

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Drift
USD	Elevated CPI to keep USD stable
JPY	Shrinking Rinban ops to keep JPY supported near term
GBP	Wages in focus, esp with June BoE move in the balance

Overnight comment – All change: DXY under pressure

While we did not see yesterday's CPI print adding to Fed confidence that inflation was coming under control, that seems to be a minority view. Certainly, the US activity data yesterday were weak. USTs and equities rallied with both the S&P and Nasdaq printing new highs, while the greenback came under pressure. UST yields edged a little lower in the Asian session as did the DXY index. A soft Australian unemployment report (unemployment 4.1% vs 3.9% prev) saw AUD give back some ground in the Asian session.

Japan's Q1 GDP was not only worse than expected (-0.5%QoQ vs -0.3%QoQ cons), the prior quarter was also revised sharply lower too (0.0%QoQ vs 0.4%QoQ prev). The macro backdrop now looks weaker and more stagflationary. Some of the weakness in real GDP was a reflection of higher inflation – the GDP deflator only slowed from 3.9%YoY to 3.6%YoY. MoF's weekly portfolio flow data continue to suggest that investment trust outflows (via NISAs) on the equity side are broadly being offset by trust bank profit taking/re-weighting in overseas equities (net sales of overseas equities were ¥387bn), as we detailed in a note on Tuesday – "Japan Flows: Lifers looking domestically for yield". (<https://www.mizuhogroup.com/emea/what-we-do/insights-and-research/research-centre>). Japanese investors were net sellers of overseas bonds for a third consecutive week (¥397bn). Today's 20yr auction was upbeat against a backdrop of solid global bond markets, with the bid/cover higher at 3.65x (vs 3.05x prev) while the tail shrank to 0.11 vs 0.39 prev. Despite the soft GDP data, lower global yield developments dominated the impact of weak domestic data and **USD/JPY dropped as low as 153.60 before settling around 154.20 as Europe opens.**

Most ECB speakers yesterday were happy to tee up a June cut but most were more circumspect about subsequent steps. We expect a slow pace of cuts (25bp/quarter). On Tuesday Schnabel cautioned that weak productivity will mean high unit labour costs and possibly higher inflation. **EUR/USD drifted a fraction lower through Asian trade but broadly held yesterday's gains to sit around 1.0880 as Europe opens.** It was also a quiet start to trade in the UK with little overnight news. **GBP/USD tracked EUR and the pair sits around 1.2675 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – Industrial production (%MoM, Apr)	0.1/0.4
US – Philly Fed m'fact index (DI, May)	8.0/15.5
US – Housing starts (%MoM, Apr)	7.5/-14.7
US – Weekly initial jobless claims (k)	220/231

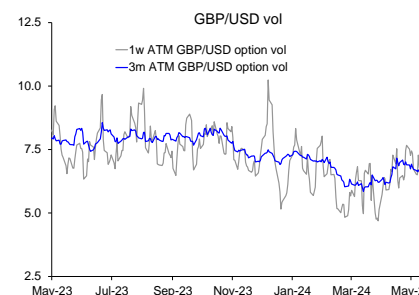
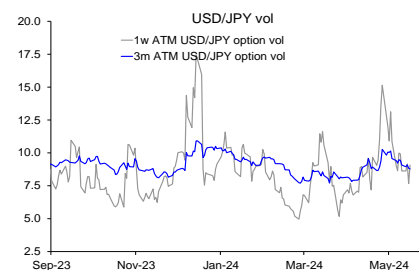
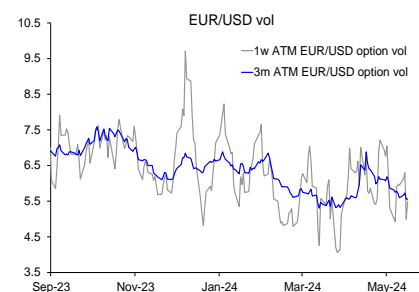
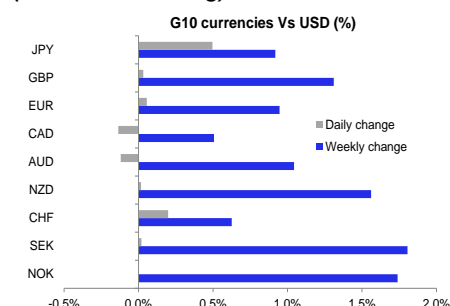
Source: Bloomberg

Europe. Panetta, De Cos, Nagel and Villeroy are due to speak today and the ECB also releases its Financial Stability Review. Ahead of the June ECB meeting (where a 25bp cut is virtually nailed on) we doubt that ECB speeches will be especially market moving. Once the June meeting has passed, then we expect the debate on the next steps will heat up. The BoE's Greene speaks. She is downbeat about UK supply capacity and productivity which lies behind her hawkish votes on policy. We doubt that she has changed her views much since her previous speech.

US. US data continue to come thick and fast, although today's data do not usually have as much market impact as yesterday's reports. Housing starts and industrial production both represent hard data points detailing out early Q2 activity adding to the picture in the wake of yesterday's retail sales data. The Fed's Barkin, Harker, Mester and Bostic are all scheduled to speak today.

Market data

(Source: Bloomberg)



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