

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Quiet week, politics to weigh. Downside is path of least resistance
USD	Dots to move higher across the board, inflation to remain elevated. USD supported
JPY	BoJ's expected reduction in bond buying to keep yields pushing higher, JPY solid
GBP	Labour market data not likely to impact June MPC (hold), GBP to lag.

Overnight comment – Right turn in EU elections weighs on EUR

The combination of strong payrolls and the potential for rising political uncertainty in the EU have pushed EUR/USD lower. UST yields retained the post-payrolls jump in yields and nudged a fraction higher in the Asian session. It wasn't just against EUR that the greenback was strong, although gains against the rest of the G10 were a lot more modest. Asian shares were mixed. Weekly CTFC data showed investors selling US dollars in the week to 4 June but we suspect that in the wake of the strong US payrolls report positioning will swing back towards the US dollar. Positioning in most pairs is not especially stretched. We have a relatively consensus-like view of policy rate moves in H2, which implies that for now the low volatility backdrop for FX markets should remain in place.

In Japan, the 2nd estimate of Q1 GDP was revised fractionally higher but it still sharply contracting 0.5%QoQ. The current account for April was firmer than expected. May bank lending was little changed at 3.0%YoY, while the economy watchers' survey also for May dropped sharply, hinting that consumption may remain soft on Q2. Despite mixed data, JGB yields tracked UST yields higher, with 10yrs pushing back above the 1.0% level. 30yr JGB yields were almost 10bp higher. The main focus of the week will be the BoJ meeting which concludes on Friday. There is a widespread expectation that a reduction in Rinban ops will be announced. Over the weekend, the Nikkei said such a step would be considered at the meeting. **USD/JPY nudged a fraction higher in today's Asian session to sit around 157.10 as Europe opens.**

In the wake of a poor performance in the EU elections, French president Macron has called a snap election for the Lower House of the French legislature, with the first round of voting on 30 June and the second on 7 July. We see this as boosting uncertainty. French bonds were under modest pressure at the open. CAC futures were down over 1% ahead of the open. Early results show that the far right has made solid gains. Note the far right is not a coherent block. The centre-right EPP will have around 180 seats and most likely Von der Leyen (EPP) will remain Commission president. The EPP will be the biggest block but will need allies to form a coalition. The existing coalition would in theory still have sufficient strength to maintain a majority but last time round their vote was not solid. **The rise in political uncertainty has not helped EUR, with EUR/USD sitting around 1.0750 as Europe opens.** In the UK, the REC Report on Jobs was mixed. Placements dropped at a slower pace and pay remained elevated. In contrast to the elevated uncertainty in continental Europe, the UK election continues to track the polls. The government remains on track for a heavy defeat, while the opposition continue to push a centrist agenda. **GBP/USD was little changed in the Asian session and sits around 1.2705 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – REC Report on Jobs	--

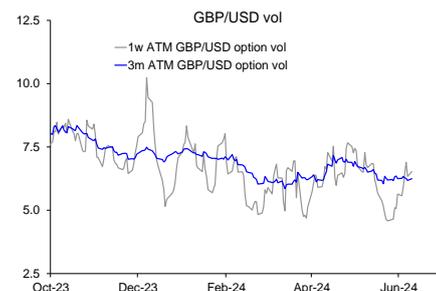
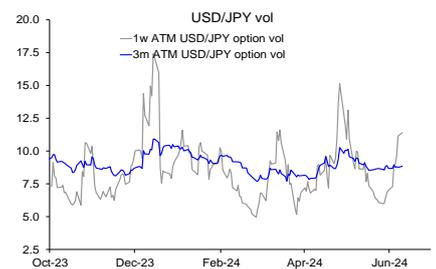
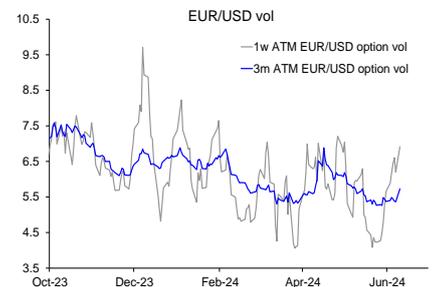
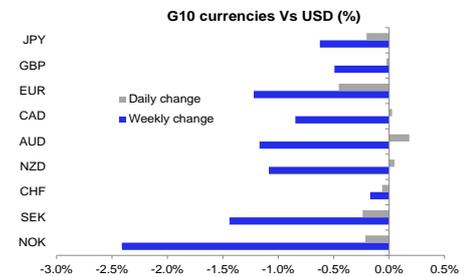
Source: Bloomberg

Europe. The early results of the EU elections should be available for perusing by investors. In the UK, the labour market data are under a cloud while the ONS works on producing a more robust survey, which is expected in autumn. Private sector surveys have been relied on more heavily during this period. The REC report on jobs has been the survey that presents the weakest view of the labour market. That said, last month it did show some improvement and will be watched for further signs of bottoming out. Reform leader Farage will give a speech pushing the case for lower interest on BoE reserves.

US. It's a very busy week with both key price data and the FOMC meeting as well as the University of Michigan consumer confidence survey late in the week. That said, it's a quiet start to the week. It is a supply-heavy week with 3yr USTs today, 10yrs on Tuesday and 30yrs on Thursday.

Market data

(Source: Bloomberg)



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