it's challenges on trade and reform (Draghi plan) nor Germany significantly spend it's way out of it's slump after the February elections. But EUR bears have one problem which is positioning in a consensus trade already at one standard deviation net short in the futures.

GBP

The UK inflation picture is a problem for the BOE at 2.5% and set to rise further thanks to energy prices and the many measures in the budget (VAT on school fees, social rent hike, etc).

But knowing all this we still had a surprisingly dovish 7-2 vote split in February with two members voting for a 50bps cut. The BOE is shifting to a forward looking growth/inflation focused reaction function in our view vs the past backward looking services inflation framework. With employment intentions collapsing and lower PMIs the trigger for it.

Our dovish view on the BOE is unchanged, we are much more dovish than the market on the UK with **25bps cuts at May, June, Aug, Sep meetings until a 3.5% terminal rate in September.**

FX: GBP/USD at 1.20 (Mar-25), 1.27 (Dec-25). The impact of tax hikes combined with a slowdown in Europe, China and the uncertainty of tariffs will weigh on GBP in Q1. To then rebound Q2 onwards as we expect a Global cyclical recovery. But there is scope for further GBP downside in the near term if March becomes a live meeting for another BOE rate cut. A drop in PMIs and REC employment intentions may be the trigger for such a move.

Rates: We think there is room for markets to **price in a larger slowdown in the UK economy via faster rate cuts.** Risk-reward to go long the front-end is attractive, but timing may be tricky given the recent energy price spike – **we prefer to buy the dips**. **We expect the curve to continue to steepen in 2025**, especially if the BoE accelerates their pace of cuts into Q2.

JPY

It's hard not to be optimistic on Japan here with healthy tankan surveys, stronger than expect CPI and wage data prints along with the BOJ making it clearer to the market that they are roughly on a 2 hikes per year cycle. It's why **we expect a 25bps hike in July and a 1% terminal rate in 2026.** The risks to the view are that US tariffs may make their way to Japan. But equally another strong year of wage demands in shunto and improving activity data could see the market price in a higher terminal rate too.

FX: USD/JPY at 150 (Mar-25), 146 (Dec-25). With tariff uncertainty and Europe's growth underperformance markets are looking for a clear idiosyncratic theme and JPY may provide just that. Whilst it's beholden to US rates the consistent mover higher in JPY yields may lead to further JPY strength in our view throughout the year.

Rates: Now that terminal pricing has picked up, we prefer to **sell rallies in front-end JPY rates** on the back of our BoJ view. Unless the BoJ turns very hawkish, we prefer to play the lower long-end supply and lifer buying story via **remaining long 30yr ASW**.

XCCY

USD funding has been cheap and continues to be cheap. Yankees remain attractive vs other currencies, which means **2025 may be another year of notable USD deals… and better paying momentum**.

Dollar liquidity remains closely watched given the spikes in SOFR rates around quarter end, but **wobbles seem contained for now**.

We think that **the trends in cross-border issuance mean the paying momentum can continue**, especially in EURUSD and USDJPY XCCY. The only way to widen from here is via a strong risk-off tone or USD liquidity becoming very scarce. Where the paying momentum may lack traction is in GBPUSD XCCY, where some new type of BPA flow, attractiveness to issue in GBP and a lack of strong appetite to buy GBP duration are will likely continue to **prevent a normalisation and much more tightening of the curve**.

The view in full

EUR Policy

- **Growth:** The December PMIs provided some relief for the ECB with Composite recovering to 50.2. Euro PMIs tend to have positive seasonality in Q1 for the past four years so may just be another head fake. But combined with perhaps front loading of exports to the US (in fear of incoming tariffs) may see a continued recovery. Business confidence (once tariffs are in effect) will likely take a hit in late Q1/Q2 to then recover in H2.
- **Inflation:** In the near term higher energy prices are likely to boost CPI (currently 2.4%) making it difficult for the market to get too dovish on the ECB. But a continued slowdown in services CPI will keep an easing cycle intact.
- **Labour:** Unemployment at 6.3% in Dec, after record 6.2% low in November. But the divergence among the big four is stark, Italy's unemployment is falling but Germany's rising and France inbetween.
- **Politics:** A lack of fresh EZ fiscal policy is a bigger constraint on growth vs the US. It remains unclear if France will be able to tighten fiscal policy and OATs are likely to underperform. German snap elections in February will debate potential reform to the debt brake and fresh spending. How will the EU respond to US tariffs? Adopt Draghi's reform plan?
- **Policy:** 25bps cuts every meeting to a terminal rate of 1.5% in Q3 2025 remaining highly likely in our view. This is a view the market may struggle to fully price in thanks to rising natural gas prices and CPI prints in the short term, but tariffs could be the trigger.

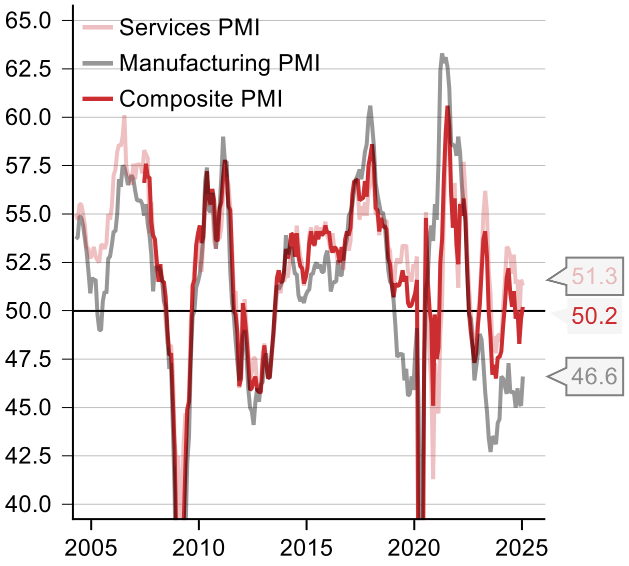
EUR Rates

- **Duration:** EUR rates started the year being dragged by the bear-steepening seen in USD rates. We don't think the macro and our ECB view support that bearishness and high beta to USD rates. The risk of tariffs is helping EUR duration to become bid. We think the rally that has started has more to go and are still looking for 10yr Bund yields to move below 2.0% and touch the 1.75% handle around mid-year as weak growth prospects and the services dis-inflation themes gain traction again.
- **Curve:** In the near-term, the risk of harmful tariffs (and their impact to long-term growth), the rise in energy prices, and how much we have steepened into 10s may put a cap to how much the curve can steepen in Q1. A tactical flattening bias makes sense here. However, if the front-end reprices as we expect it to, we see room for more steepening during 2025 and would use the flattening to position for steepeners into Q2.
- **EGB spreads:** European risk assets are up to a good start of the year. EGB spreads have benefitted from it as well, with all EGB spreads tighter on the month. The relative stability in France (new PM Bayrou was able to survive two no-confidence votes) has driven OAT-Bund spreads tighter. A move towards the December tights is possible. However, inflationary pressures are resurfacing, which may put a floor to how much tightening we can see. Germany and France remain in a difficult situation, which should help peripherals outperform in 2025. France is not out of the woods.
- **Swap spreads:** In our view, whether or not EUR swap spreads tighten further will depend on the future of Germany's debt brake. Swap outperformance can prevail if the new German government suspends the debt brake. CDU's will likely opt for a milder reform instead, which together with the rally we expect in EUR rates, will provide support to wideners.

