

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	ECB cut priced in. Focus on forecasts
USD	Solid labour market data to keep USD supported
JPY	JPY to catch up with rising JGB yields?
GBP	Quiet data week leaves GBP at the mercy of risk appetite

Overnight comment – ECB set to join the easing party

The tech sector powered the S&P and Nasdaq to new highs. Asian stocks move higher too but to a lesser extent, with Taiwanese semi-conductor stocks leading the way. UST yields were little changed through the Asia session close to 2-month lows, while the DXY index initially pushed lower only to recoup some of the ground later in the session. Brent futures were a little higher in the wake of the solid non-manufacturing ISM report yesterday. Note that the Global composite PMI output index rose to a 12-month high at a relatively solid 53.7 in May, up from 52.4 in April. The index is higher for a 7th consecutive month, reflecting the steady improvement in global conditions. Manufacturing hit a two and a half year high. Note that both input and output prices edged higher on the month.

The 30yr JGB yields peaked at 2.25% at the start of June. Today's solid 30yr auction added to the subsequent downside momentum in yields. At 0.09 the tail was the lowest since August last year, while the bid/cover was the highest for almost 2 years. JGBs shrugged off rising speculation on further Rinban op reductions. Whilst Nakamura may have sounded patient on the matter, his boss Governor Ueda said it was appropriate as part of the easing process. **USD/JPY was little changed and trades around the 156.0 level.** Japanese investors were solid buyers of overseas bond last week (¥1323bn) but net sellers of overseas equities (¥589bn). Activity generally remains choppy.

German factory orders were weak but had limited impact ahead of the ECB meeting and upcoming supply. Voting in the EU elections gets underway today, with results expected to start filtering through late on Sunday. **EUR/USD sit around 1.0880 as European trade gets underway.** In the UK, it was similarly quiet with limited news overnight. **GBP/USD was little changed in the overnight session and trades around the 1.2790 level as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – DMP 1yr CPI expectations (May)	2.8/2.9
EZ – ECB meeting, Depo rate (%)	3.75/4.00
US – Weekly jobless claims (k)	220/219

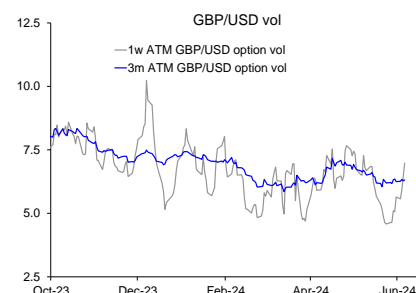
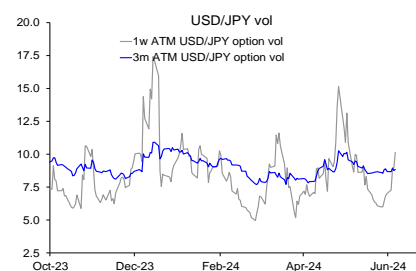
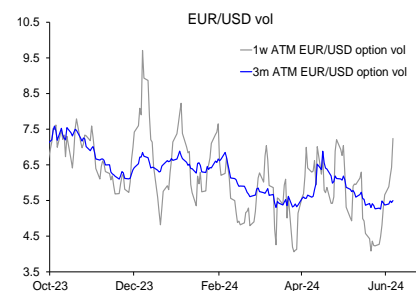
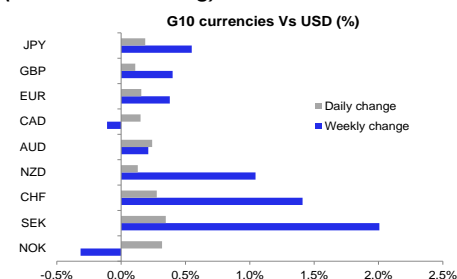
Source: Bloomberg

Europe. The start of the ECB's easing cycle is finally upon us. A 25bp cut is almost universally expected at today's ECB meeting. The focus is on the press conference and the ECB's new forecasts. The forecasts may underwhelm given that a) the ECB forecasts are quite close to the current consensus and b) those consensus forecasts are little changed over the past 3 months. If anything near-term growth seems a little firmer thanks both to the slightly better than expected Q1 GDP print and the on-going gains in the PMI data. 2024 GDP may be revised a little higher and the risks to activity may be more balanced. President Lagarde will be at pains to suggest that the ECB decides on a meeting-by-meeting basis and is data driven (despite virtually pre-committing to a cut in June well ahead of time!). There has been some discussion wrt the July meeting. We expect Lagarde to be agnostic but if she does signal a preference or bias we see September as more likely than July. We forecast ECB will cut again in September. German factory orders and eurozone retail sales will not get much focus today. In the UK, the DMP has been an increasingly important release of late while the labour market survey is re-worked. That said, with the next BoE meeting in the midst of the election campaign, the DMP will not have as much impact on BoE pricing as it usually would. The BoE will not cut rates in the middle of an election campaign, especially given recent CPI print.

US. In the US, its quiet ahead of tomorrow's payrolls release. Just weekly jobless claims are due.

Market data

(Source: Bloomberg)



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