Mizuho EMEA

G4 Rates & FX Monthly

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"The Background" and FX views written by Jordan Rochester. Rates and XCCY views written by Evelyne Gomez-Liechti.

USD

The Background

Stronger Hard data (GDP, Claims, NFP) vs poor soft data (ISM, consumer confidence, regional fed surveys and more) has led to volatile shifts in the Macro narrative in 2023. But with unemployment at 4.1% it would take a large deterioration at the November NFP to trigger a 50bps from the FOMC who are more likely to be happy with signalling a shift down to 25bps rate cuts per meeting.

Our US Econ expect only 25bps a quarter until 3.875% by Sep 25. In strategy we expect the risks lie to a more aggressive path (cut per meeting) if we get rising unemployment next year as surveys suggest.

The View

FX: We are biased to long USD expressions (vs EUR, GBP, JPY) barring any bad news in Labour markets with mean reversion back to **104/105 in DXY by year end**. The level of USD shorts has reached 2018/19 levels with only the 2020 COVID QE cycle to beat it in recent history and US data surprises are rising. Then in Q1/Q2 for USD strength to be faded by a cyclical rebound.

Rates: If data don't deteriorate further, we think there is room for **markets to continue to price out at least 25bp of cuts until year end**. We prefer to hold bear-flatteners into year end and position for **bear-steepeners in 2025** as long-end USTs price in a higher inflation premia and supply.

EUR Rates

The Background

A larger than expected drop in both CPI and PMIs may focus minds at the ECB with further bad news to come. We expect a more aggressive **"25bps per meeting" cutting cycle ahead starting in October with the terminal rate at 1.5% in Q3 2025.**

German Manufacturing is in a dire state with Industrial production 5% lower than a year ago with goods demand in decline and higher energy costs in Europe vs China/US peers. **It's a structural problem mixed in with weak cyclical data** that should see the market price in a lower terminal rate for the ECB and a lower EUR with it. German IFO's suggest we could see negative employment growth for the country as a whole in the months ahead (manufacturing sector is already there).

French politics and EZ fiscal policy is also 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.

The View

The ongoing softness in the economic data will likely continue to support European duration vs US in coming months. We see **10Y Bund yields testing the 2.0% handle into year end (currently 2.25%) and move sustainably below 2.0% in 2025** as markets price in more cuts and a "below-neutral" terminal from the ECB. We are biased for **steepeners into the long-end, like 10s30s and 5s30s**. 2s5s may lag behind as the economic backdrop caps how much the ECB can hike in the next cycle.

We see **75-85bp as the fair value range for 10Y OAT-Bund spreads**. 10Y BTP-Bund will likely remain around 140-150bp assuming the budget complies with Europe and growth continues to outperform. **We don't expect major moves in EUR swap spreads in the short term.**

Markets price a terminal rate for the ECB around 2% by the middle of next year for the ECB. **We expect 1.5% to be where markets could settle by year end** dragging EUR down with it.

EUR FX

The Background

Euro Area services had been the positive story over the summer (the Euros and Olympics helped) but are likely to turn lower as consumers run down their excess savings. Combine that with already weak Manufacturing, it's an environment where EUR tends to underperform peers.

The View

We forecast EUR/USD at 1.08 (Dec-24), 1.07 (Dec-25). With **the risk of further downside to 1.07 in Q4 2024** if US data manages to hold up. The risk in the short term is a potentical cyclical rebound in the data thanks to China stimulus and the US election outcome. If Trump wins the US election it would accelerate the move lower.

"The Background" and FX views written by Jordan Rochester. Rates and XCCY views written by Evelyne Gomez-Liechti.

GBP

A cautious BOE but with signs from Governor Bailey that could soon change. The recent 8-1 vote split suggested an acceleration in the near term as unlikely. But **we expect back-to-back cuts from November's meeting onwards with a terminal rate of 3.25% by Aug 25.**

UK growth has held up but at low levels (<1% GDP) thanks to high levels of immigration, a bounce in the housing market and manufacturing (unlike Euro Area peers). But consumer confidence has recently taken a turn for the worse with the prospect of higher taxes after the October budget a risk factor to bear in mind.

Labour's polling drop in the polls from 45% to 30% has increased the focus on the 30 October budget. We expect any good news for markets from spending (new fiscal rules on investment) to be outweighed by higher capital gains taxes.

FX: GBP/USD at 1.29 (Dec-24), 1.32 (Dec-25). The best performing G10 currency YTD, healthy growth, strong services CPI, political stability and a surge in positioning have all helped. But all good things come to an end eventually and GBP looks like a consensus trade that will end with a squeeze lower.

Near term the risk is 1.28 and lower into Q1 (August 1.2664 low the furthest we'd expect). Then in H2 2025 we expect a cyclical rebound thanks to monetary and fiscal easing in US/China.

Rates: We are **bullish UK duration and see room for front-end Gilts to rally towards 3.0% in 2s into mid-2025** (currently 4.2%) as the BOE embraces a faster rate cutting cycle. We expect at least £25bn more issuance over the next four years, which should support ongoing steepening in the Gilt curve. **We see 2s10s moving towards 50bp in 2025.**

JPY

Domestic data alone would suggest October or December are live meetings. But JPY strength since the July meeting (when USD/JPY traded at 155-160) lowers the urgency. JPY moves bear a sizeable impact on goods inflation and the timing of BOJ moves depends a lot on it.

Upcoming elections in both the US and Japan and uncertainty as to how quickly the Fed will be cutting rates also adds to the argument of waiting before hiking again.

December's meeting is possible that we see another hike, but **January is more likely as it provides us the update of BOJ forecasts**. So early in the new year is when we expect the next 25bps hike with a bi-annual hiking cycle with a terminal rate of 1%.

FX: We expect JPY weakness in October towards 152 with 155 possible if Trump wins the election in early November. But the potential for BOJ hikes in Q1 2025 to push JPY strength back into vogue (once all the current consensus positioning has been washed out).

Medium term we forecast USD/JPY at 152 (Dec-24), 135 (Dec-25). US rates remain the larger driver of JPY but the structural change taking place in Japan's labour market (declining demographics, higher tourism, immigration, domestic wage demands) **will lead to higher JPY valuations.**

Rates: We prefer to hold a **bearish JPY rates view** on the back of our BoJ view and prefer **flatteners into long-end JGBs** as BoJ QT plans are now known and levels are attractive for lifers.

XCCY

USD funding has been cheap during 2024 and **most XCCY basis pairs have tightened a lot YTD.**

There has been a **lack of further paying momentum since June** in XCCY, which we attribute to a slowdown in expectations of Yankee issuance, risk-off episodes and stretched levels.

We think that the proximity of the US election, the carry-trade unwinding, lower Yankee issuance and risk-off insurance being put on will likely see **a higher dollar premium**.

We expect **widening of most XCCY basis**, especially in EURUSD. We are looking for **GBPUSD outperformance** (less prone to widening) and **sideways price action in USDJPY.**

The view in full

EUR Policy (Jordan Rochester)

- **Growth:** A larger than expected drop in both CPI and PMIs may focus minds at the ECB with further bad news to come. German Manufacturing is in a dire state with Industrial production 5% lower than a year ago with goods demand in decline and higher energy costs in Europe vs China/US peers. Euro Area services had been the positive story over the summer (the Euros and Olympics helped) but are likely to turn lower as consumers run down their excess savings.
- **Inflation:** EZ CPI below target at 1.8% in September. The ECB expected a weak number but the broad based weakness in the numbers suggest a more dovish shift in policy to come. Economists expect energy base effects to push up CPI into year end but we expect continued weakness in services and non-energy goods to offset it.
- **Labour:** Unemployment at 6.4% in August, a record low and below equilibrium. But vacancies (official and Indeed data) are generally falling and the EC's expected employment indicator too.
- **Politics:** French politics and EZ fiscal policy is also 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.
- **Policy:** We've seen a shift in tone from ECB policy makers, we expect a more aggressive "per meeting" cutting cycle ahead starting in October with the terminal rate at 1.5% in Q3 2025.