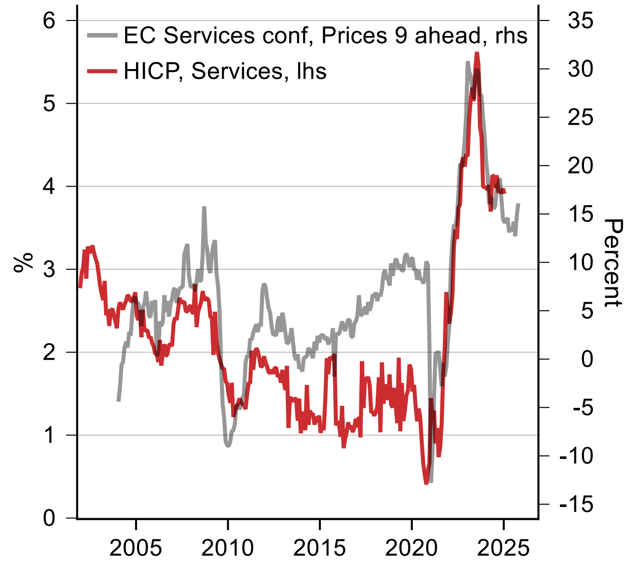
EUR FX

- **The view:** EUR/USD at 1.00 (Mar-25), 1.08 (Dec-25). With the risk of further downside in Q1 if a) US data surprises manage to hold up for NFP and CPI writing off a March cut b) Trump follows through on tariffs more aggressively c) the EU doesn't respond to it's challenges on trade and reform (Draghi plan) .
- **Risks ahead:** Does Europe respond to the US and China trade threats by reforming? Does Germany's manufacturing decline trigger credit events down the line? Does rising natural gas trigger a stagflation problem for Europe (again)?

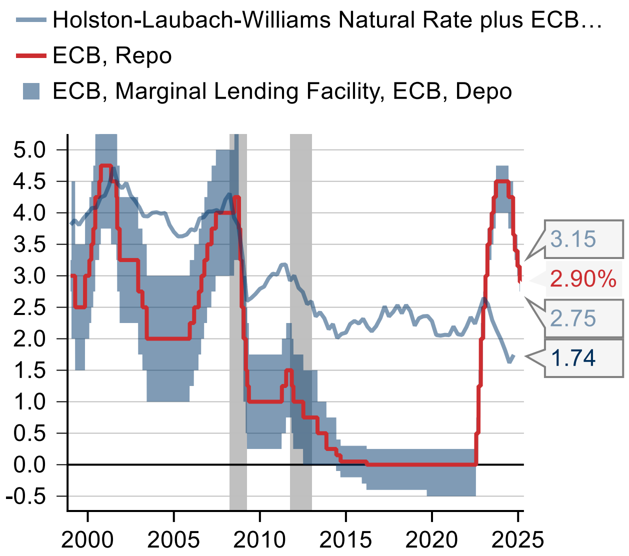
Euro Area PMIs



Services CPI may not be a problem for long

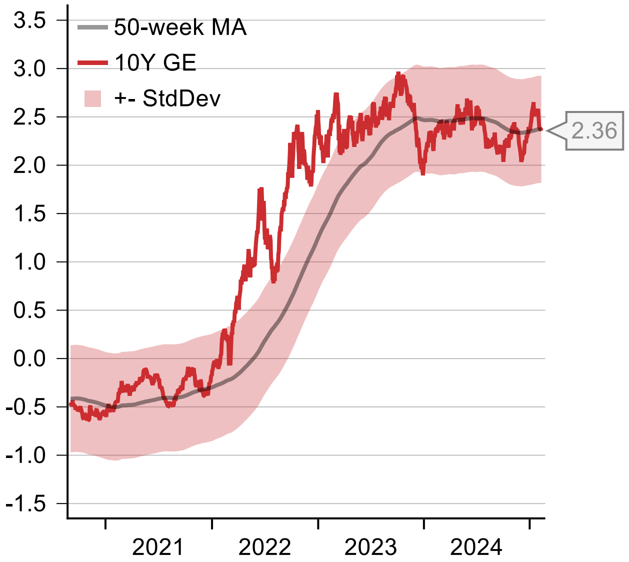


ECB Policy and Neutral rate estimates

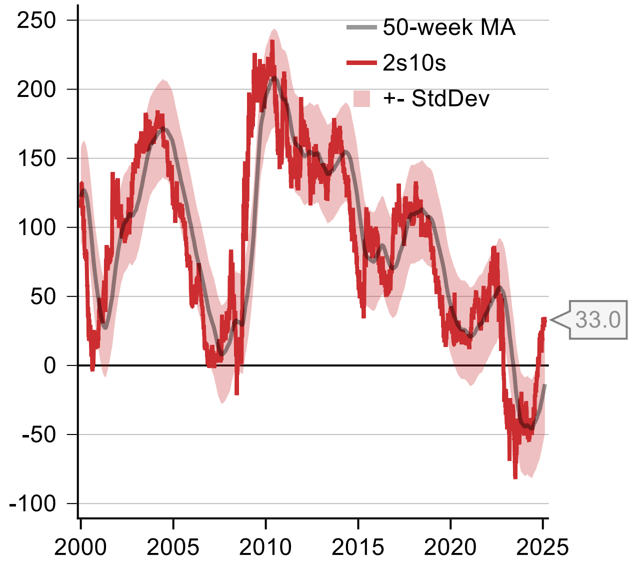


EUR/USD & 5yr real yield spreads

10Y German bond yields (%)



Germany 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 February 2025)

USD Policy

- **Growth:** GDP nowcasting at 2.9% and the potential for a rebound in US surveys if leading indicators are right (rail traffic, rising Philly Fed, looser FCI). A lot depends on how quickly the White House announces fresh fiscal spending and de-regulation for firms. But the US cycle is likely to be boosted by a business friendly administration in the near term. The downside risks stem from tariffs on Mexico/Canada coming back at 25% (a level that is rather high) or DOGE spending cuts.
- **Inflation:** CPI at 2.9% y/y, 0.4% m/m is a mix that makes it hard for the Fed to be too dovish. Goods inflation is the upside risk with surveys suggesting upward pressure, vs the downside risks via continued declines in Services such as shelter. The TIPs market fixings have CPI declining to 2.4% by April, lower oil helps but rising food and manufactured goods are a problem.
- **Labour:** Unemployment was the key Fed variable with 4.3% the line in the sand for Powell (currently 4.2%). But inflation has popped up as a bigger risk in the SEP DOTs for FOMC members in December. Claims data suggests the Labour market remains relatively healthy and surveys such as the NFIB noting better employment intentions too (upside risks to NFP).
- **Politics:** Fiscal policy is likely to remain loose and with Trump it's set to get looser. His fiscal plan is likely to pass in Q2 2025, with the main impact simply extending tax cuts already in place. The bigger question is how quickly and how far do tariffs go?
- **Policy:** Our US Econ expect just one more rate cut in March to a terminal of 4.125%. But the risk is rising for no more cuts at all this year if CPI comes in stronger than expected.

