

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	France the focus. Downside is path of least resistance
USD	Fed speakers the focus in the wake of FOMC but safe haven demand to dominate
JPY	BoJ disappointment vs global risk appetite.
GBP	BoE hold to have limited impact amid risk-off backdrop.

Overnight comment – Consolidation

US shares inched higher recording further record closes, amid hopes of Fed easing following soft retail sales data. In Asia sentiment was mixed, with Japan, Taiwan, South Korea and HK shares higher but stocks in mainland China, Australia and India all lower. USTs were closed in Asian time after a solid rally yesterday. The DXY index was little changed.

Japan's trade balance for May was a more or less as expected, showing a deficit of ¥618bn on a seasonally-adjusted basis. News of a draft proposal to shorten the maturity of government bonds issued helped the long end of the JGB market outperform. The proposal is expected to be formally released on Friday. In the BoJ minutes, one member noted a potential faster pace of tightening due to yen weakness but the minutes didn't have much impact. **USD/JPY was little changed around 157.85 as Europe opens.**

It has been a quiet open ahead of the EU Commission rulings on excessive deficits later today. Germany will issue 30yr supply ahead of tomorrow's French supply in which there will be much more interest in the wake of recent events. **EUR/USD was flat in Asian trade around the 1.0740 level as Europe opens.**

UK CPI data showed headline CPI dropping to 2.0%YoY in May, in line with expectations. Core at 3.5%YoY was also in line with expectations although services CPI was firmer than projected dipping from 5.9%YoY to 5.7%YoY. With nothing expected at tomorrow's BoE meeting the impact of the data will be muted. Nonetheless, the elevated services reading is a reminder that upside risks remain and we expect that the BoE will initially proceed slowly when it starts lowering interest rates which we expect will be in August. **GBP/USD edged a fraction higher after the data to sit around 1.2715 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – CPI (%YoY, May)	2.0/2.3
UK – Core CPI (%YoY, May)	3.5/3.9
EZ – Current account (€bn, Apr)	--/35.8
US – NAHB housing market index (DI, Jun)	46/45

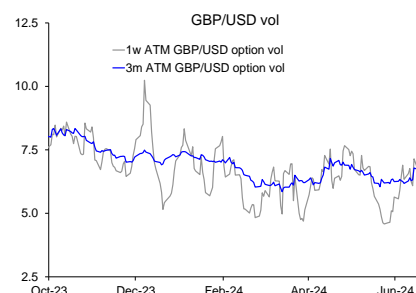
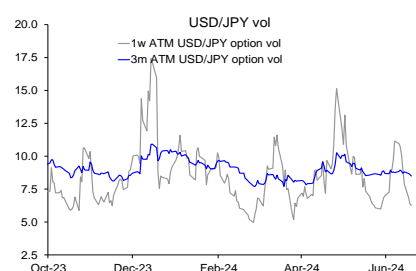
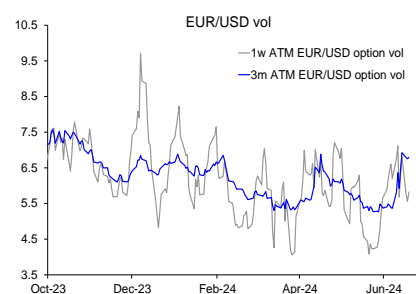
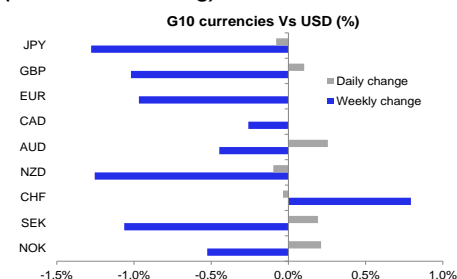
Source: Bloomberg

Europe. The EU Commission may announce its review of EU country fiscal policies with a number of countries expected to have Excessive Deficit Procedures launched against them for their 2023 budgets including France. The press report that 7 countries will face infringement procedures. However, the Commission recommendations, which in the past have been published alongside the announcement, may be delayed until late autumn. The switch to the new fiscal rules seems to be causing some confusion. UK CPI data are likely to have less impact than usual ahead of tomorrow's BoE meeting given the meeting takes place in the midst of the election campaign, which has led most analysts to expect that policy will remain on hold.

US. Today US markets are closed for the Juneteenth holiday. No Fed speakers are scheduled. Yesterday's Fed speakers seemed happy to be patient. They were keen not to get overexcited about a single data point having been burned by the pick up in inflation earlier in the year.

Market data

(Source: Bloomberg)



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