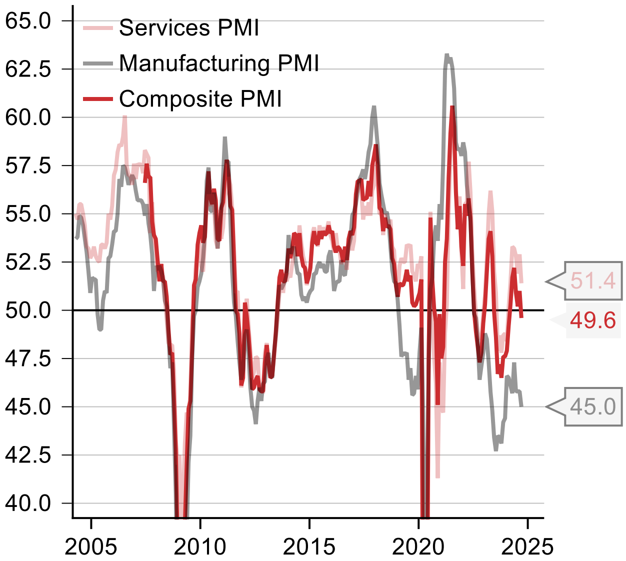
EUR Rates (Evelyne Gomez-Liechti)

- **Duration:** The ongoing softness in the economic data will likely continue to support duration in coming months. Barring any upside surprise in the European inflation numbers, current levels in EUR rates look attractive to buy the dip. We see 10Y Bund yields testing the 2.0% handle into year end and move sustainably below that in 2025 as markets price in more cuts and a "below-neutral" terminal rate.
- **Curve:** The steepening in Bunds has gone too far and too fast, especially in 2s5s. We expect this theme to find some resistance into year-end, which we would use as an opportunity to add steepeners into 2025. We like steepeners into the long end, like 10s30s and 5s30s. 2s5s and 2s10s may lag behind as the economic backdrop remains weak and caps how much the ECB can hike in the next cycle.
- **EGB spreads:** Worries regarding budgets will likely continue to drive most EGB spreads wider. We see 75-85bp as the fair value range for 10Y OAT-Bund spreads. 10Y BTP-Bund will likely remain around 140-150bp assuming the budget complies with Europe and growth continues to outperform.
- **Swap spreads:** We don't see any major catalysts in the short term to deviate from current ranges. Swap outperformance may prevail in the short term on the back of supply, ongoing abundance of collateral, and expectations of receiving flows as policy rates fall. In 2025, we see scope for widening.

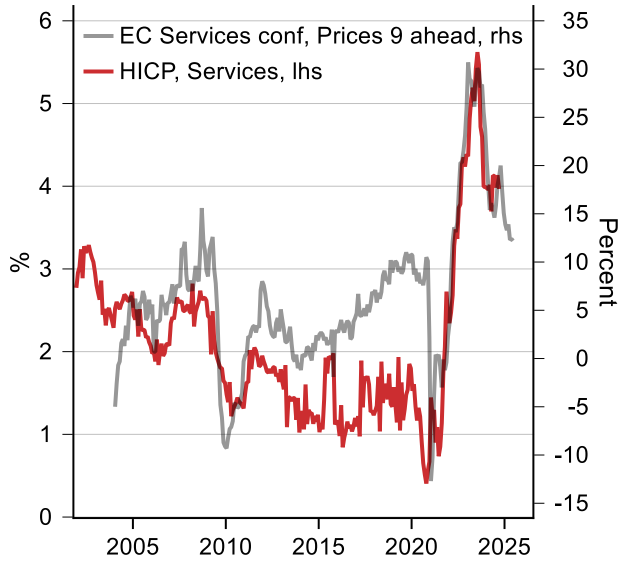
EUR FX (Jordan Rochester)

- **The view:** We forecast EUR/USD at 1.08 (Dec-24), 1.07 (Dec-25). With the risk of further downside to 1.07 in Q4 2024 if US data manages to hold up better than those looking for a significant rise in the unemployment rate expect (conference board survey would suggest a rise above 5% in the months ahead). Most of EUR's recent strength has been USD driven with EUR lower on a trade weighted basis within a long standing range.
- **Risks ahead:** Just how far will Germany's manufacturing slowdown go? IFO's suggest we could see negative employment growth for the country as a whole in the months ahead (manufacturing sector is already there). Will France's political impasse lead to higher uncertainty for policy, higher fiscal issuance expectations and lower growth expectations?

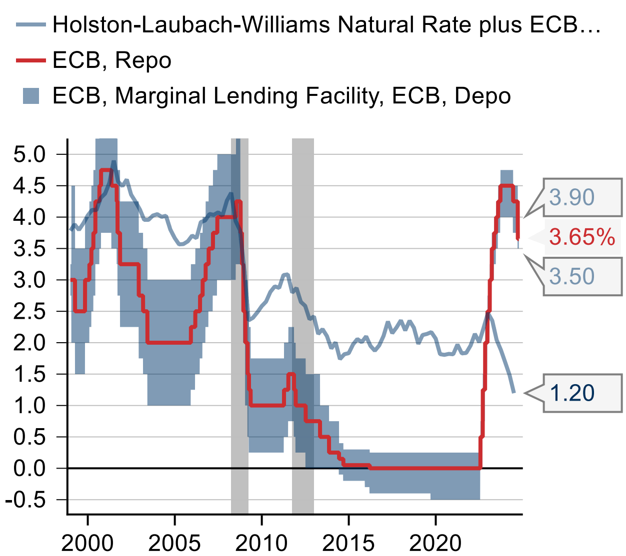
Euro Area PMIs



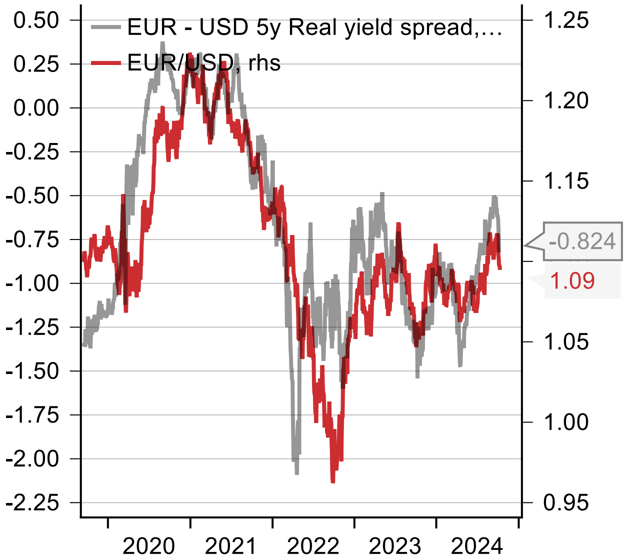
Services CPI may not be a problem for long