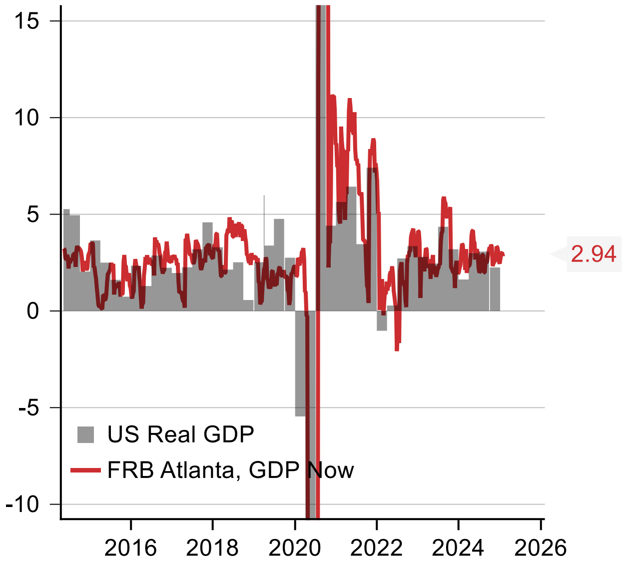
USD Rates

- **Duration:** For 2025, we think that a 5% 10yr UST yield is more likely than 4%. The combination of ongoing US economic resilience, higher global energy prices, a Fed that will likely stop cutting rates soon, tariffs and the risk of expansionary policies announced as early as this month all point to higher UST yields. As USD rates sell off, we may see a bit of pain on risk assets, which may see asset rebalancing flows into bonds, which will in turn put a cap to how further rates can sell off.
- **Curve:** Brace for more steepening in 2025. Higher long-term inflation premium and ongoing supply will likely drive long-end underperformance. The front end will likely remain pegged around current levels as the Fed's forward guidance shifts from delivering cuts to pausing. That said, 2s10s and 2s5s have already steepened a lot and look a bit dislocated vs other parts of the curve. We see now better value in playing a steepener in the long end of the curve and flatteners into the belly.
- **Swap Spreads:** US swap spreads have jumped off the tights, led by the long end. Guidance on future coupon issuance was kept unchanged in the last QRA announcement. Expectations to term out debt have now been pushed to late 2025 and even 2026. Additionally, Barr's resignation and Bowman's likely appointment are fuelling expectations of less strict regulations. Reducing G-SIB surcharge and including USTs in the SLR exemption are some discussed options. While the widening may continue in the very near term, we still see risk of a bond vigilante's return given doubts on the US debt sustainability.

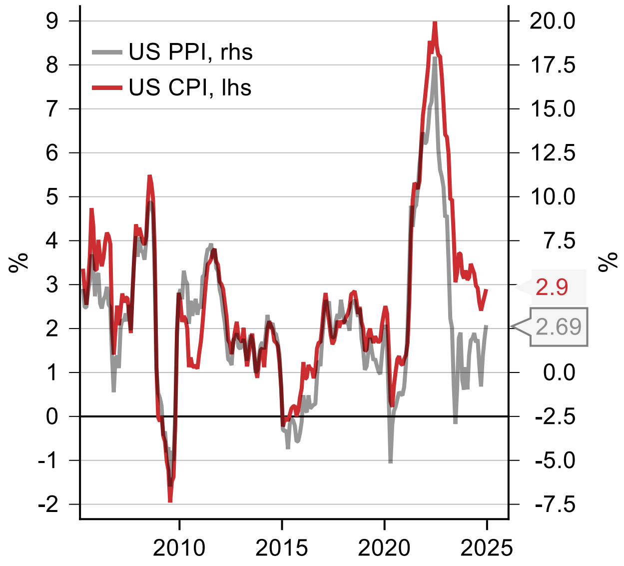
USD FX

- **The view:** The market to front load USD strength, then fade in the second half of the year. DXY at 110 (Mar-25), 104 (Dec-25). The main risk is this is a consensus position and the USD is following the 2016/17 analogue well, that was the moment to sell the USD in 2017 as Trump disappointed on policies and Europe had Macron's 2017 election optimism too. 2025 isn't the same setup. But once tariffs are announced we expect the market to have priced in "maximum pain" for EUR, GBP and others, to then be faded in H2.
- **Risks ahead:** Does the slowdown in the US Labour market slowdown with tighter imigration controls? Could China's stimulus improve the chances of a soft landing next year for Global growth and reverse gains in the USD? Does Europe respond by announcing growth positive reforms (Draghi plan)? Does a potential ceasefire in Ukraine lead to risk on sentiment and lower energy prices? Does the Deepseek story mark the end of the US exceptionalism trade?

