

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

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	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 – PPI jump underscores BoJ's challenge

US stocks closed at record highs yesterday ahead of today's FOMC meeting. Asian stocks were mixed with Japan leading the declines. Chinese stocks moved back into positive territory despite weak price data and softness in the auto sector ahead of an announcement on tariffs on Chinese electric vehicles from the EU.

Japan's PPI was much firmer than expected in May, rising 2.4%YoY vs expectations of a jump to 2.0%YoY. Import costs were up 6.9%YoY, underscoring the impact of the weak currency. The report highlights the BoJ's dilemma, ahead of the policy meeting on Friday. JGB yields tracked UST yields lower as Rinban sizes were left unchanged. Note the volume of Rinban purchases is widely expected to be trimmed at Friday's policy meeting. **USD/JPY was little changed ahead of the FOMC and US CPI data later today, sitting around 157.20 as Europe opens.**

The Banque de France cuts its growth forecasts for the coming two years amid expectations of fiscal consolidation. Fiscal consolidation may be tested given the political backdrop. **EUR/USD was little changed in Asian trade and sits around 1.0745 as Europe opens.** UK GDP data were marginally firmer than expected at 0.0%MoM in April after the solid jump in March. Weakness in industrial production, construction and trade were offset by solid services output. **GBP/USD edged a little higher after the data to sit around 1.2750 as Europe opens.** In the wake of Macron calling snap election, EUR/GBP has moved lower, pushing through resistance at the 0.85 level and sits near 2-year lows.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – GDP (%MoM, Apr)	-0.1/0.4
US – CPI (%MoM, May)	0.1/0.3
US – Core CPI (%MoM, May)	0.3/0.3
US – FOMC meeting (% , mid)	5.375/5.375

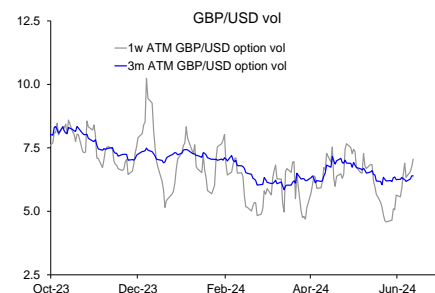
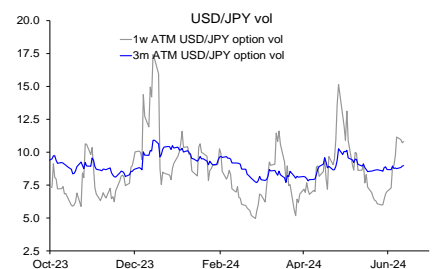
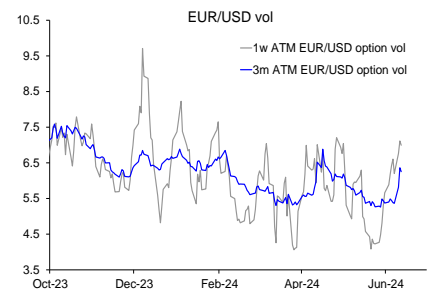
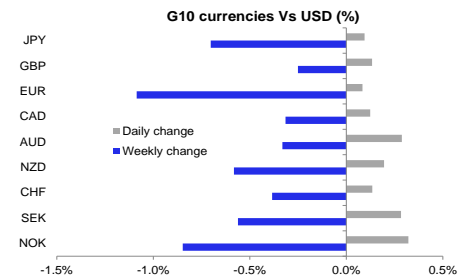
Source: Bloomberg

Europe. In the Eurozone the focus remains on French political developments. Yesterday, it seemed as if both left and right were making progress on coming together to form coherent blocks but traditionally these alliances have not endured and there is an exploratory character about developments to date. Calls from Republican leader Ciotti for a right-wing pact with Le Pen's RN immediately saw party members call for his resignation. In the UK, the GDP data for April are due. After a surprise jump in March, April seems likely to be soft. The data are not likely to impact the BoE meeting in June. We see the BoE on hold this month as the election campaign remains ongoing. We believe that the case for easing policy would have to be crystal clear to allow a policy change in the midst of an election campaign and it is anything but.

US. The FOMC meeting is not expected to result in any policy change but the meeting is not without interest. The Fed seems overly dovish and thus we expect that the new Dot Plot will still show 2 cuts for 2024, down from 3 in March. Other forecasts will likely be little changed but the near-term PCE forecasts should be a little higher. There will be more focus on the long-run Dots in the wake of recent commentary suggesting that policy is not as restrictive as formerly expected. A higher longer-run Dot suggests a higher neutral rate. Ahead of the FOMC decision, the monthly CPI report is due. This should offer more evidence that the CPI is bottoming out well above the Fed's target. Consensus-like prints will leave YoY rates and 3m and 6m annualized rates well above the 2.0% target for both headline and core.

Market data

(Source: Bloomberg)



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