

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	PMI continues to point to gradual recovery, EUR to be solid
USD	Fed wants to cut. USD flat
JPY	Soft CPI data follows soft Q1 GDP data. JPY under pressure
GBP	Weak CPI in the price. GBP on the up

Overnight comment – DXY drifts higher

US equities were mixed with the S&P close to flat near a record high while tech stocks pushed higher ahead of a key earnings report due tomorrow. Asian stocks took a breather, led by the Hang Seng which dropped ~2.0%. Bitcoin is back above \$70,000, a level it had failed to sustain in the past. The RBA minutes noted that recent data had raised the risks that the CPI stayed above target longer. The hawkish minutes failed to support AUD. It was a quiet session for USTs, with yields broadly consolidating, with a similar picture for the DXY index.

It was a quiet session in Japan with the focus on 10yr JGB yields and whether they can push above the 1.0% level. The edged a fraction higher today to sit around 0.98%. Japanese equities gave up early gains, which were led by the insurance sector. **USD/JPY initially pushed higher but dipped late in the session to sit around 156.25 as Europe opens.**

The euro area systemic stress indicator continued to edge lower. It is now well below the long run average. Systemic risks look low for now. The EU have other headaches such as finding a unified position on using Russian assets to support financial assistance to Ukraine, which US treasury Secretary Yellen will push this week at the G7 finance ministers meeting. **EUR/USD was flat around 1.0860 in Asian trade.** A UK poll by More in Common, a UK polling firm showed consumers expect higher taxes regardless of who wins the UK election. The government are trying to argue that taxes would go up should the opposition win, as seems likely. The poll suggests this argument has limited traction. We continue to expect a change of government, as the polls have strongly suggested since the disastrous Liz Truss budget. Comments from the BoE's Broadbent yesterday, in his final speech at the BoE (leaves end June after next MPC meeting) suggest to us that he has an open mind on the timing of the first cut but he doesn't seem to be chomping at the bit to lower rates. His "sometime over the summer" comment is suitable ambiguous. **GBP/USD sits around 1.2710 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CBI industrial trends, orders (%MoM, May)	-20/-23
EZ – Current account, sa (€bn, Mar)	--/29.5
EZ – Labour costs (%YoY, Q1)	--/3.4

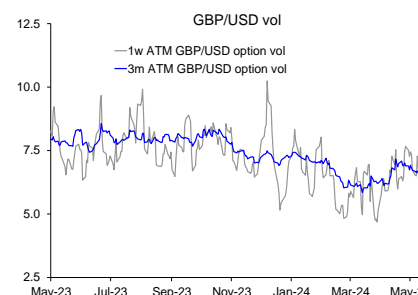
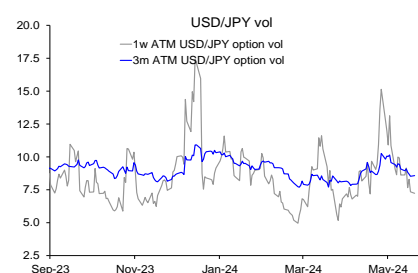
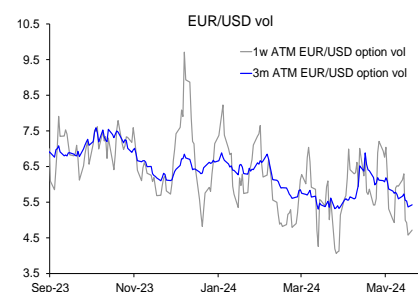
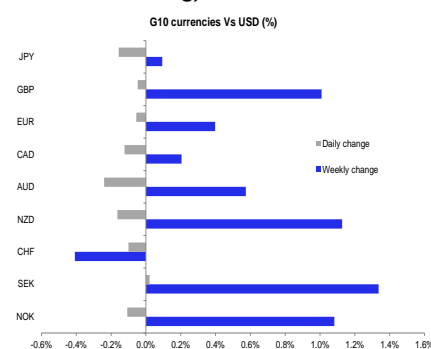
Source: Bloomberg

Europe. The eurozone trade and current account reports rarely trouble markets. While, the trade accounts seemed to be a strong driver of currency market moves in 2022 and 2023 as gas prices first surged and then reversed. This had a similar knock-on impact on trade balances for energy importers, whose currencies plunged. This is no longer the case. The status quo ante, with regard to trade, has broadly been restored. The eurozone is back to running a large surplus. This leaves the focus more on the other flows beyond trade – FDI and portfolio flows, which are detailed in the current account report. EUR trades weaker than one might expect, given its solid current account balance. Eurozone labour costs are also due but more focus will be on the ECB's measure of negotiated wages due on Thursday.

US. It is another quiet session in the US in regards to data. The Fed's Waller speaks. Waller moved to a more neutral stance early in the year as the inflation data looked better. He had been among the more hawkish members during the tightening cycle in 2022 and 2023. Yesterday's Fed speakers sounded a little more hesitant that inflation was on track and all agreed there was no rush to act. We suspect that Waller's tone will be similar.

Market data

(Source: Bloomberg)



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