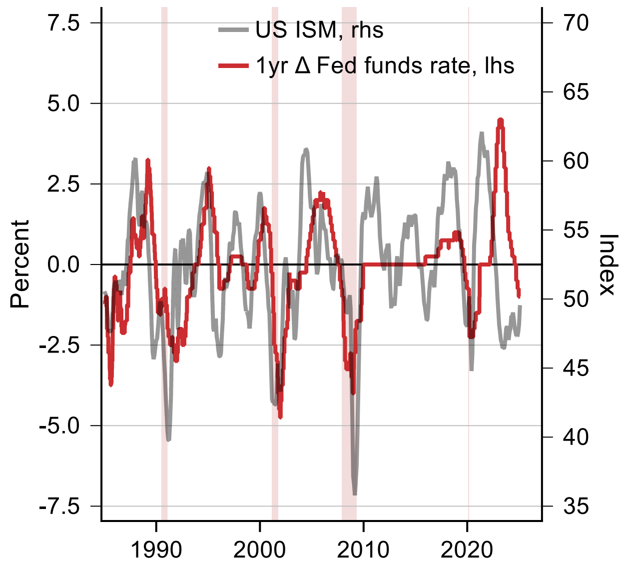
GDP Q/Q nowcasting remains upbeat



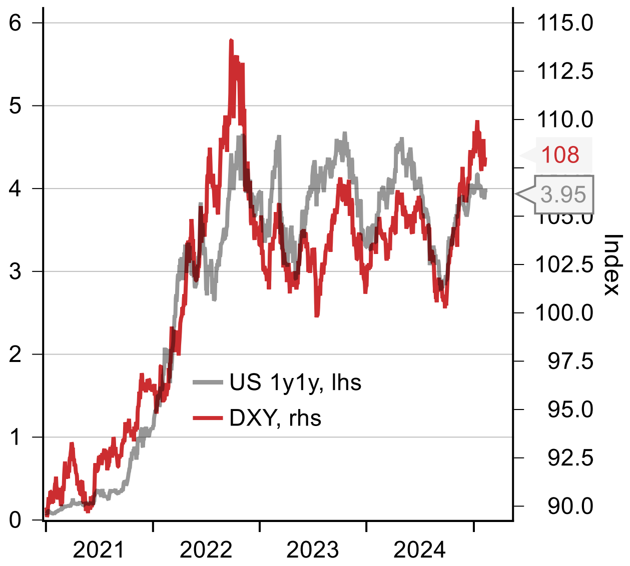
PPI vs CPI - Goods to weigh on headline



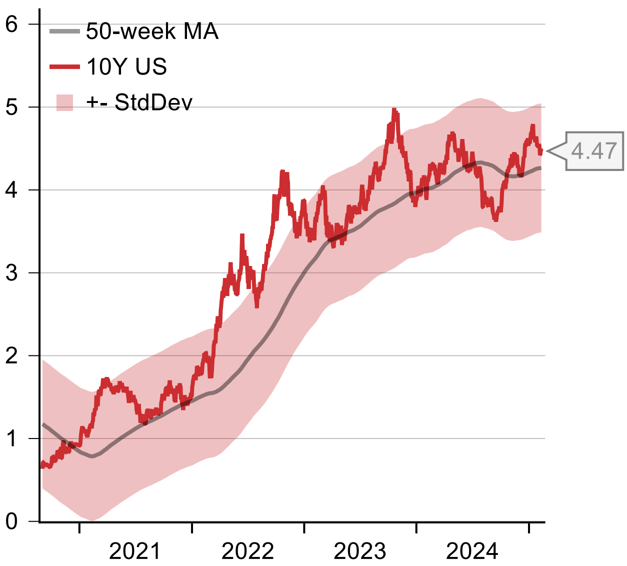
ISM used to lead to Fed policy changes



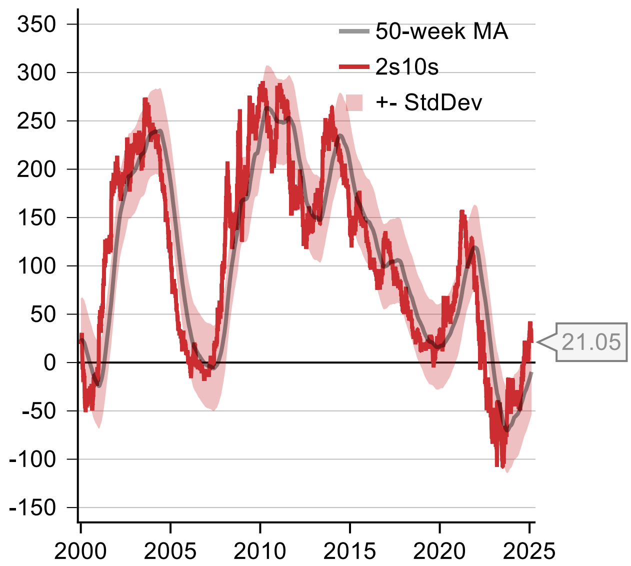
Fed expectations vs DXY



10Y UST yields (%)



UST 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 February 2025)

GBP Policy

- **Growth:** UK growth has held up but at low levels (~1% GDP). Lower business confidence and falling employment intentions thanks to the NI tax hike in the October budget for firms will keep UK surveys under pressure. The BOE's forecast could be lowered again if PMIs continue to drop sharply.
- **Inflation:** CPI at 2.6% but services at 4.4%. The near term risks are to the upside thanks to a recent acceleration in Global goods prices and services is likely to bounce back after a weak print in December. Making it hard for this market to price in a dovish BOE.
- **Labour:** Unemployment climbed up to 4.4% but wages had a strong rebound above 6%. It's hard to read too much into the the UK Labour survey as it remains of low quality with record low response rates making it difficult for the BOE to factor into policy decisions. The latest figures suggest a sharp acceleration of wages in contrast to declines in leading indicators.
- **Politics:** Labour's popularity has collapsed from the mid-40s to 26%, not far off Conservatives on 24% and Reform 23%. With some polls putting reform ahead. a) Does the US tariff the UK? b) Does the collapse in popularity lead Labour to announce positive reform initiatives? We are starting to see more efforts on the reform side that could help in H2.
- **Policy:** In the near term CPI risks are to the upside thanks to natural gas prices rising, but Services CPI should continue to slow and sluggish growth will keep the BOE in a dovish setting with the risk of a March cut. But we expect rate cuts at the May, Jun, Jul, Aug and Sep meetings this year until 3.5% in September.

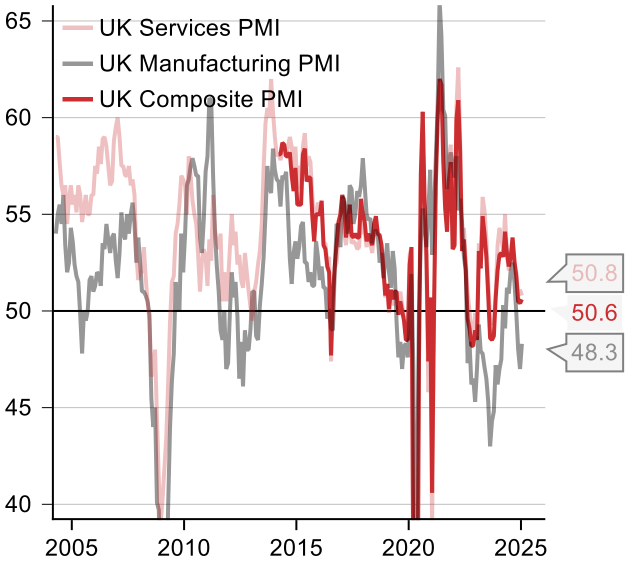
GBP Rates

- **Duration:** GBP duration has finally found some love after experiencing a very wobbly start of the year. That said, 10yr Gilt yields are still decoupled from Bunds despite the macro suggesting otherwise. Front-end pricing has still some way to go, but doesn't look as hawkish as before – 82bp are now priced until the end of the year. Our dovish view on the BoE underpins our bullish view on GBP duration, especially during Q2 and Q3, which is when we expect the market will embrace the fact that the BoE will need to cut towards neutral.
- **Curve:** We expect the steepening to continue and gain more traction as the BoE accelerates their pace of cuts into Q2 and the fiscal story unveils. Tariffs may bring some tactical flattening around, which we would use to put on steepeners. Markets will continue to be worried about UK finances and debt sustainability, which will likely hit the 30yr point the most.
- **Swap Spreads:** Swap spreads remain depressed, with longer-dated Gilts still trading cheaper on ASW vs USTs. This is mostly a demand-supply mismatch (record levels of Gilt issuance!) and a lack of love towards the UK credit. Looking ahead, if the rate cut repricing that we expect materialises, we should see Gilts outperforming swaps as real investors should feel more confident in buying Gilts, which would help swap spreads find a floor.