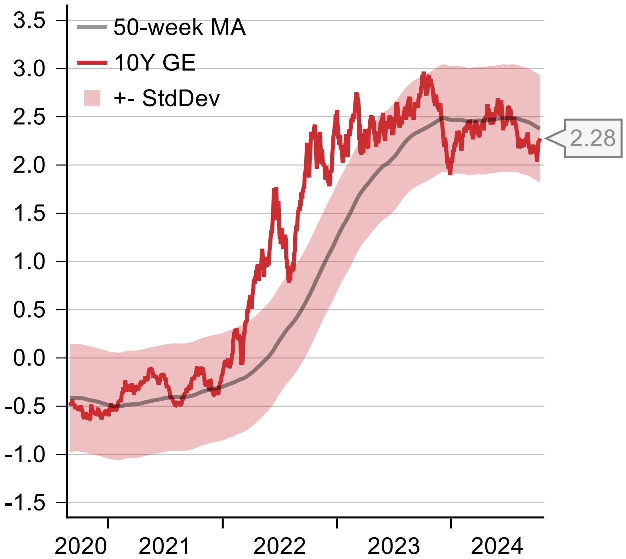
ECB Policy and Neutral rate estimates



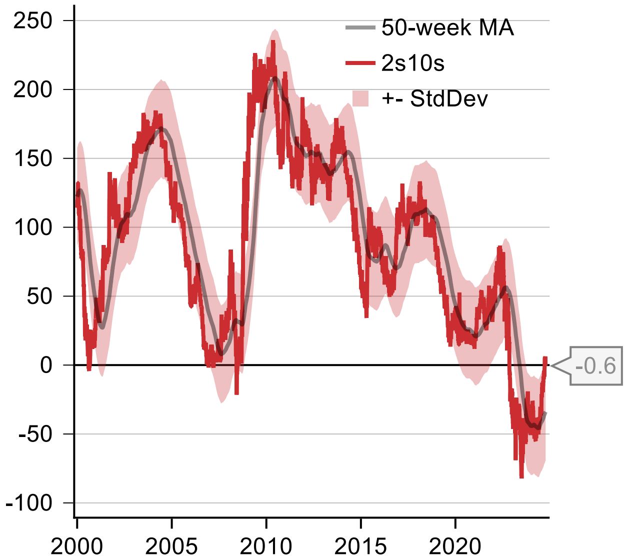
EUR/USD following real yields



10Y German bond yields (%)



Germany 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 October 2024)

USD Policy (Jordan Rochester)

- **Growth:** GDP nowcasting at 2.5% despite very weak manufacturing surveys is an impressive feat. US fiscal policy is likely to keep the downside limited especially if either candidates look to increase spending. But growth sentiment remains low and is likely to fall further into year end until a potential cyclical rebound in early 2025.
- **Inflation:** CPI at 2.6% and likely to continue to slow as Shelter/Rent falls with a lag. Both goods and services inflation pressures remain weak in the months ahead.
- **Labour:** Unemployment the key Fed variable with 4.3% the line in the sand for Powell (currently 4.1%). A lot of uncertainty into year end with weather/labour strike events to increase m/m volatility of NFP surprises. Claims data suggests Labour market remains healthy and tightening, surveys suggest much weaker employment conditions. It's the big debate whether this cycle is different, we expect hard data to lead to a cautious Fed.
- **Politics:** Fiscal policy is likely to remain loose, but the question is how much more? Current odds suggest a tight race and a split Congress. If Democrats do win the White House a divided Senate is likely to hold back fiscal expansion. But if Trump wins, markets may attempt to price in a 1% wider deficit in 2025/2026.
- **Policy:** If the Fed were following growth, they wouldn't be cutting right now. But Labour markets are likely to slow and do validate an easing cycle. Our US Econ expect only 25bps a quarter. In strategy we expect the risks lie to a more aggressive path if we get rising unemployment next year. But it's clearer to us the need for the ECB to cut below neutral, with the Fed less likely to do so.

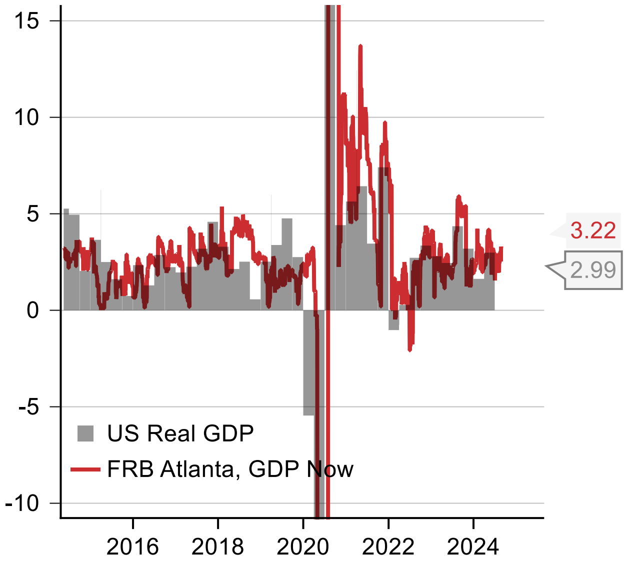
USD Rates (Evelyne Gomez-Liechti)

- **Duration:** The latest NFP strength has made markets reassess how many cuts are priced. We expect this reassessment phase to continue if labour market and growth data don't deteriorate further. We think there is room for markets to price out at least another 25bp cut until year end, which will see duration selling off. The bar to see 10s below 4.0% has been raised.
- **Curve:** The curve has been steepening significantly in the last three months. We think this front-end led steepening has gone too far and prefer to hold a bear-flattening bias into year end. In 2025, we expect the steepening theme to resume, but driven by the long end. Higher inflation premia and ongoing supply will be the drivers of long-end underperformance.
- **Swap Spreads:** UST supply will continue to be elevated, which together with no QT end in sight and the natural receiving interest from real-money investors in rate cutting cycles should all continue to pressure swap spreads wider (more negative). A potential spike in rates vol on the back of Middle East geopolitical risk and a retracement in Fed cut pricing may see swap spreads tighten (less negative) in the short term, which we would use to put on wideners.

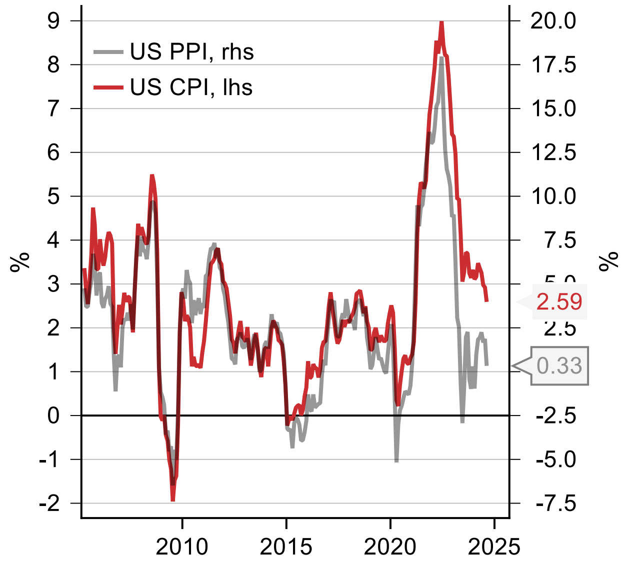
USD FX (Jordan Rochester)

- **The view:** We expect mean reversion back to 104/105 in DXY. The level of USD shorts has reached 2018/19 levels with only the 2020 COVID QE cycle to beat it in recent history. The bar for "USD negative" data surprises has now been raised high. It's why USD weakness requires fresh news (such as a 4.3 or 4.4% unemployment rate at the next NFP) to suggest a lower terminal rate to be priced for the Fed or further risk on sentiment in equities to weaken the USD further. We are biased to long USD expressions (EUR, GBP, JPY) into year end, barring any bad news in Labour markets.
- **Risks ahead:** The US election could turbo charge USD strength with a Trump win (10% across-the-board tariffs) or lead to mild underperformance as that Trump tail risk is priced out (we suspect it's not as well owned as a hedge as it was when Biden was the candidate). Meanwhile soft data in the US continues to deteriorate, but could China's stimulus improve the chances of a soft landing next year for Global growth?

