

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

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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 – Volatility continues to slide

US equities closed lower but upbeat results in the tech sector after the close saw most Asian stocks move higher. Chinese and Australian shares were exceptions. The DXY index pushed a little higher after yesterday's FOMC minutes that supported a high for longer policy outlook. Many officials were uncertain as to how restrictive current policy rates are. It is likely that the long-run policy rate is revised higher in June. UST yields nudged higher in Asian time with 2yrs now back to pre-payrolls levels just below 4.90%. The DXY index was little changed, while commodity prices took a breather.

Japan flash composite PMI nudged a fraction higher to 52.4% as manufacturing recovered and services eased a little. The weekly flows data showed very heavy buying of overseas bonds in the week to 17 May. Recall that that was the week the US CPI and retail sales data were released. Japanese investors are now roughly flat in foreign bonds in the fiscal year to date. Today's 1~3yr Rinban saw a dearth of sellers to the BoJ meaning that the BoJ only bought ¥356bn rather than the ¥375bn planned, hinting that the BoJ may make reductions in this bucket in future. **USD/JPY edged lower to sit around 156.65 as Europe opens.**

It's a quiet start to a busy data-heavy session in the eurozone. **EUR/USD trades around 1.0830 as Europe opens.** In the UK, yesterday evening the government set the date for the election – 4 July. Our base case remains that the polls are correct, the government will change and the market implications will be limited. The 20 June BoE meeting is not likely to be impacted by the election. **GBP/USD sits around 1.2725 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Composite PMI (DI, May)	54.0/54.1
EZ – Composite PMI (DI, May)	52.0/51.7
EZ – ECB negotiated wage data (%YoY, Q1)	--/5.2
EZ – Consumer confidence (DI, May)	-14.2/-14.7
US – Composite PMI (DI, May)	51.0/51.3
US – Jobless claims (k)	220/222

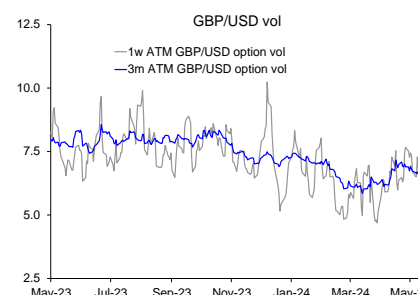
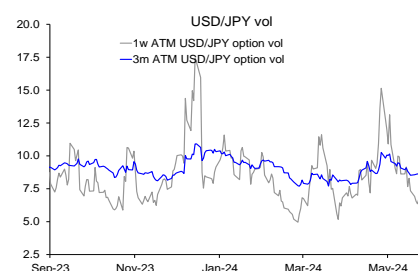
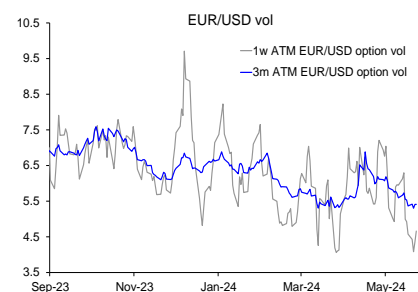
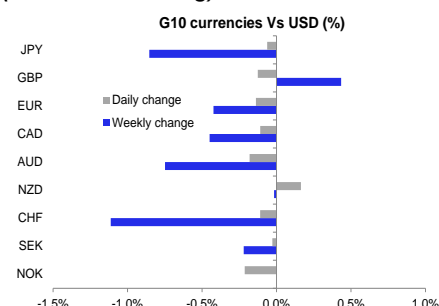
Source: Bloomberg

Europe. The flash PMIs are among the highlights of the monthly eurozone data schedule. They are one of the better indicators on the near-term outlook and they arrive early. Of late the eurozone PMI data have pointed an improving picture led by the service sector. The manufacturing sector in the eurozone remains mired in recession. The PMIs do have some issues with regard to tracking activity developments but are among the best indicators that we have. The flash PMI for the UK is also due. It is running well ahead of the eurozone figure. We believe the UK is outperforming but the actual activity gap does not seem likely to be quite so large as the PMI reports suggest. The ECB releases its estimate of negotiated wages today. Early data suggest wage growth remains firm. The BoE's Pill speaks. His remarks will be of interest in the wake of the disappointing CPI data.

US. It is interesting to note that the US composite PMI is 1) lower than the Eurozone PMI and 2) expected to remain so in May. The US PMI data are less market moving due to the surfeit of US survey data, especially the long-running ISM reports, which usually have a greater market impact. Note, the ISM reports are also both below 50. One might ask if tight policy is finally starting to bite.

Market data

(Source: Bloomberg)



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