

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 – BoJ caution hits JPY (again)

US equities closed modestly higher, printing fresh records. In the Asian session stocks were mixed with Japanese shares moving higher after the dovish BoJ meeting. Chinese shares also pushed higher but elsewhere in the region stocks were mainly soft. UST yields were marginally higher in Asian trade after a solid 30yr auction yesterday helped the curve flatten.

The BoJ left policy unchanged as expected but the statement on bond buying lacked punch and hence JGB markets rallied and the yen sold off. The statement noted “Regarding purchases of Japanese government bonds (JGBs)...for the intermeeting period, the Bank will conduct the purchases in accordance with the decisions made at the March 2024 MPM. The Bank decided, by an 8-1 majority vote, that it would reduce its purchase amount of JGBs thereafter to ensure that long-term interest rates would be formed more freely in financial markets. It will collect views from market participants and, at the next MPM, will decide on a detailed plan for the reduction of its purchase amount during the next one to two years or so.” The delay in reducing bond purchases adds to the sense of BoJ caution and as such has put the yen in the back foot, especially when contrasted with the hawkish FOMC earlier in the week. **USD/JPY pushed sharply higher in the wake of the announcement, to sit around 158.15 as Europe opens.**

Initial polls suggest that Macron’s snap election gamble will not pay off. In the latest poll Macron’s approval rating dropped to its lowest since 2018 when he was battling the “*Gillet Jaunes*”. French bonds have reacted badly to the election and the Bund/OAT spread is now back at the 2017 wides when Le Pen was running for president on a platform of exiting the EU. France is not the only place where the EU elections have caused problems. In Germany the coalition is under pressure amid efforts to plug a gap in next year’s budget with Finance Minister Linder pushing a hard line, looking for big spending cuts, which his coalition partners object to. The electoral bruising makes compromise harder. **EUR/USD has dipped a little at the start of the European session and sits around 1.0730 as Europe opens.** It was a quiet start to trade in the UK with **GBP/USD sitting around 1.2740.**

Today’s Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Trade balance, sa (€, Apr)	17.5/17.3
US – U Mich consumer sentiment (DI, Jun)	72.0/69.1

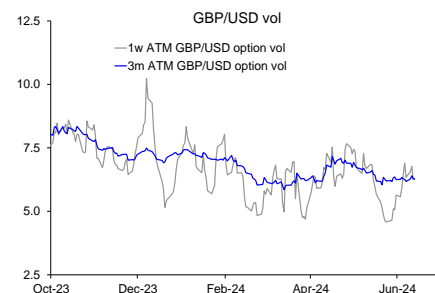
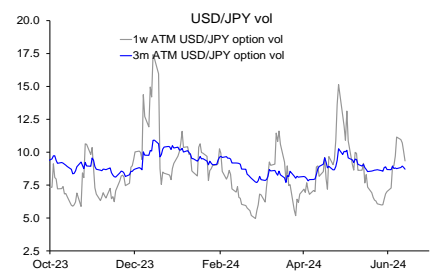
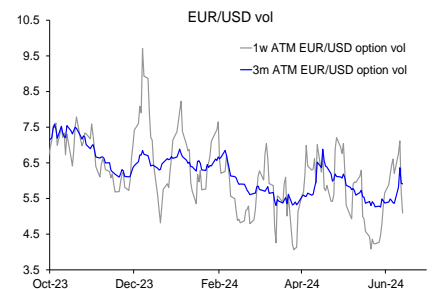
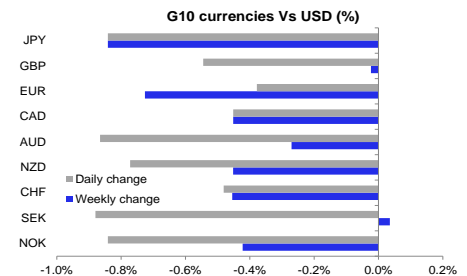
Source: Bloomberg

Europe. The eurozone trade balance remains robust. The BoE/Ipsos UK inflation expectations survey is also due

US. The University of Michigan consumer confidence survey for June is due. There have been some mild improvement in sentiment of late, which may translate into better prospects for the incumbent at the polls in November. Biden could do with a lift as he still trails in the key swing states according to most polls. The inflation expectations number has been a focus for much of the last few quarters. The short-term measure has been drifting lower, alongside headline inflation. Short-term expectations sit at 3.3%, while the longer-term figure is at little changed over the past year at 3.0%.

Market data

(Source: Bloomberg)



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