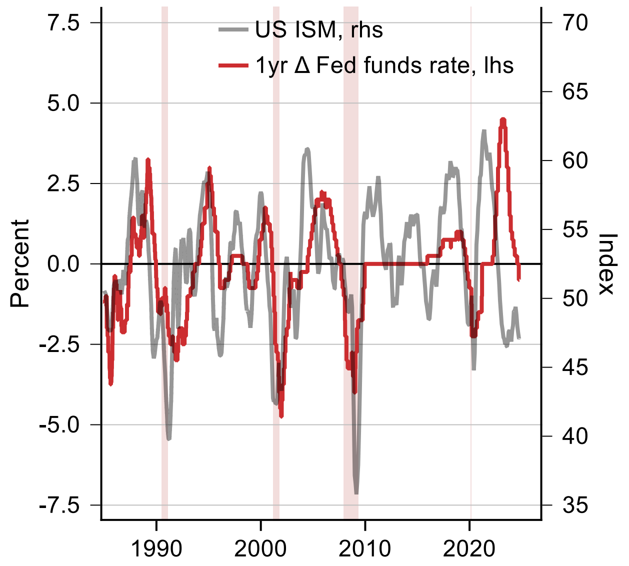
GDP Q/Q nowcasting remains upbeat



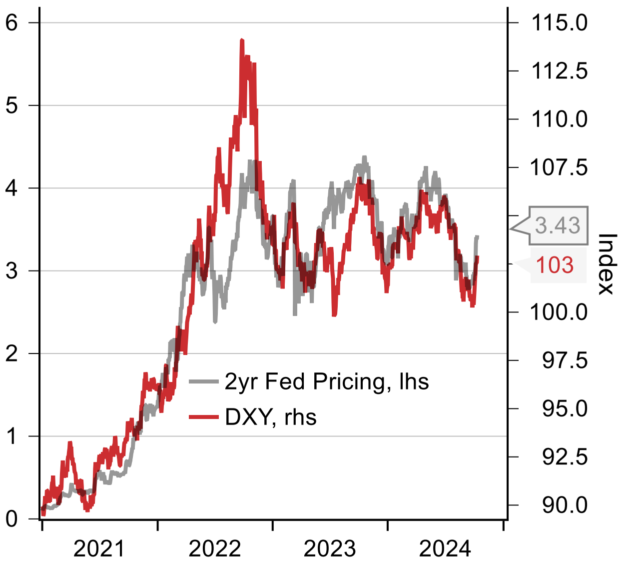
PPI vs CPI - Goods to weigh on headline



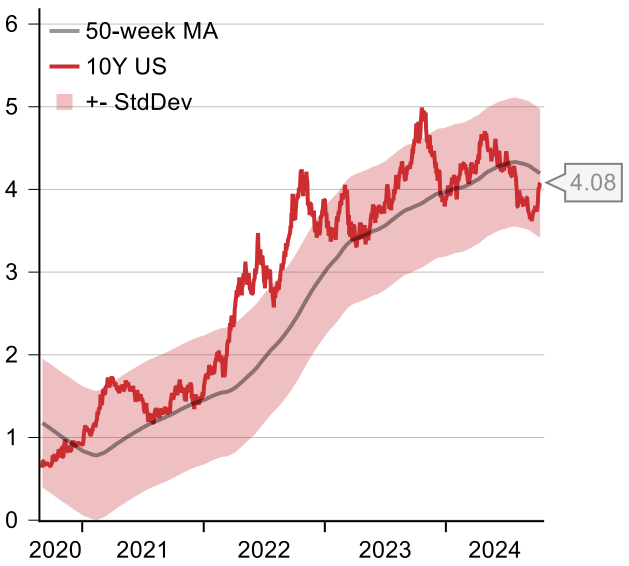
ISM used to lead to Fed policy changes



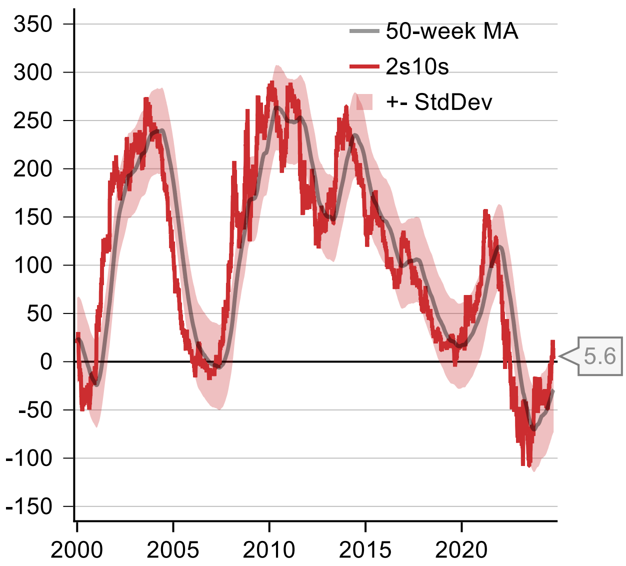
Fed expectations are driving DXY



10Y UST yields (%)



UST 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 October 2024)

GBP Policy (Jordan Rochester)

- **Growth:** UK growth has held up but at low levels (<1% GDP) thanks to high levels of immigration, a bounce in the housing market and manufacturing (unlike Euro Area peers). But consumer confidence has recently taken a turn for the worse with the prospect of higher taxes after the October budget a risk factor to bear in mind.
- **Inflation:** CPI at 2.3% but services at 5.6%. Services CPI is likely to slow materially in 2025 and subdued goods inflation will likely see BOE forecasts disappointed.
- **Labour:** Unemployment slowly climbing at 4.1% and private sector wages slowing sharply in recent months but no sign of the slowdown accelerating to trigger a more dovish BOE.
- **Politics:** Labour's polling drop in the polls from 45% to 30% has increased the focus on the 30 October budget. We expect any good news for markets from spending (new fiscal rules on investment) to be outweighed by higher capital gains taxes.
- **Policy:** A cautious BOE but with signs from Bailey that could soon change. The recent 8-1 vote split suggested an acceleration in the near term as unlikely. But we expect back-to-back cuts from November's meeting onwards with a terminal rate of 3.25%.