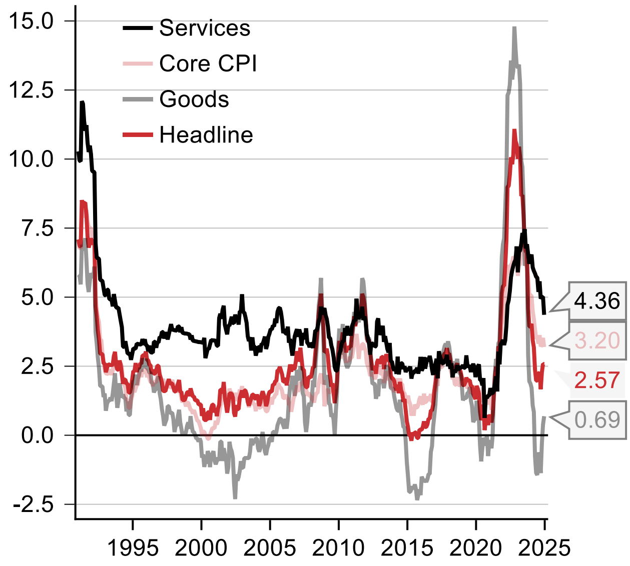
GBP FX

- **The view:** GBP/USD at 1.20 (Mar-25), 1.27 (Dec-25). The impact of tax hikes combined with a slowdown in Europe, China and the uncertainty of tariffs will weigh on GBP in Q1. To then rebound Q2 onwards as we expect a Global cyclical recovery. But there is scope for further GBP downside in the near term if March becomes a live meeting for another BOE rate cut. A drop in PMIs and REC employment intentions may be the trigger for such a move.
- **Risks ahead:** The risk is that the BOE continue to cut rates at a quarterly pace with the current 6-3 vote splits inbetween the MPR meetings. Goods inflation momentum has clearly rebounded and the hawks may hold sway in March's meeting.

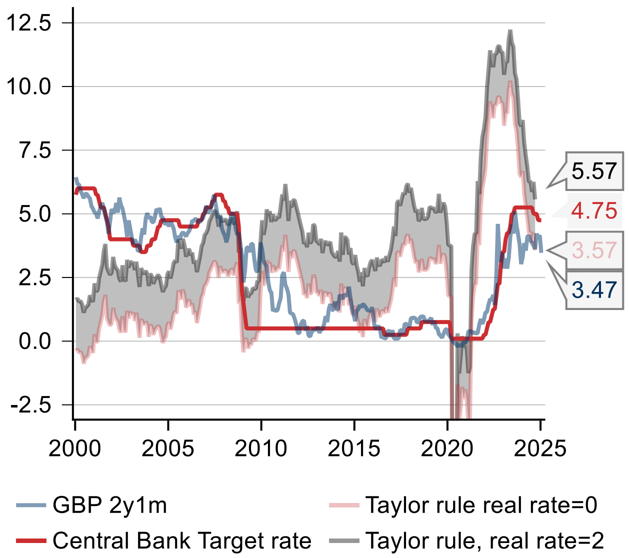
UK PMIs



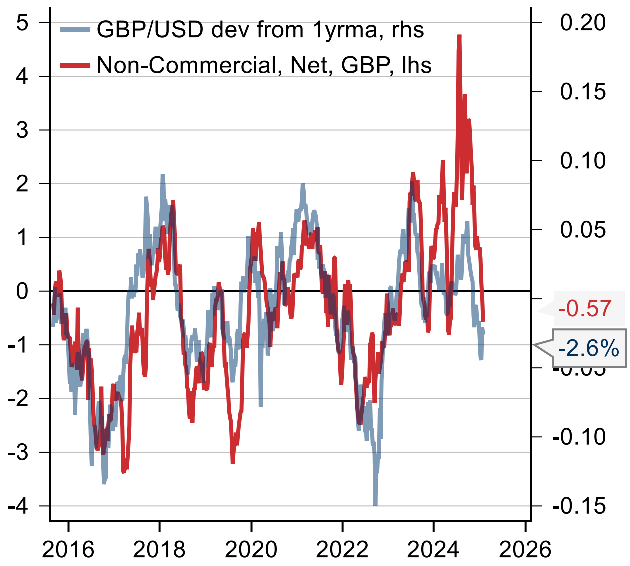
UK CPI



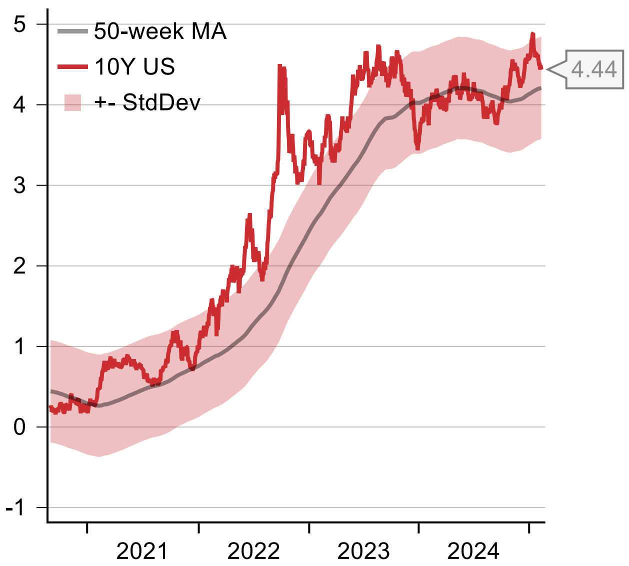
United Kingdom: Taylor Rule



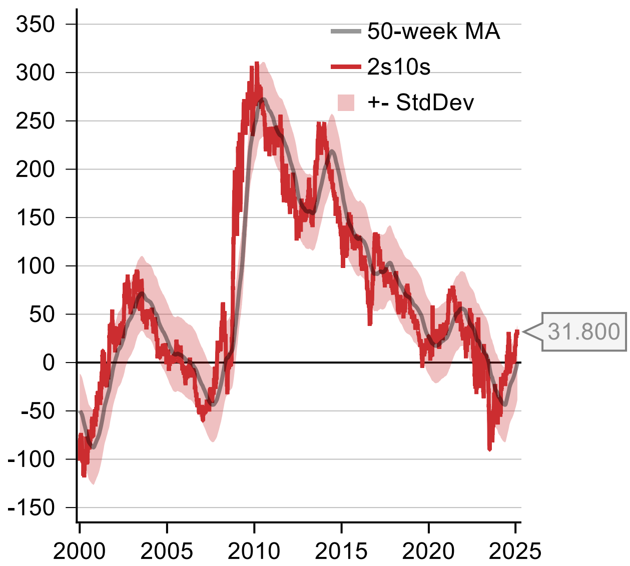
Net GBP/USD non-commercial positioning



10Y Gilt yields (%)



Gilts 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 February 2025)

JPY Policy

- **Growth:** Recession risks hovered in H2 2024 but GDP rebounded in Q3 2023 (0.5% y/y) and the more timely Tankan survey for December suggests stronger manufacturing too. The Japanese economy will be buoyed by domestic demand with high corporate earnings supporting firms' spending behaviour (pay hikes, capital investments), while real wage growth will prompt a gradual recovery in personal consumption.
- **Inflation:** Headline CPI at 3.6%, core-core at 2.4% with both goods and services picking up. FX moves have made the forecasting of Japan CPI difficult, but domestic factors (rice shortage) are playing a role too. PPI suggest upside pressure for both goods and services inflation. It's hard to be dovish in the short term with Global inflation in goods picking up.
- **Labour:** Full time workers' scheduled cash earnings (common office series), which the BOJ considers the most important wage indicator, hovers around 2.9%-3.0%. The 3% growth rate has long been the BOJ's benchmark for achieving a virtuous cycle between wages and prices. The BOJ may decide to wait until we get a better idea of April's Spring wage negotiations.
- **Politics:** The focus will shortly move towards US-Japan relations in regard to trade that could upset the bullish JPY view we have. FX policy is less hawkish than before but Finance minister Kato warned against excessive FX moves at the end of December.
- **Policy:** It's hard not to be optimistic on Japan here with healthy tankan surveys, stronger than expect CPI and wage data prints along with the BOJ making it clearer to the market that they are roughly on a 2 hikes per year cycle. It's why we expect 25bps hikes in July and a 1% terminal rate in early 2026. The risks to the view are that US tariffs may make their way to Japan. But equally another strong year of wage demands in shunto and improving activity data could see the market price in a higher terminal rate too.

