

Mizuho Daily Currency Watch

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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 – Payrolls to suggest US labour market remains robust

US shares ended flat ahead of payrolls today. In Asia shares were mixed with China and Japan a lower but gains across much of the rest of the region. A solid trade report failed to lift Chinese shares. UST yields edged higher in the Asian session but remain close to the lows for the week. The DXY index was also little changed in Asian trade.

Japan's real household spending rose in YoY terms in April for the first time since Feb-23. JGB yields were a little higher today ahead of next Friday's BoJ meeting where more than half the respondents to the Bloomberg survey expect a reduction in the scale of the BoJ's Rinban operations. We see reducing Rinban ops as a way of signalling tighter policy is on the way to help limit the decline in the yen. If the BoJ doesn't reduce the Rinban, the yen will be vulnerable. Fin Min Suzuki said that intervention should be only on a limited basis, echoing US Treasury Secretary Yellen. **USD/JPY pushed lower in the Asian session and sits around 155.20 as Europe opens.**

The ECB's Kazaks this morning noted that inflation had not yet been conquered and any further cuts should be gradual. Muller also said the ECB should not rush to cut interest rates. In the wake of the ECB's 25bp cut yesterday, our forecasts are unchanged. There were few surprises at the ECB meeting. German industrial production for April was soft, dropping 0.1%MoM. **EUR/USD was little changed in Asian trade and sits around 1.0890 as Europe opens.** UK house prices dropped 0.1%MoM in May but are up 0.3% over the past quarter. Yesterday's DMP survey was on the soft side with most indices moving in the right direction suggesting less inflationary pressure from the corporate sector. **GBP/USD was little changed in Asian trade and sits round the 1.2790 level as European trade gets underway.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – GDP, final (%QoQ, Q1)	0.3/0.3 (p)
US – Non-farm payrolls (k, May)	185/175
US – Unemployment (% , May)	3.9/3.9
US – Average hourly earnings (%MoM, May)	0.3/0.2
US – Flow of funds	--

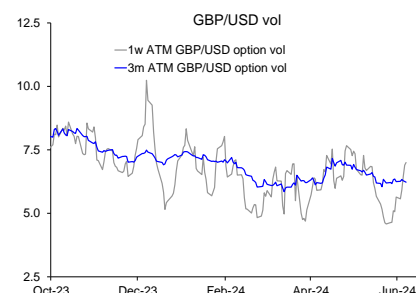
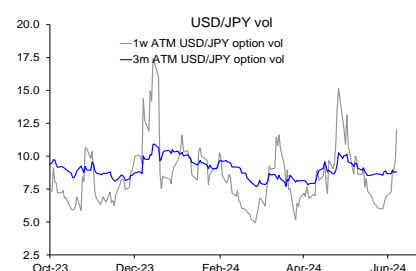
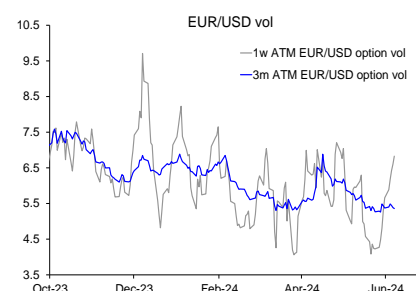
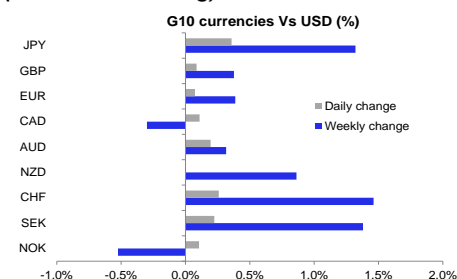
Source: Bloomberg

Europe. Eurozone final GDP accounts include compensation per employee. ECB President Lagarde talked at length about wage dynamics in the post-meeting press conference and our impression is that the ECB needs to actually see the cooling it expects in the labour market, especially wages, to before it lowers the policy rate further, which is one reason why we expect the pace of easing to be slow. The compensation per employee data are quarterly, as are company earnings.

US. The monthly labour market report will round out the labour market data this week. Non-farm payrolls will likely remain elevated around the 200k level. While payrolls indicate elevated demand, there are questions about the supply of labour/immigration and if this is pushing the labour market towards better balance despite elevated demand. Demand itself seems less red-hot that it was in 2023. One sign of pressure is in the wage data. Average earnings continue to ease, albeit at a slow pace. YoY rates of pay growth remain above pre-Covid norms. The flows of funds report, which is also due today, is data-rich. It should testify to balance sheets remaining in solid shape - both for consumers and companies.

Market data

(Source: Bloomberg)



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