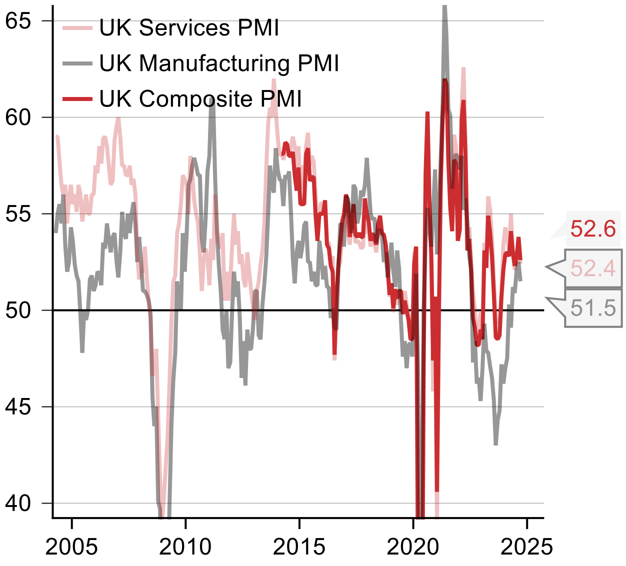
GBP Rates (Evelyne Gomez-Liechti)

- **Duration:** Gilts have been underperforming USTs and Bunds in the last few months, which we attribute to the lack of pressure to cut rates by the BoE and anticipation to the October budget. We think there is room for markets to price in a larger slowdown in the UK economy via faster rate cuts. We are bullish UK duration and see room for front-end Gilts to rally notably until mid-25 as the economy decelerates further, services inflation eases and the BoE has no other option but to cut faster.
- **Curve:** We expect the steepening to continue and to gain more traction as the BoE accelerates their pace of cuts in 2025. We see at least £25bn more issuance over the next four years, which should also support the steepening trend.
- **Swap Spreads:** Swap spreads remain depressed. We attribute this to the large amount of Gilt issuance, the BoE's new repo facility introduction, the structural receiving flows in swaps and a lack of real money investor buying of Gilts. 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.

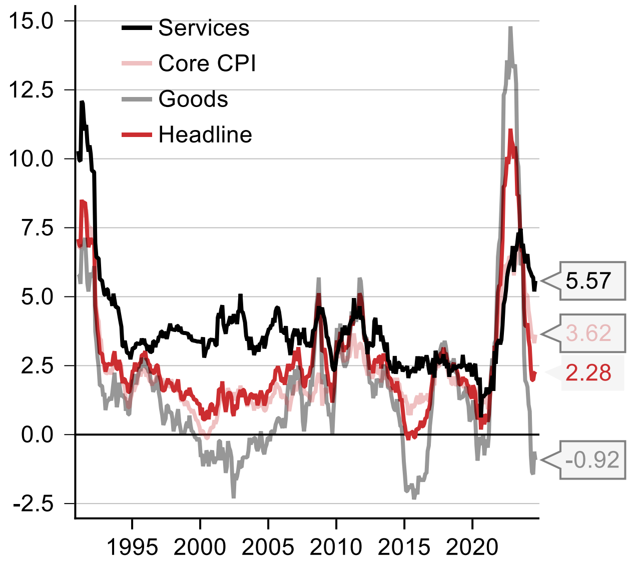
GBP FX (Jordan Rochester)

- **The view:** GBP/USD at 1.29 (Dec-24), 1.32 (Dec-25). The best performing G10 currency YTD, growth, high services CPI, political stability and a surge in positioning have all helped. But all good things come to an end eventually and GBP looks like a consensus trade that will end with a squeeze lower. BoE easing expectations should rise after Bailey's comments and in Q1 the data is likely to turn lower after the UK budget weighs on consumer sentiment with higher taxes. Near term the risk is 1.30 and lower into Q1 (August 1.2664 low the furthest we'd expect). Then in H2 2025 we expect a cyclical rebound.
- **Risks ahead:** Market sentiment may turn around the 30 October budget. A BOE cut in November is highly likely, so the question is what about December? We get Nov CPI on 18th Dec, then a day later the BOE on 19th Dec. If CPI does collapse a lot of minds will change, and the BOE starts a "per meeting" cutting cycle. Our leading indicators suggest Services CPI will slow a lot in coming months, but PMIs and wages need to be turning lower more aggressively for the recent 8-1 vote split to become more of a consensus. It's why December is likely to be a 5-4 cut decision at best for now.

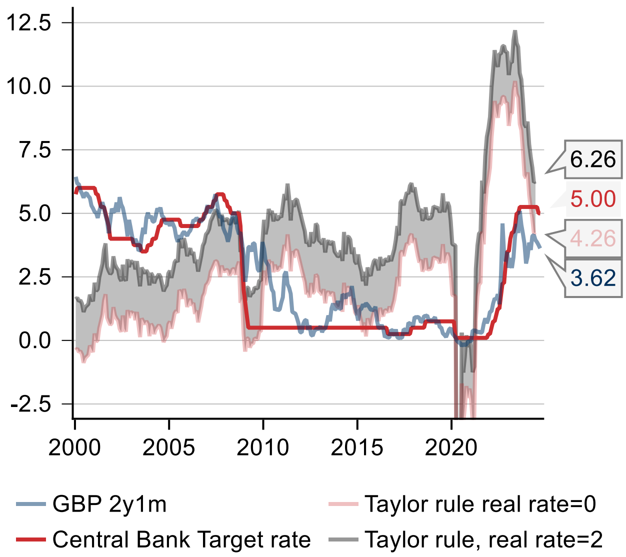
UK PMIs



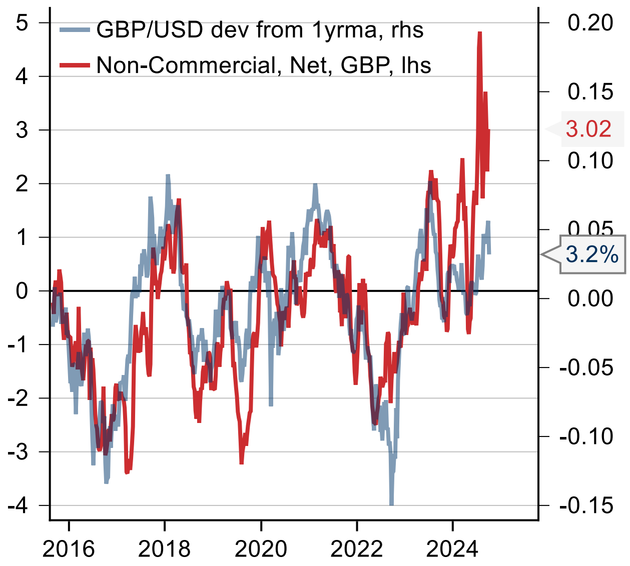
UK CPI



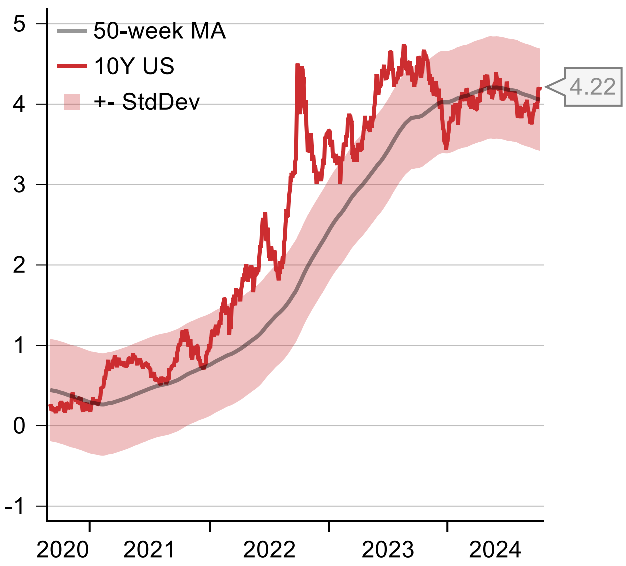
United Kingdom: Taylor Rule



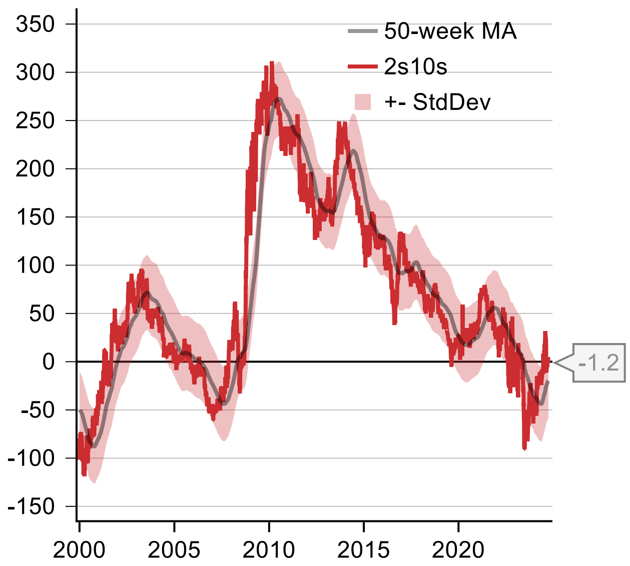
Net GBP/USD non-commercial positioning



10Y Gilt yields (%)



