

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 – Doves on the back foot

Yesterday, the Fed's Waller noted that he needs to see several more good inflation prints for him to support cutting rates, helpfully adding "We're not seeing anything right now that looks like staying here for three or four months is going to cause the economy to go off a cliff". Summer seems out of the question with September or November looking most likely for the start of the US easing cycle. Equity investors continue to await key tech sector results after the US equity market close later today. Asian equities were mixed. NZD jumped after the RBNZ raised its policy forecasts fractionally at today's meeting, indicating policy would remain tight for longer. UST yields were little changed through the bulk of the session but pushed higher in the wake of the UK CPI report. The DXY index was little changed in Asia trade.

Both Japan's trade and machinery orders data were better than expected, with the seasonally-adjusted trade deficit at ¥560bn in April and orders up 2.9%MoM in March. Both suggest Q2 GDP should recover. Despite 40yr spreads vs 20yr and 30yr JGBs being the widest they have been since 40yr JGBs were first issued in 2007, the 40yr auction was a little soft with the bid/cover sliding to 2.21x (prev 2.49x). In the wake of the auction, the curve steepened, dragging 10yr JGB yields above 1.0% for the first time since May 2013. Higher JGB yields don't seem to be offering JPY much support as yet. **USD/JPY nudged gently higher through the session to sit around 156.35 as European trade gets underway.**

Bund yields pushed higher at the open on the back of the strong UK CPI. New auto registrations jumped to 13.7%YoY. YTD sales are up 6.5% vs the same period last year. **EUR/USD was little changed during the Asian session and sits around 1.0860 as Europe opens.** headline CPI dropped closer to the BoE's 2.0% target in April but it didn't drop quite as much as expected. Headline CPI fell to 2.3%YoY, while core slowed to a still strong 3.9%YoY. With services CPI running at 5.9%YoY (vs 6.0%YoY previously) a June start to the BoE easing cycle now looks much less likely, although as Bailey noted in the post MPC press conference, there is another CPI report the day before the BoE meeting. **GBP jumped in the wake of the data, with cable pushing up to 1.2745.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CPI (%YoY, Apr)	2.1/3.2
UK – CPI (%YoY, Apr)	3.6/4.2
EZ – New car registrations (%YoY, Apr)	--/5.2
US – Existing home sales (%MoM, Apr)	0.8/-4.3
US – FOMC minutes	

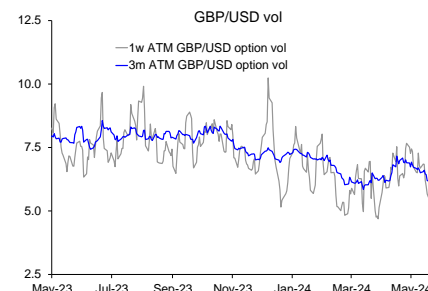
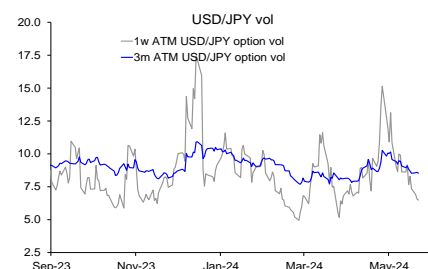
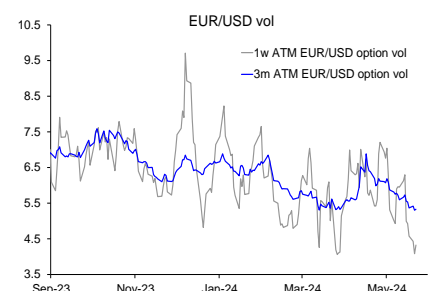
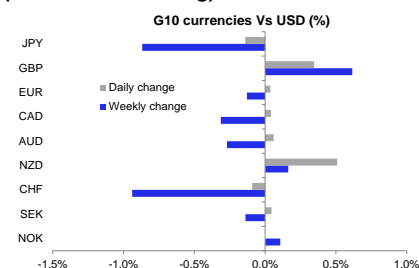
Source: Bloomberg

Europe. The ECB's Lagarde speaks at a conference on the effectiveness of EU capital markets. UK inflation and government deficit data are due. The BoE's Breeden speaks on macro-prudential policy for non-banks. Highly topical but not a likely backdrop for commentary on monetary policy.

US. Recall that Chair Powell seemed keen to rule out a rate hike early in the post-meeting press conference. Today's minutes will detail where the Fed is on their confidence to begin cutting rates but we think the Fed has moved on, with the recent CPI print underscoring the need for patience. Yesterday, Bostic noted that he felt the Fed wouldn't be able to cut until Q4.

Market data

(Source: Bloomberg)



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