

Mizuho Daily Currency Watch

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MIZUHO

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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 – Inflation day

News of former President Trump's conviction seemed to have limited impact on financial markets. UST yields were little changed through Asian trade, while the DXY index nudged higher. US equity futures were a little lower despite gains in most Asian equity markets. Gains in China came despite soft PMI data. Yesterday, the Fed's Logan said that policy may not be as restrictive as assumed and that there were good reasons why the neutral rate may have risen. In contrast, the Fed's Williams said he saw plenty of signs that policy was restrictive. It looks like the degree of restriction will be a key debate at the upcoming FOMC meeting on 11/12 June. The forecast for the long-run Fed funds estimate will rise but by how much? Historically the moves here are quite small. Both Williams and Logan felt that the Fed had plenty of time to assess incoming data before acting. ZAR remained under modest pressure in the wake of the results of yesterday's election. Current results suggest the ANC will lose its majority. Final results are expected over the week end.

Japan's data deluge was mixed. On the activity front industrial production disappointed but retail sales and housing starts were both firmer than expected. On the price front the headline Tokyo CPI pushed back above target moving from 1.8% to 2.2%, driven by the roll off of energy subsidies. The same effect will hit national CPI when it is released. Ex fresh food and energy prices were little changed on the month at 1.7%. The unemployment rate was unchanged while the job offers/applicants ratio slipped a little. 2yr JGB yields pushed higher. Moving above 0.4% for the first time since 2009. 7yrs and the superlong sector were also soft. **USD/JPY was little changed around the 156.90 level.** Data on intervention in May (7.00pm JST) and the BoJ announcement on Rinban ops (5.00pm JST) in June are due later today.

For a second consecutive session EUR and GBP declined during Asian trade. In the eurozone the focus is on inflation. **EUR/USD sits around 1.0820 as Europe opens.** UK house prices rose for the first time in 3 months, with the 0.4%MoM rise in May reversing the drop from last month. Lloyds business barometer jumped to sit at its highest level since late 2015. The prices charged index remained elevated equalling the cycle high. **GBP/USD sits around 1.2720 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – CPI (% MoM, May)	2.5/2.4
EZ – Core CPI (% MoM, May)	2.7/2.7
UK – M4 Ex OIFCs (3m%saar, Apr)	--/3.1
US – Personal income (%MoM, May)	0.3/0.5
US – Core PCE (%MoM, May)	0.3/0.5

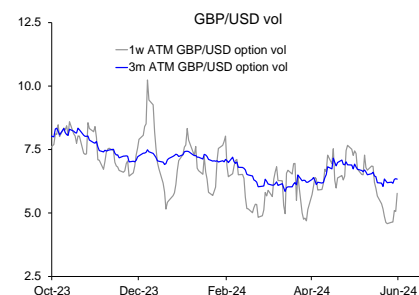
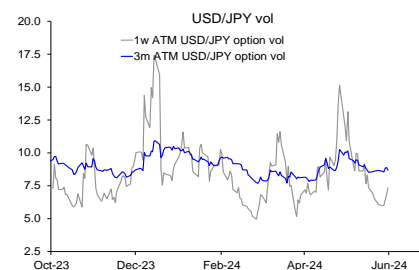
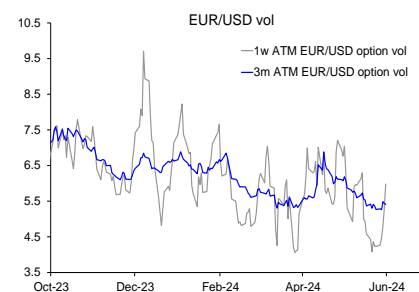
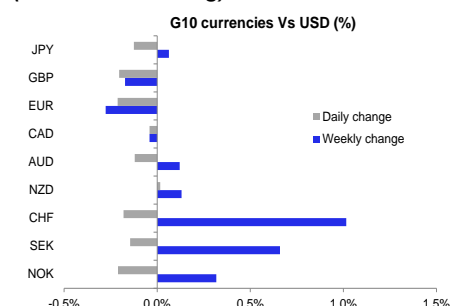
Source: Bloomberg

Europe. Early CPI releases in Germany and Spain suggest mild upside risks to the eurozone consensus forecast of 2.4%YoY at 10.00am (BST) today. Core is seen unchanged. Ahead of the eurozone print, the French print is due (7.45am BST), which will further cement expectations for the print. UK money supply and credit data are due. UK money supply remains subdued.

US. The core PCE is the highlight of the week for US data. In YoY terms core PCE has barely moved since printing 2.9% in December. Disinflation looks to have stalled. Core PCE services ex housing has risen in YoY terms since December, albeit marginally. While the consensus forecast (0.3%MoM) is better than the Jan-Mar prints, it is still above levels that will give the Fed confidence that it can ease policy.

Market data

(Source: Bloomberg)



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