Gilts 2s10s (bp)



Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 October 2024)

JPY Policy (Jordan Rochester)

- **Growth:** Recession risks, thanks to sluggish Manufacturing but Service growth remains at 1990s highs. 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%, core at 1.7%. But JPY strength since August could take up to 1% off headline CPI in the next three months with services also slowing. We forecast core CPI in FY2024 and FY2025 are forecast at +2.5%YoY and +1.9%YoY, respectively.

- **Labour:** Full time workers' scheduled cash earnings (common office series), which the BOJ considers the most important wage indicator, rose 3% year-on-year in July ad 2.9% in August. The 3% growth rate has long been the BOJ's benchmark for achieving a virtuous cycle between wages and prices.

- **Politics:** Fresh elections due 27 October reduce the risk of BOJ action for now. Given the low approval rating of new administration, it will be tough election for the LDP as well as PM Ishiba.

- **Policy:** Domestic data alone would suggest October or December are live meetings. But JPY strength lowers the urgency, giving time to understand the pace of deterioration in the US Labour market (if any), soft landing probabilities and the Fed policy path. After October's update, January's BOJ meeting provides us the update of BOJ forecasts when we expect the next 25bps hike with a bi-annual hiking cycle with a terminal rate of 1%. If the Fed does slow to 25bps and even considers skipping December's meeting – that could make a hike from the BOJ in January more likely.

JPY Rates (Evelyne Gomez-Liechti)

- **Duration:** We believe the market is underpricing the rate hikes that the BoJ will ultimately deliver in this cycle. 1y1y remains low (just above 0.60%) compared to where we expect policy rates to be next year (0.75-1.00%). We expect to see a re-emergence of the upside pressure in JGB yields as wages continue to increase and the BoJ leans hawkish as USDJPY rises. We expect this repricing to come around the end of the year.

- **Curve:** With more clarity regarding the BoJ's reaction function on QT and as hike expectations pick up again, we expect long-end JGBs to outperform. 10s30s has been unable to print new highs and levels to put on flatteners are starting to look attractive. Lifer activity has been muted, but other investors (including foreigners) have been active in long-end JGBs – a theme we expect to continue.

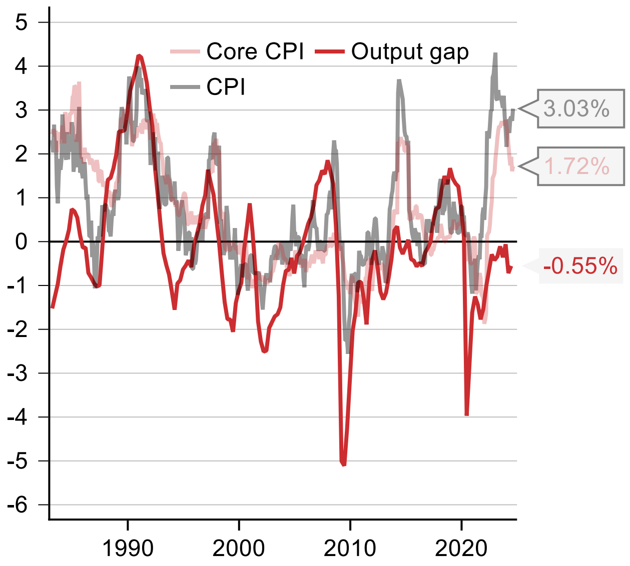
- **Swap Spreads:** JPY swap spreads have bounced back since the BoJ announced their long-term plans for JGB buying at their July meeting. We think we have seen the lows in swap spreads and with the new BoJ's purchase reduction, we think swap spreads will continue to tighten gradually, especially in the belly part of the curve. The super long-end space is seeing sporadic buying, which is driving has driven swap spreads tighter.

JPY FX (Jordan Rochester)

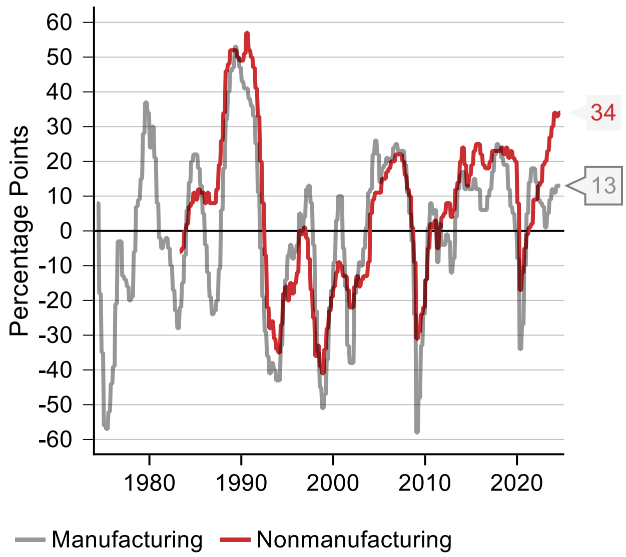
- **The view:** USD/JPY at 152 (Dec-24), 135 (Dec-25). US rates remain the larger driver of JPY but the structural change taking place in Japan's labour market (declining demographics, higher tourism, immigration, domestic wage demands) will lead to higher JPY valuations. But there has been a shift in the politics with new leadership, fresh elections and a more dovish BOJ of late. We expect JPY weakness in October (152 and higher is possible) but the potential for BOJ hikes in Q1 2025 to push JPY strength back into vogue (once all the current consensus positioning has been washed out). Intervention risks rise if we approach 155 to 160 but that would equally raise expectations of another BOJ hike.

- **Risks ahead:** Does Japan's headline inflation drop 1% because of JPY strength since the summer? Does Global manufacturing pull down Japan's growth outlook further? Or does risk on sentiment with China stimulus or the US election boost USD/JPY and make another rate hike from the BOJ more likely?

