

# Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

[colin.asher@mizuhoemea.com](mailto: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	Higher inflation to offer limited support for EUR
USD	Higher UST yields a support
JPY	Data deluge due, Tokyo CPI to rise supporting JPY
GBP	At the mercy of risk appetite

## Overnight comment – Rising yields hit risk appetite. JPY firms

UST yields pushed higher yesterday in the wake of a weak 7yr UST auction but were little changed in Asian trade. The jump in yields which sees 2yr USTs back close to 5.0% has undermined equity market sentiment and Asian stocks tracked US equities lower, with US equity futures also lower. Brent crude also came off its highs late in yesterday's session and was flat around the \$83.50 level. It has been a quiet session for data, with the DXY holding yesterday's gains.

It was a good session for JPY which pushed sharply lower as sentiment softened. **The move in Asian trade largely reversed the jump in USD/JPY seen yesterday with the pair sitting around 156.80.** Short-JPY positioning is elevated and the pair may be sensitive to any general decline in risk appetite. It is interesting that the drop in USD/JPY has happened despite any big declines in UST yields. JGB yields nudged higher in early trade but had declined by the close, moving off multi-year highs. There was a solid bid/cover at today's 2yr JGB auction, which helped but the weakness in risk appetite was the key driver. The weekly data showed Japanese investors as modest net sellers of overseas bonds. In the fiscal year to date outbound bond flows have been choppy and are running close to flat. Japanese investors were also sellers of overseas equities. Here too the picture is choppy and in the fiscal year to date net purchases are virtually flat.

In the wake of the slightly higher-than-expected German CPI, inflation remains in focus with labour markets also in focus. 10yr Bund yields pushed up to a new YTD high in early trade but then drifted a little lower. **EUR remained under pressure through Asian trade losing further ground with EUR/USD sitting around 1.0795 as Europe opens.** It has been a quiet start in the UK. Early developments in the election campaign suggest that the polls are indeed correct and a change of government is coming. **GBP/USD tracked EUR/USD lower and sits around 1.2685 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – EU Commission eco confidence (DI, May)	96.1/95.5
EZ – Unemployment (%), (April)	6.5/6.5
US – GDP, final estimate (%saar, Q1)	1.3/1.6 (p)
US – Trade balance (\$bn, Apr)	-92.3/-91.8
US – Initial jobless claims (k)	217/215

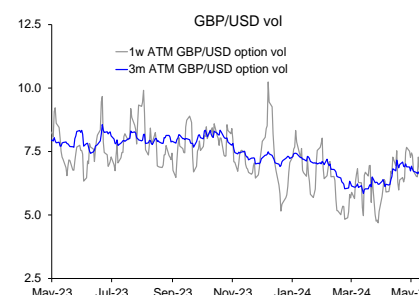
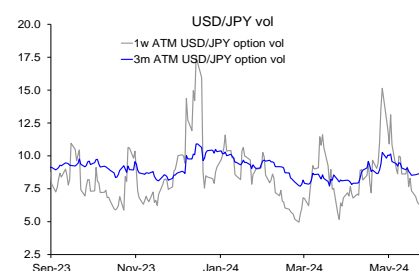
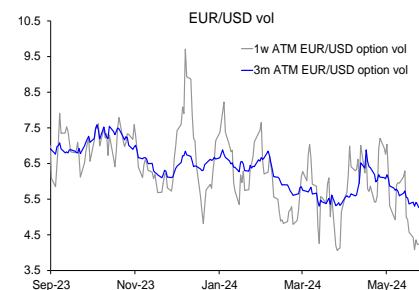
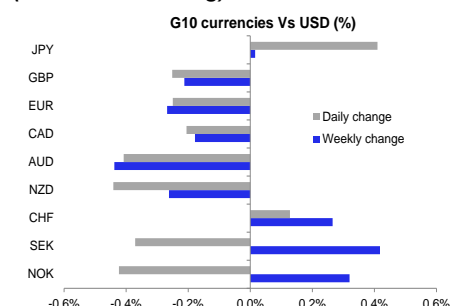
Source: Bloomberg

**Europe.** Its quite a busy session for data in the eurozone with Spanish inflation up at 8.00am BST ahead of the EZ print tomorrow. Like German inflation, it is also seen rising in May. The focus then switches to the labour market. Eurozone unemployment is running at the cycle low at 6.5%, although with German unemployment now edging higher, the bias for the eurozone measure is higher rather than lower. The EU Commission releases its sentiment indices today. These are the final sentiment releases in the month and generally don't drive sentiment too much. That said, they provide a lot of detail. Within the report, there is a labour hoarding index which is well off its highs but still positive.

**US.** The Cleveland Fed announced that Beth Hammack will replace Loratta Mester. She will take up her place in late August and will be a voter. For the FOMC Bostic, Williams and Logan all speak today.

## Market data

(Source: Bloomberg)



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