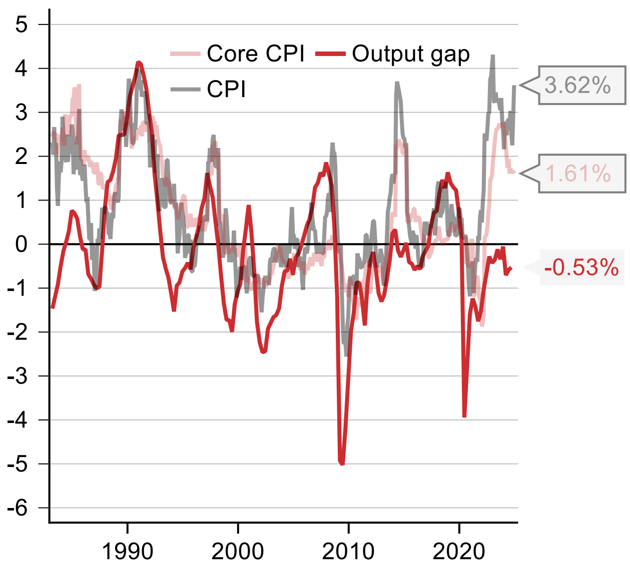
JPY Rates

- **Duration:** The upgraded inflation forecasts from the BoJ, together with the benign macro story, point to more rate hikes. We expect markets to bump their hike expectations and see ongoing bearish pressure in the front-end. We believe markets will likely trade towards pricing a 1%+ terminal rate (1y1y very close to 1% at the time of writing). The risks we see include JPY appreciation and politics (both internal and external). In any case, we would look to fade any rally in the front end and belly as we expect wages to continue to increase and lead to more BoJ hikes.
- **Curve:** The flattening into the long end of the curve continues. The hawkish BoJ surprise in January provided added tailwinds to the theme and demand of 10y is scarce. As long as the front-end repricing continues, we would expect the flattening to extend. 2.30% in 30yr JGBs is the level investors are eyeing to go long. That said, as we approach 1% in 1y1y (proxy for terminal rate), we would become increasingly careful with chasing the flattening much further. Especially given that the carry and roll profile is not very attractive. We prefer to be long 30yr on ASW.
- **Swap Spreads:** Front-end and belly swap spreads are back around the lows, which we think is likely a function of the selloff in cash bonds. 10yr+ have outperformed. We expect this theme to continue, especially in the super long end (30yr). The cut in long-end bond issuance and lifer's strong appetite towards long-end JGBs should continue to see swap spread tightening (less negative) in the very back end of the curve.

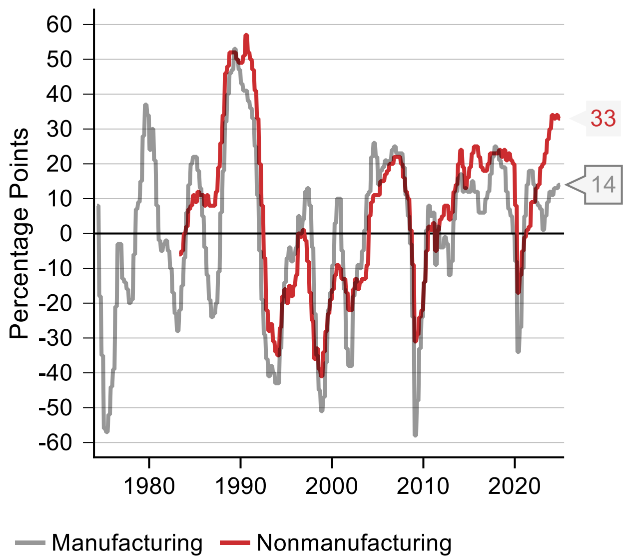
JPY FX

- **The view:** USD/JPY at 150 (Mar-25), 146 (Dec-25). With tariff uncertainty and Europe's growth underperformance markets are looking for a clear idionsyncratic theme and JPY may provide just that. Whilst it's beholden to US rates the consistent mover higher in JPY yields may lead to further JPY strength in our view throughout the year.
- **Risks ahead:** Do US tariffs get watered down to just a limited set of imports? Or does the US go full throttle, spooking central bankers and the BOJ skip hiking at both Jan and March meetings? Does Japan's labour market cool off?