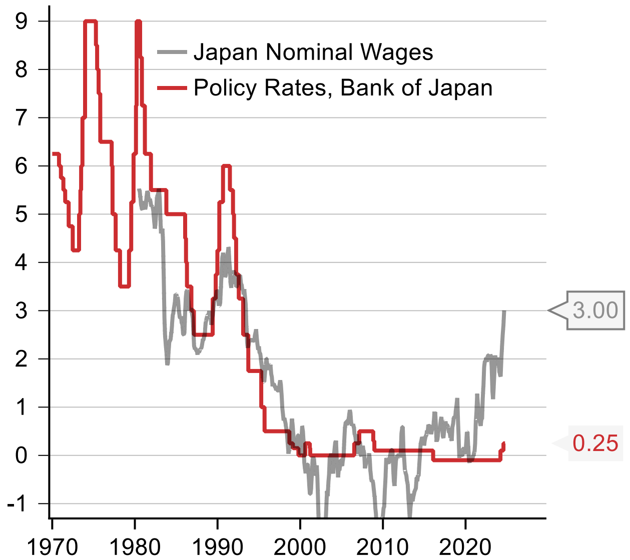
Japan: Output gap and inflation



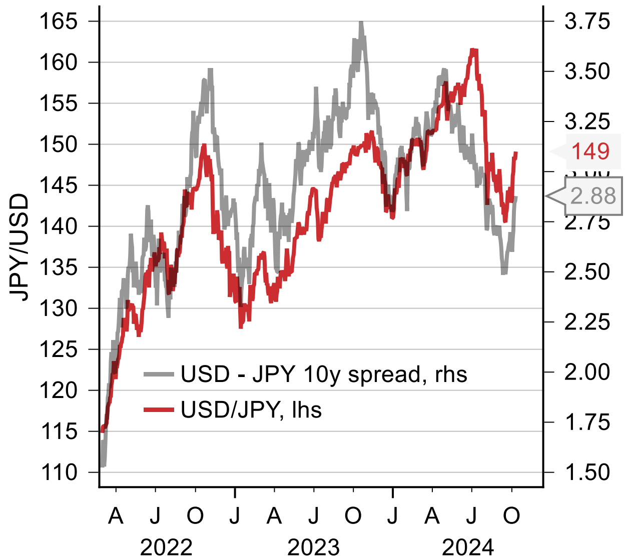
TANKAN, Business Conditions



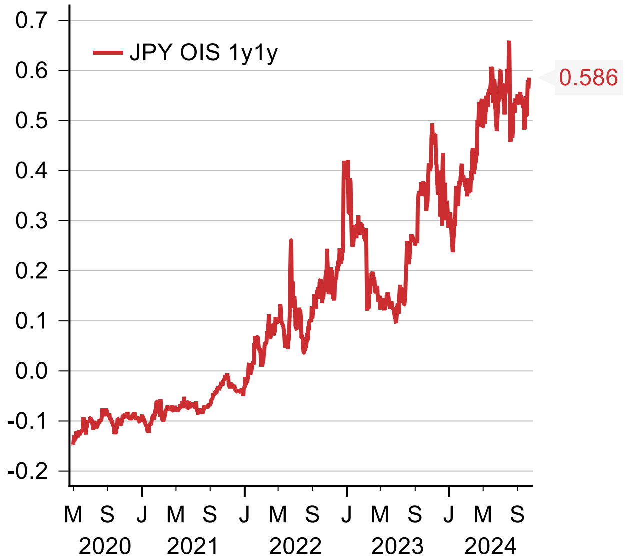
Japan Nominal Wages vs BOJ Policy



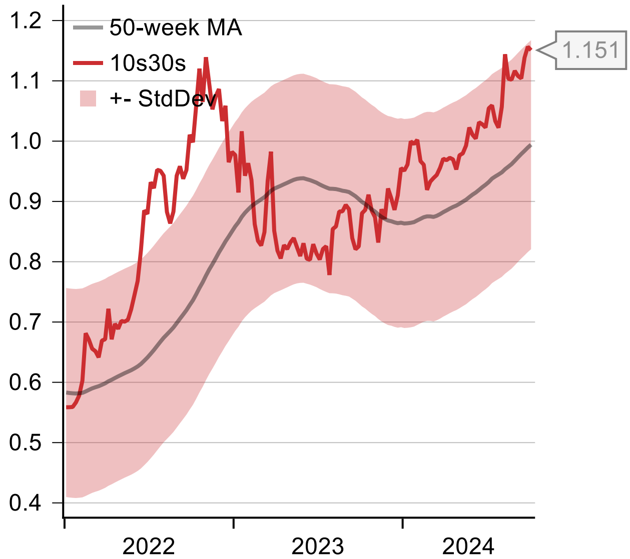
USD/JPY vs USD - JPY 10y spread



Markets are pricing too little for the BoJ (%)



JGB 10s30s looks steep (bp)

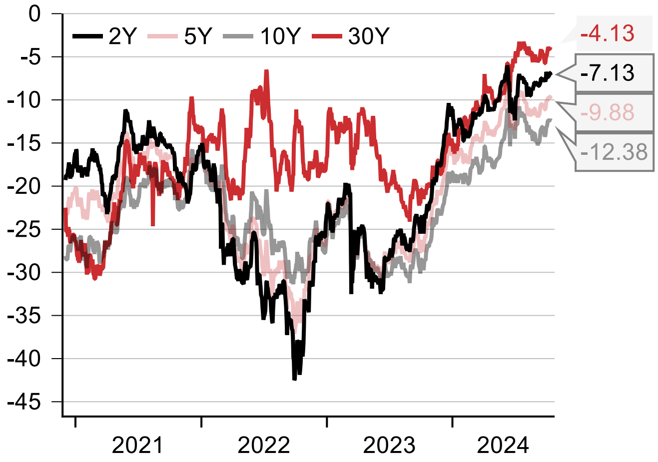


Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 October 2024)

XCCY (Evelyne Gomez-Liechti)

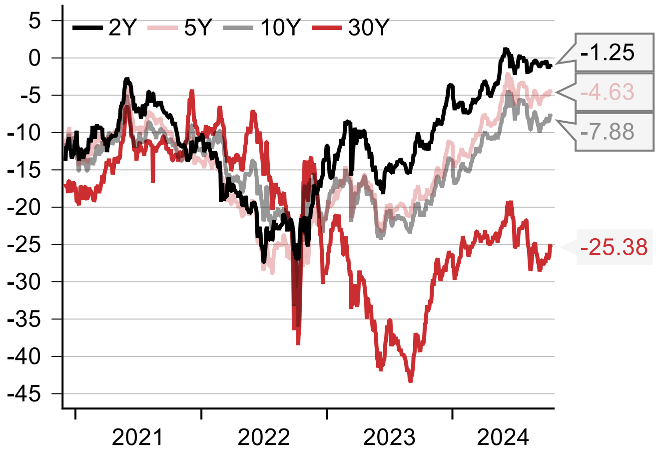
- **The view:** USD funding has been cheap during 2024. We think that the proximity of the US election, the carry-trade unwinding, lower Yankee issuance and risk-off insurance being put on will likely see a higher dollar premium. Dollar liquidity remains relatively healthy despite some spikes in SOFR rates. The Fed doesn't seem concerned and is looking to keep QT in place for now. This will likely prevent an aggressive widening and a much higher dollar premium in the near and medium term.

EURUSD XCCY basis (bp)



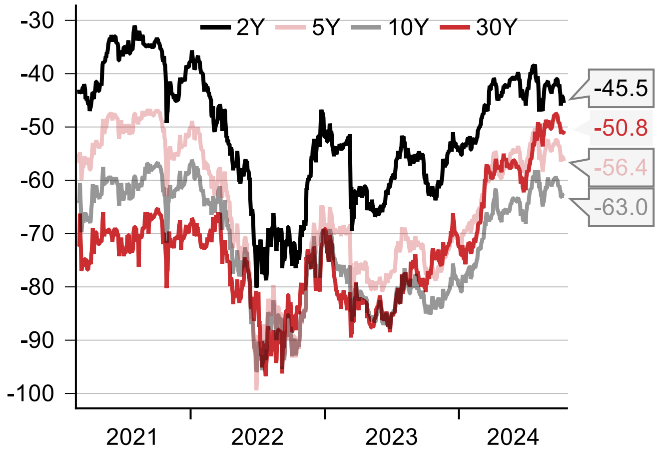
EUR: Most of EUR's recent strength has been USD driven. With EUR lower on a trade weighted basis. We do expect EUR/USD to climb much. We have tightened a lot YTD and there has been a lack of further paying momentum since June. We expect widening of EURUSD XCCY basis on the back of US election risk and related risk-off insurance being put on. This may also drive a slowdown in Yankee issuance (which takes another paying driver out of the equation). Risk-reward is supportive of wideners.

