

Mizuho Daily Currency Watch

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MIZUHO

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 – Wither R*?

Solid US data hit US stocks and the negative sentiment carried over in to Asian trade. Most Asian equities were lower on the day. Yesterday's jump in UST yields broadly held as did the gains in the DXY index through the Asian session.

Japanese national CPI eased as expected in April with headline CPI at just 2.5%YoY. The path back to 2.0% will be blunted by the recent softness in JPY and by an end to many but not all energy subsidies at the end of May. This step should lift the CPI by around 0.5pp in the coming quarter. Renewable energy charges will also add a little to the CPI. 10yr JGB yields remained above 1.0%, while front end yields edged lower. **USD/JPY held yesterday's rise and trades around 157.10 as Europe opens.**

German Q1 GDP was unrevised at 0.2%QoQ. The details of the second estimate show consumption was weak. Investment was the driver of the GDP rise in Q1. Bloomberg's House price tracker in major European cities showed most recording solid gains, despite elevated interest rates. Berlin, Frankfurt and Paris were exceptions. **EUR/USD sits around 1.0810 as Europe opens.** UK consumer confidence nudged higher from -19 to -17 in May. It sits near a 2-year high but below the long-run series average of -13 (since 2000). Sentiment is much better than it was this time last year but we do not think it will offer the government much help in the upcoming election. UK retail sales came in much weaker than expected in April dropping 2.3%MoM, vs an expected drop of 0.5%MoM. Non-food sales were weak almost across the board. Poor weather likely was a factor but not the whole story. OFGEM announced that the energy price cap would drop 7% in July. **The rapid dip in the wake of the retail sales data was quickly recovered and GBP/USD sits around 1.2695 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Consumer confidence (DI, May)	-18/-19
UK – Retail sales (%MoM, April)	-0.5/0.0
US – Durable goods orders (%MoM, Apr)	-0.8/0.9
US – Core Durable shipments (%MoM, Apr)	0.1/-0.1
US – U Mich Consumer sentiment, final (DI, May)	67.7/67.4 (p)

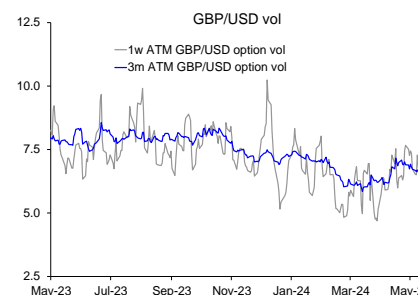
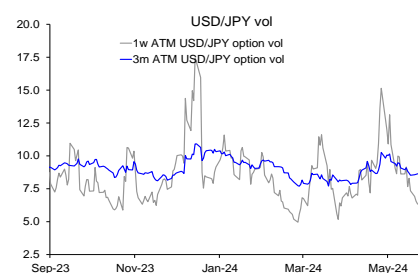
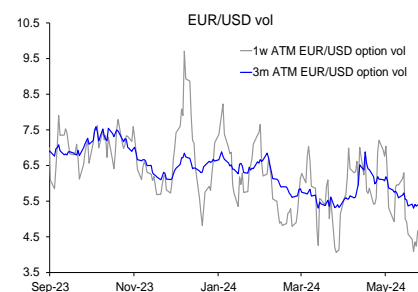
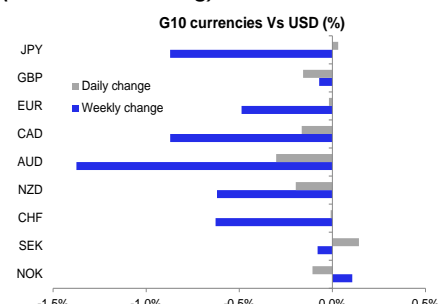
Source: Bloomberg

Europe. The ECB's Schnabel, Nagel, De Cos, Centeno are all scheduled to speak.

US. The Fed's Waller speaks on R* at a Central Bank of Iceland conference. This has the potential to be the most interesting central bank speeches in a while. R* is one metric that policy makers use to gauge how restrictive policy is. In the FOMC minutes many members noted that they were uncertain how restrictive policy was despite nominal rates being at their highest level for a little over two decades. Usually estimates of R* come with wide confidence bands. The ECB has dismissed R* as not being useful for day-to-day policy making. Estimates of long-run variables tend to move slowly but we would not be surprised if the Fed up's its long-run estimate of the Fed funds rate by a relatively large amount at the next forecast round in June. A number of Fed officials have noted that they believe the current 2.6% estimate is likely too low. Durable goods orders and the final University of Michigan consumer confidence are also due.

Market data

(Source: Bloomberg)



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