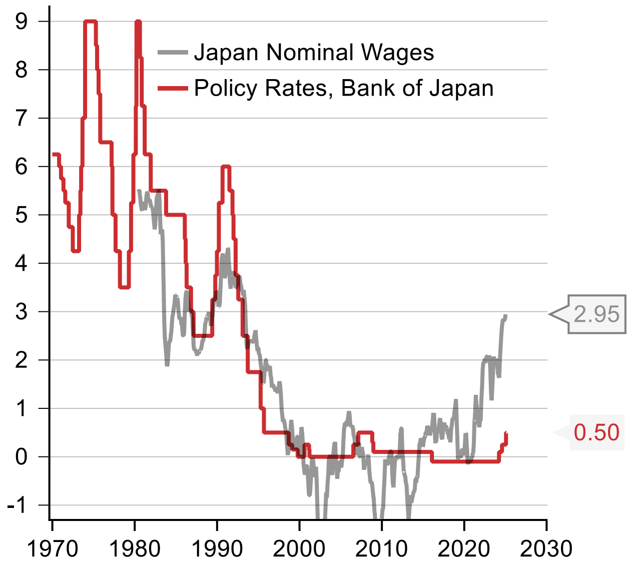
Japan: Output gap and inflation



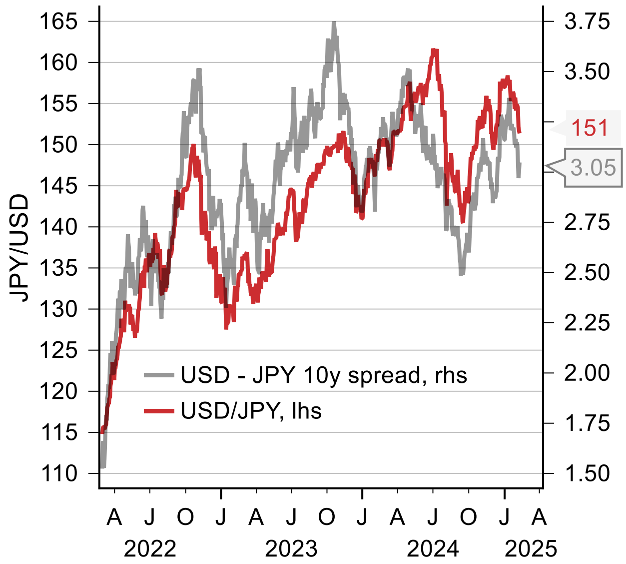
TANKAN, Business Conditions



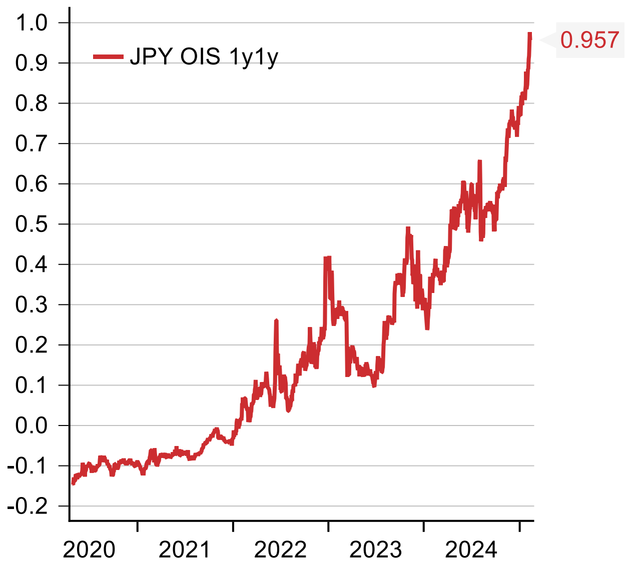
Japan Nominal Wages vs BOJ Policy



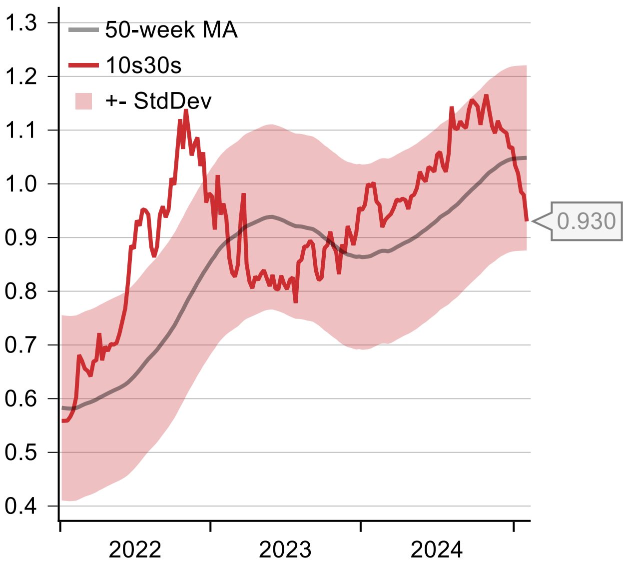
USD/JPY vs USD - JPY 10y spread



Markets are pricing too little for the BoJ (%)



JGB 10s30s continue to flatten (bp)

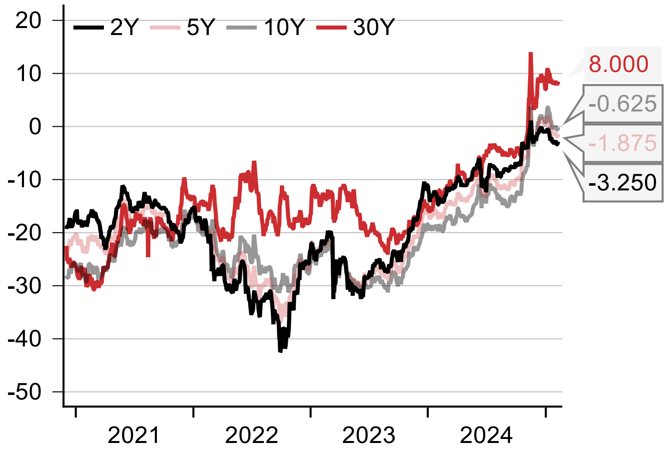


Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 February 2025)

XCCY

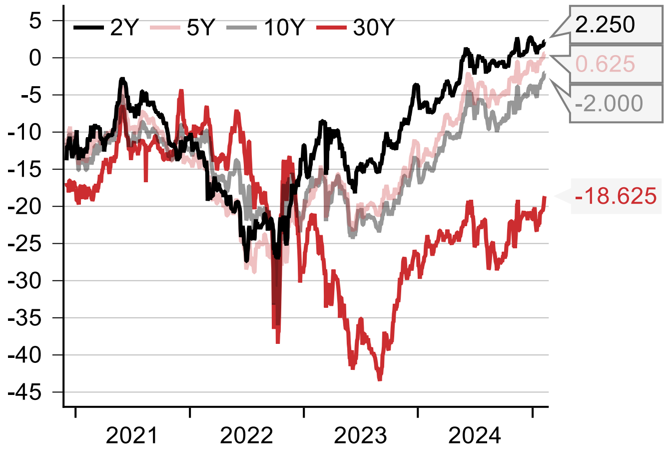
- **The view:** With the Fed now looking to cut less than expected (potentially stopping altogether) and funding markets potentially up for some wobbles, we think it will be difficult to see a much cheaper dollar premium but also do not see an immediate catalyst for a USD cash crunch. Regulatory changes under the new Trump administration could actually end up providing further capital relief to banks and continue supporting balance sheet intermediation.

EURUSD XCCY basis (bp)



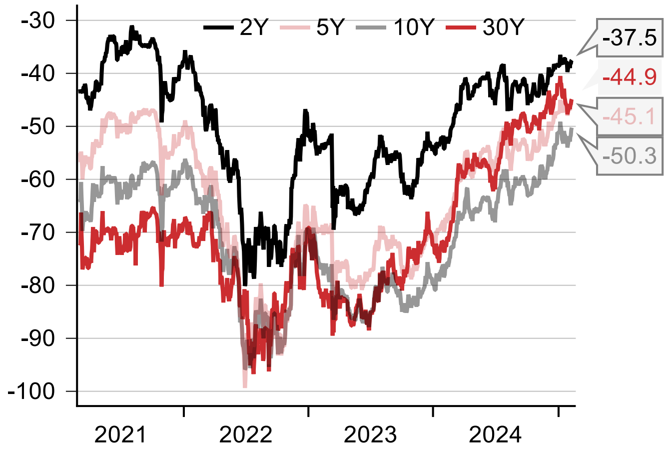
EUR: The question now is whether levels are starting to look stretched, and we should expect a turnaround in the basis. We think it may be too early to call it quits for paying positions. Yankees and GBP issuance still look attractive (although attractiveness is fading) and the demand side looks supportive of increased paying flows, especially from Japanese investors. There are key uncertainties ahead, including Trump's policies and the outcome of the German elections. As such, we suggest a more tactical approach to playing the EURUSD XCCY basis. Pay the dips for now.

