

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 – Hawkish Fed leaves JPY under pressure

The FOMC was hawkish, with the Dot Plot showing a median of just one 25bp cut in 2024, down from 3 cuts in the March Dot Plot. This was somewhat undercut by the fact that the average Dot was very close to 1.5 cuts and Chair Powell's admission that while FOMC members could change the dots in the wake of the CPI data, in general people tended not to. The FOMC outcome was only hawkish enough to reverse around half the moves in the wake of the weak US CPI earlier in the session. UST yields continued to edge higher in Asian trade but remained below the pre-CPI highs. It was the same for the DXY index. US equities continued to set new highs. With US equity futures pushing higher overnight, especially in the tech sector, new highs today seem likely. Asian tech stocks were mainly higher but indices in Japan and China lagged. Solid Australian data didn't offer much support for AUD. The oil rally to an end with Brent crude futures off yesterday's high, sitting around \$82.30 in the wake of an unexpected build in US inventories yesterday. The prospect of Fed policy being tighter for longer didn't help.

In Japan, MoF's quarterly Business Sentiment Index showed modest improvement in Q2 vs Q1. It is one of many leading indices for the BoJ's quarterly Tankan survey – Japan's most comprehensive survey of business conditions due on 1 July. MoF's weekly portfolio flow data showed heavy selling of overseas bonds in the week to 7 June, which included the strong payrolls report. The ¥2.65trn in net overseas bond sales was the largest weekly sales for 9 years. Foreign bond buying in the fiscal year to date is now negative and we expect activity to remain choppy until the prospect of Fed cuts is clearer. JGB yields edged lower ahead of tomorrow's BoJ meeting. JPY was among the worst G10 performers in the wake of the FOMC meeting, which underscored that the rate gap will remain wide in the near term. **USD/JPY sits around 157.20 as Europe opens.**

The weak US CPI report saw the US dollar come under pressure. EUR/USD is now back close to the level that it was before the EU vote at the weekend. French politics remain a focus with the Republicans sacking their leader after he proposed a pact with Le Pen's RN party. Overnight, the ECB's Nagel said the ECB was not on auto pilot and should not be complacent. **EUR/USD sits around 1.0805 as Europe opens.** In the UK the RICS house price index showed prices softening. Recent housing data have been on the weak side after a much better than expected Q4/Q1. It looks as if higher mortgage re-sets are finally having some impact. The RICS house price index dropped from -7 to -17. We suspect that lower policy rates in H2 will help offset the impact and that the dip in house prices is likely temporary. **GBP/USD sits around 1.2780 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house prices (DI, May)	-5/-5
US – PPI (%MoM, May)	0.1/0.5
US – Core PPI (%MoM, May)	0.3/0.5
US – Weekly jobless claims (k)	225/229

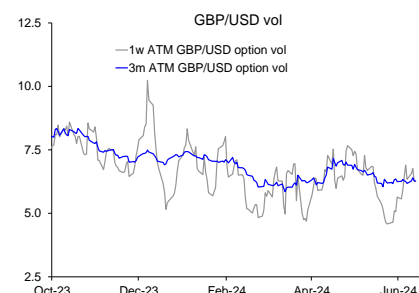
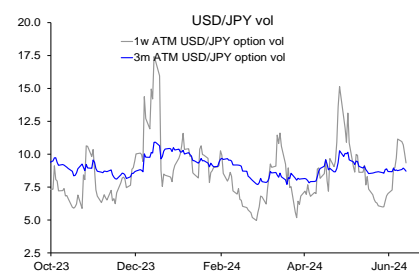
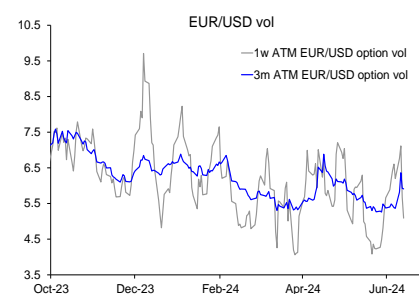
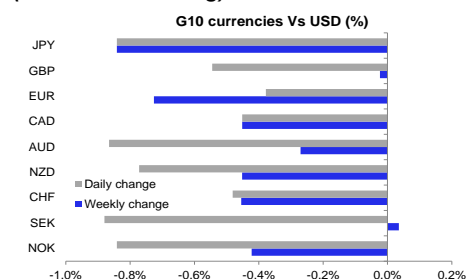
Source: Bloomberg

Europe. It remains quiet on the data front. French politics will be a focus all month, especially as it seems quite volatile. This is a sharp contrast to the UK, where the outcome is a foregone conclusion. The government will be soundly beaten leaving Labour with a solid majority. The Labour Party manifesto, due today, should have limited surprises.

US. The PPI and jobless claims are due. Headline PPI will be dragged lower by energy prices.

Market data

(Source: Bloomberg)



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