

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	France still the focus. Downside is path of least resistance
USD	USD in demand as labour market remains solid
JPY	Back in the intervention zone
GBP	Lack of negatives sees scope for mild GBP appreciation

Overnight comment – GBP stable ahead of vote

US stocks pushed higher to set fresh record highs and Asian equity markets followed suit, led by Japan. The US holiday means no UST trading in Asian time, while the DXY drifted sideways. US stocks and bonds were well bid in the wake of the soft services ISM report, which boosted hopes of interest rate cuts. Lower UST yields hit the US dollar. Biden's health remains an issue for US financial markets with prediction markets suggesting that Harris's chances of winning the presidential election are now higher than Biden's. Unfortunately for the Democrats the combined chance of Biden or Harris winning is less than 40%. Weak Swiss inflation data this morning saw CHF drop

Japan's Topix hit a record high, finally surpassing the December 1989 peak. The Topix is up 22.5% year to date, although in USD terms it is up just 7%, reflecting the surge in the US dollar so far this year. MoF's weekly flow data showed Japanese investors as net sellers of both bonds (¥254bn) and equities (¥488bn). Japanese investors have been solid sellers of overseas assets in the fiscal year to date. Today's 30yr auction met with modest demand. Ahead of the weak ISM report, which saw the US dollar soften markedly, USD/JPY was pushing sharply higher spurring fears of intervention possibly during the 4 July holiday when markets are likely to be illiquid. 1m volatility had picked up towards levels last seen in late April, while USD/JPY was almost 5% higher since the start of June. However, the post ISM dip takes some of the pressure off MoF. **USD/JPY sits around 161.40 as Europe opens having traded sideways through the Asian session.**

Today sees the final French government debt sale ahead of the second round of voting on Sunday. Recent polls suggest it will be hard for Le Pen's RN to win a majority and as such the auction should be reasonably smoothly absorbed. German factory orders were weak declining for a fifth consecutive month, dragging the YoY growth rate down to -8.6%. At 43.5, the German manufacturing PMI suggests minimal improvement in the near term. **EUR/USD drifted sideways in Asian trade and sits around 1.0790 as Europe opens.** The UK election seems to be panning out as widely expected and as such its impact on GBP has been limited. **GBP/USD currently sits around 1.2745.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – New car registrations (%YoY, Jun)	--/1.7
UK – BoE Decision Makers' Panel, 1yr CPI outlook (%YoY, Jun)	2.8/2.9

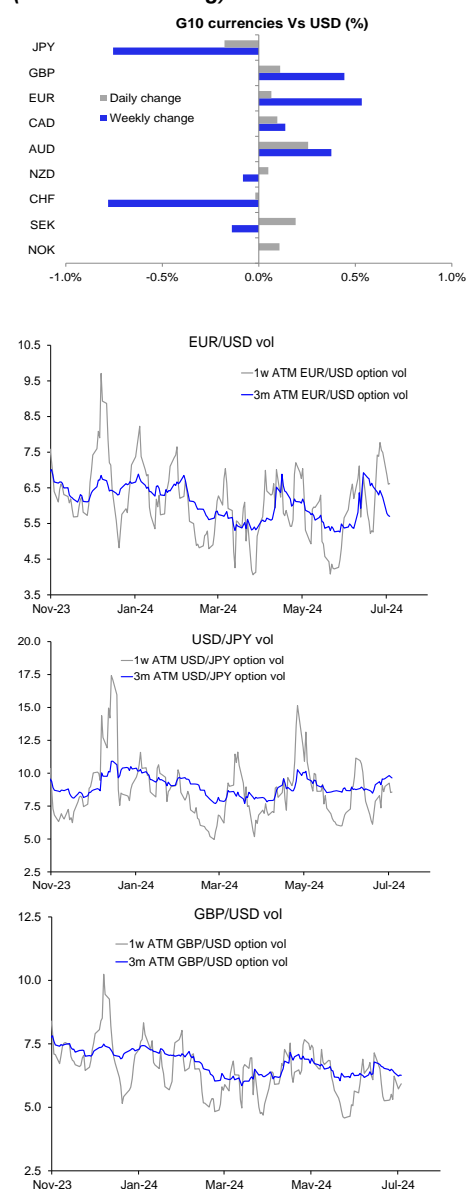
Source: Bloomberg

Europe. The UK election is finally here. The polls have consistently suggested a large majority for the opposition Labour Party and that is what we expect. The ECB publishes its account of the June policy meeting, with investors looking for any hints as to when the next hike is due. Recent ECB commentary implies that July is not likely and we continue to see September as the most likely timing for further action. The ECB's Cipollone is due to speak.

US. US markets are closed for the 4 July holiday. Question marks about Biden's health will nonetheless not take the day off.

Market data

(Source: Bloomberg)



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