GBPUSD XCCY basis (bp)



GBP: GBPUSD XCCY has been trading sideways in the last month. The front end of the XCCY curve remains above parity. The widening that we expect in other basis pairs will also likely take over in GBPUSD XCCY. Having said that, we think GBPUSD will outperform given the ongoing liquidity squeeze from the BoE. The curve (10s30s) has failed to steepen, which we believe is related to some new type of BPA (Bond Purchase Agreement) flow. Levels are starting to look a bit stretched though.

USDJPY XCCY basis (bp)



JPY: USDJPY XCCY basis hasn't been able to print new highs. With Samurai issuance expected to come in autumn, JGB ASW looking unattractive and the US elections, we may see more sideways price action in coming months. We still see some paying drivers at play, like future BoJ tightening and subdued interest from Japanese investors to buy hedged overseas assets. Both of these will put a cap to how much the basis can widen.

Sources of all charts: Bloomberg, Macrobond (latest figures as of 10 October 2024)

Mizuho Key Forecasts

Policy rates	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Δ 2025
Fed (mid point)	4.875	4.625	4.375	4.125	3.875	3.875	-100bps
ECB (depo)	3.50	3.00	2.50	2.00	1.50	1.50	-200bps
BoE	5.00	4.50	4.00	3.50	3.25	3.25	-175bps
BoJ	0.25	0.25	0.50	0.50	0.50	0.75	75bps

Rates		Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Dec-26
USTs	2Y	3.98	4.05	4.10	4.15	4.20	4.25	3.90
	5Y	3.88	3.85	3.95	4.05	4.15	4.25	3.75
	10Y	4.04	4.00	4.20	4.40	4.60	4.80	4.10
	30Y	4.32	4.27	4.50	4.75	5.00	5.25	4.40
Germany	2Y	2.24	1.95	1.55	1.63	1.70	1.80	2.15
	5Y	2.11	1.75	1.45	1.51	1.55	1.64	2.10
	10Y	2.25	1.90	1.70	1.75	1.80	1.90	2.25
	30Y	2.54	2.20	2.10	2.19	2.25	2.40	2.60
UK Gilts	2Y	4.19	3.72	3.30	3.15	3.38	3.53	3.15
	5Y	4.06	3.52	3.20	3.05	3.20	3.35	3.20
	10Y	4.18	3.75	3.50	3.35	3.60	3.75	3.75
	30Y	4.72	4.35	4.13	3.98	4.30	4.50	4.40
JGBs	2Y	0.40	0.50	0.55	0.60	0.80	1.15	0.85
	5Y	0.54	0.70	0.70	0.70	0.90	1.20	0.95
	10Y	0.93	1.15	1.10	1.20	1.45	1.65	1.40
	30Y	2.15	2.25	2.15	2.20	2.40	2.45	2.35

FX	Current	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Dec-26
EUR/USD	1.09	1.08	1.07	1.07	1.06	1.07	1.10
USD/JPY	149	152	145	140	135	135	130
GBP/USD	1.31	1.30	1.29	1.30	1.30	1.32	1.32
EUR/GBP	0.84	0.83	0.83	0.82	0.82	0.81	0.83
EUR/JPY	163	164	155	150	143	144	143
GBP/JPY	195	198	187	182	176	178	172
DXY	103	104	104	103	103	103	100

GDP & CPI by country	2023	2024	2025
GDP: US	3.20	3.10	3.00
Euro Area	0.50	0.70	1.30
UK	0.10	0.90	1.80
Japan	1.80	-0.30	1.20
CPI: US (PCE)	3.70	2.60	2.30
Euro Area	5.40	2.40	2.10
UK	7.40	2.70	2.00
Japan (core-core)	3.90	1.90	1.60

**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 October 2024).*

**Sources for current numbers: Bloomberg, Macrobond (as of 10 October 2024).*

FED	Forecast: Mizuho Securities USA (MSUSA) (Steven Ricchiuto, Alex Pelle)		Market pricing* (Fut, as of: 14:43 on 9/10)
Current rate (mid point)	4.875%	Rates remain restrictive at these levels.	
2024 Dec meeting	4.625%	25bps cut: Nov.	4.34%
2025 Dec meeting	3.875%	25bps cuts: March, June, Sept.	3.36%
2026 Dec meeting	3.875%	Terminal rate reached by Sept 2025	3.44%
Peak	5.375%	July 2023 - Sept 2024.	
Mizuho EMEA FICC Strategy view	*Risks skew to a more aggressive cycle. But better US data surprises mean 25bps cuts for now.*		
Balance sheet reduction: QT (active and passive)			
2025	QT ending Oct 2025.		

ECB	Forecast: Mizuho EMEA (Jordan Rochester & Evelyne Gomez-Liechti)		Market pricing* (Fut, as of: 14:43 on 9/10)
Current rate (depo)	3.50%	Rates remain restrictive at these levels.	
2024 Dec meeting	3.00%	25bps cuts: Oct, Dec.	2.91%
2025 Dec meeting	1.50%	25bps cuts: Jan, March, April, Jun, July, Sep	2.04%
2026 Dec meeting	1.50%	Terminal rate reached by Sep 2025	2.15%
Peak	4.00%	Sep 2023 (end of hiking cycle) - June 2024 (start of cutting cycle).	
Mizuho EMEA FICC Strategy view	*Rates should be cut faster, October is now a live meeting after PMIs and CPI.*		
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: 14:43 on 9/10)
Current rate	5.00%	Rates remain restrictive at these levels.	
2024 Dec meeting	4.50%	25bps cuts: Nov, Dec.	4.51%
2025 Dec meeting	3.25%	25bps cuts: Feb, March, May, June, Aug.	3.73%
2026 Dec meeting	3.25%	Terminal rate reached by Aug 2025	3.68%
Peak	5.25%	Aug 2023 (end of hiking cycle) - Aug 2024 (start of cutting cycle).	
Mizuho EMEA FICC Strategy view	*UK data outperformance for now, but October budget could see sentiment turn quickly.*		
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: 14:43 on 9/10)
Current rate	0.25%	Still on track toward neutral rate.	
2024 Dec meeting	0.25%	No more hikes this year.	0.34%
2025 Dec meeting	0.75%	Path strongly dependent on USD/JPY rates.	0.56%
2026 Dec meeting	1.00%	If no global recession takes place.	0.64%
Peak	1.00%	Reaches terminal rate in mid-2026.	
Mizuho EMEA FICC Strategy view	*Favours a 25bps hike in Jan with Dec less likely. USD/JPY the key variable.*		
Balance sheet - QE			
2025	JPY 3.3tn per month (YE).		
2026	JPY 1.7tn per month (YE).		

**Source: Bloomberg, Macrobond (as of 10 October 2024).*

EMEA (BoE and ECB)
Jordan Rochester: Mizuho Bank Ltd (MHBK), Head of FICC Strategy
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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For more Mizuho Securities USA content, see the portal at RESP MIZR in the Bloomberg Terminal.