

Mizuho Daily Currency Watch

20 June, 2024

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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 – EUR soft ahead of French auction

Most Asian shares edged lower in the absence of any lead from the US. Taiwan and India were exceptions. China led the declines as the Chinese banks left their benchmark lending rates unchanged in line with the PBoC decision earlier in the week. At the same time the PBoC set its weakest fixing since November last year. USD/CNH pushed up to around 7.2835, its highest this year. UST yields nudged higher in Asian trade as did the DXY index. CHF and NZD held their ground against USD, with the former awaiting the SNB meeting and the latter exiting recession in Q1 with the data a touch firmer than expected.

MoF's weekly flows data showed Japanese activity in overseas markets remaining choppy. Japanese investors were net buyers of overseas bonds (¥653bn), which leaves them as net sellers in the fiscal year to date to the tune of -¥1trn. They also sold overseas equities in the week to 14 June, leaving them as net sellers in the fiscal year to date also around -¥1trn. On the equity side, trust bank selling is dominating investment trust buying. JGB yields nudged higher, especially in the 7-10yr sector, despite a solid 5yr auction and a major agricultural co-op noting that it may buy more JGBs as yields rise. **USD/JPY continued to push higher through today's session and is close to the post-intervention highs around 158.10.**

The German PPI eased from -3.3%YoY to -2.2%YoY. This is an indication that peak goods price disinflation is in the rear-view mirror. The focus this morning will be the French bond auction – the first since the snap election was called. French bonds are cheaper than they were but are they cheap enough given the risks? Eurozone auto sales were weak, declining 3.9%YoY. **EUR/USD dropped in early European trade and sits around 1.0735.** It's had a quiet start in the UK ahead of the BoE meeting. **GBP/USD tracked EUR/USD lower in early trade to sit around 1.2705.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – BoE meeting (%)	5.25/5.25
EZ – Auto sales (%YoY, May)	--/13.7
US – Housing starts (%MoM, May)	0.7/5.7
US – Weekly jobless claims (k)	235/242
US – Philly Fed manufacturing index (DI, Jun)	5.0/4.5

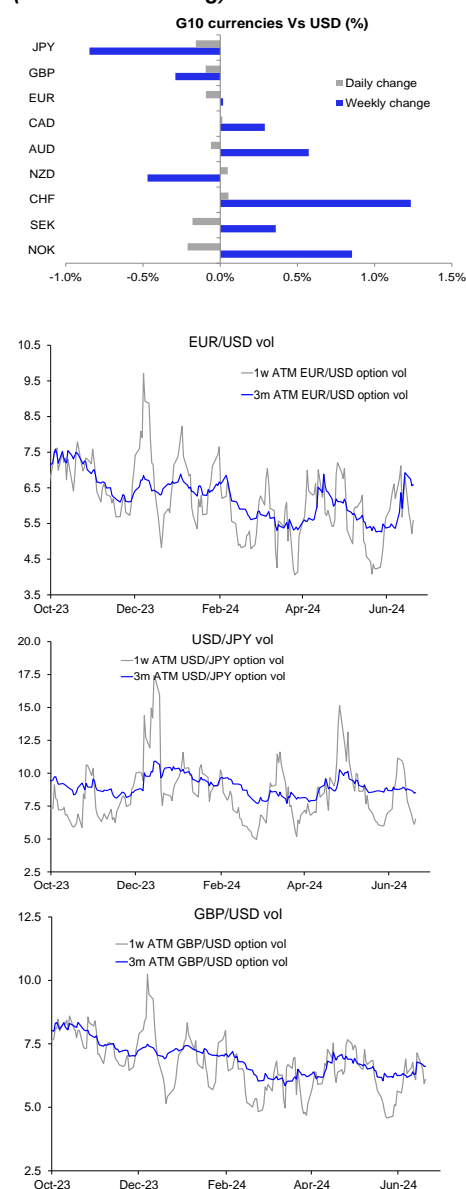
Source: Bloomberg

Europe. The Bank of England is expected to leave policy unchanged. In the midst of an election campaign, the case for action would need to be clear cut and we would argue that it is not. Recent CPI prints have come in on the high side, with service inflation especially elevated. The vote is expected to remain 7 – 2. This will be Deputy Governor Broadbent's final meeting. He will be replaced by Clare Lombardelli from 1 July. The SNB and Norges Bank also meet today. The latter is not expected to see any change in policy, although it may push its projected timing of cuts back but the former is a close call. The eruption of French political risks have driven a flight to safety which has pushed up CHF vs EUR and may impact the decision. Recall that the SNB only meets every 3 months and by the time it next meets the ECB will likely have cut again. The ECB publishes its economic bulletin, which often contains commentary on topics that the ECB is mulling over.

US. Weekly jobless claims will be more closely watched than usual this week after last week's jump and some soft consumption data which hint the consumer may be running out of steam. The Fed's Kashkari and Barkin are due to speak.

Market data

(Source: Bloomberg)



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