GBPUSD XCCY basis (bp)



GBP: We note that 2025 has seen a stellar start for GBP paper, with Supras and EUR-based issuers tapping this market in decent size. On the other hand, reverse GBP has also seen quite a decent start of the year, but only in the USD section of the market. EUR issuance has become more expensive for GBP issuers. This suggests that paying positions in GBPUSD XCCY will be less supported in 2025 vs 2024. If the popularity of GBP issuance continues, it will likely kick off some widening of the front-end of the GBPUSD XCCY basis. We believe GBPUSD will lag EURUSD, at least in the first part of the year.

USDJPY XCCY basis (bp)



JPY: Several themes that were popular in 2024 will continue to play out in 2025. Ongoing attractiveness to buy JGB ASW for foreigners, popularity of Yankee issuance and hesitancy to buy overseas long-term debt FX-hedged from Japanese investors will continue to drive the basis tighter. As the BoJ hikes and other central banks cut, FX-hedging costs will look increasingly attractive, which may prompt a resumption of FX-hedged buying from Japanese investors. That may be the case for higher-yielding BTPs now, but it's a theme that is still developing. In short: pay in the short-term and watch for a reversal later in the year.

Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 February 2025)

Mizuho Key Forecasts

Policy rates	10-Feb	Mar-25	Jun-25	Sep-25	Dec-25	Δ 2025
Fed (mid point)	4.375	4.125	4.125	4.125	4.125	-25bps
ECB (depo)	2.75	2.50	2.00	1.50	1.50	-125bps
BoE	4.50	4.50	4.00	3.50	3.50	-100bps
BoJ	0.50	0.50	0.50	0.75	0.75	25bps

Rates		10-Feb	Mar-25	Jun-25	Sep-25	Dec-25	Dec-26
USTs	2Y	4.27	4.30	4.40	4.45	4.45	4.30
	5Y	4.33	4.40	4.45	4.60	4.65	4.35
	10Y	4.49	4.60	4.80	4.90	5.00	4.50
	30Y	4.70	4.75	4.90	5.00	5.15	4.60
Germany	2Y	2.04	2.05	1.65	1.65	1.70	2.15
	5Y	2.15	2.10	1.70	1.55	1.64	2.10
	10Y	2.37	2.25	1.80	1.95	2.05	2.25
	30Y	2.62	2.50	2.25	2.25	2.40	2.60
UK Gilts	2Y	4.14	4.20	4.00	3.85	4.00	3.65
	5Y	4.14	4.25	3.90	3.80	3.90	3.70
	10Y	4.46	4.55	4.25	4.15	4.30	4.25
	30Y	5.05	5.00	4.75	4.80	5.00	4.90
JGBs	2Y	0.79	0.75	0.80	0.95	1.15	0.85
	5Y	0.98	0.70	0.80	0.90	1.20	0.95
	10Y	1.31	1.10	1.20	1.45	1.65	1.40
	30Y	2.29	2.15	2.25	2.40	2.45	2.35

FX	10-Feb	Mar-25	Jun-25	Sep-25	Dec-25	Dec-26
EUR/USD	1.03	1.00	1.05	1.07	1.08	1.10
USD/JPY	152	150	148	147	146	145
GBP/USD	1.24	1.20	1.24	1.26	1.27	1.32
EUR/GBP	0.83	0.84	0.85	0.85	0.85	0.83
EUR/JPY	157	150	155	157	158	160
GBP/JPY	188	179	183	185	186	191
DXY	108	110	106	105	104	104

GDP & CPI by country	2023	2024	2025
GDP: US	2.90	2.80	1.90
Euro Area	0.40	0.70	0.90
UK	0.10	0.90	1.80
Japan	1.50	0.20	1.20
CPI: US (PCE)	3.80	2.50	2.20
Euro Area	5.40	2.30	2.00
UK	7.40	2.50	2.50
Japan (core-core)	3.90	2.20	1.90

**Fed policy and 10Y UST forecasts by Mizuho Securities US. Rest of UST and Rates figures by Mizuho International Plc (MHI). Other Policy and FX figures by Mizuho Bank Ltd. GDP and CPI figures by Mizuho Bank Ltd. (as of 10 February 2025).*

**Sources for current numbers: Bloomberg, Macrobond (as of 10 February 2025).*

FED	Forecast: Mizuho Securities USA (MSUSA) (Steven Ricchiuto, Alex Pelle)		Market pricing* (Fut, as of: 13:33 on 10/2)
Current rate (mid point)	4.375%	Rates remain restrictive at these levels.	
2025 Dec meeting	4.125%	25bps cuts: March	3.96%
2026 Dec meeting	4.125%	Terminal rate reached by Mar 2025	3.76%
Peak	5.375%	July 2023 - Sept 2024.	
Mizuho EMEA FICC Strategy view	*Just one more cut this year, so the question is do we entertain hikes in 2026 or not?*		
Balance sheet reduction: QT (active and passive)			
2025	QT ending Oct 2025, risks skewed to earlier.		

ECB	Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:34 on 10/2)
Current rate (depo)	2.75%	Rates remain restrictive at these levels.	
2025 Dec meeting	1.50%	25bps cuts: Mar, Apr, Jun, July, Sep	1.80%
2026 Dec meeting	1.50%	Terminal rate reached by Sep 2025	1.91%
Peak	4.00%	Sep 2023 (end of hiking cycle) - June 2024 (start of cutting cycle).	
Mizuho EMEA FICC Strategy view	*ECB on a 25bps per meeting path, we expect a lower terminal rate than the market.*		
Balance sheet - QT (active and passive)			
2025 2026	Passive QT with no APP or PEPP reinvestment.		

BoE	Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:35 on 10/2)
Current rate	4.50%	Rates remain restrictive at these levels.	
2025 Dec meeting	3.50%	25bps cuts: May, June, Aug, Sep.	3.83%
2026 Dec meeting	3.50%	Terminal rate reached by Sep 2025	3.77%
Peak	5.25%	Aug 2023 (end of hiking cycle) - Aug 2024 (start of cutting cycle).	
Mizuho EMEA FICC Strategy view	*CPI to have upside, but growth concerns post budget to grow among firms to trigger more cuts.*		
Balance sheet - QT (active and passive)			
Sept 2024 to 2025 Sept 2025 to 2026	£100bn £100bn	In line with recent history and towards the BoE's Preferred Minimum Range of Reserves (PMRR).	

BoJ	Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 13:32 on 10/2)
Current rate	0.50%	Still on track toward neutral rate.	
2025 Dec meeting	0.75%	Next Hike at July's meeting	0.86%
2026 Dec meeting	1.00%	Jan 2026 to be final hike of cycle.	1.03%
Peak	1.00%	Reaches terminal rate in 2026.	
Mizuho EMEA FICC Strategy view	*A 25bps hike in July. But Politics (domestic and US) and USD/JPY the key variables.*		
Balance sheet - QE			
2025	JPY 3.3tn per month (YE).		
2026	JPY 1.7tn per month (YE).		

**Source: Bloomberg, Macrobond (as of 10 February 2025).*

EMEA (BoE and ECB)
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Evelyne Gomez-Liechti: Mizuho International Plc (MHI), Mizuho EMEA Multi-Asset Strategist
Mizuho Americas (FED) – ***sourced but not authors of this piece.***
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