

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	French gridlock to weigh
USD	Another benign CPI print to limit any upside for USD
JPY	Hovering just below the intervention zone
GBP	Lack of negatives sees scope for mild GBP appreciation

Overnight comment – Gridlock

The NFP, the left-wing alliance has pulled off a shock result in the second round of the French elections. It has won the most seats (178), preventing Le Pen's RN from becoming the biggest party and having a claim on forming the next government. Indeed, Le Pen's RN was third (143 seats), with Macon's centrist grouping doing much better than expected and coming in second (156 seats). Jean-Luc Melenchon, who leads the largest and most radical faction of NFP, called for no compromise and to implement the left-wing tax and spend programme in full. It will be very hard to form a government given the result yet fresh elections cannot be called for another 12 months. To us this seems like a recipe for gridlock, with elevated uncertainty. A technical government that struggles for support seems like the most likely outcome. **The fact that Melenchon has done a lot better than expected has seen EUR come under modest pressure, with EUR/USD sitting around 1.0822, down from ~1.0840 at Friday's close.** French bond futures were also a little lower, while French equity futures also underperformed vs other European equity futures. Elsewhere in the Asian session equities were mainly lower, led by China. UST yields were marginally higher, especially at the longer end, while the DXY index was a little firmer

In Japan, May wage data were mixed, with the headline number coming in a little softer than expected but the same sample figure a little firmer at 2.3%YoY, up from 1.8%YoY in April. Full-time base pay jumped to 2.7%YoY (same sample basis), suggesting that some of the pay increases negotiated in the spring are finally flowing through to the national wage data. On net we see the report as supporting the BoJ's belief that tighter policy will eventually be appropriate. We continue to see the next rate hike in autumn with the July meeting focused on lowering BoJ bond purchases. The BoJ Branch managers meeting, held later this week, will give a good view of how the economy is seen by BoJ staff. The economy watcher survey also bounced, coming in firmer than expected, which will be a relief for the BoJ. **USD/JPY initially dipped but by the end of the session was little changed around the 160.65 level.** JGB yields edged a little higher on the day.

The main focus in the eurozone is the French election. Outside France, the German trade surplus jumped as imports fell even more than exports. The eurozone Sentix investor confidence index has been pushing higher since autumn last year and now sits close to its long-run average. French developments drove EUR. The REC Report on Jobs for June showed demand for full-time staff weakening but rising for temp staff. At the same time pay for permanent staff accelerated to its highest level since October. GBP/USD dipped in Asian trade but by less than EUR/USD. **The pair sits around 1.2805 as Europe opens.** Despite the elevated French uncertainty, both currencies have held much of the post non-farm payrolls gains from Friday, especially GBP.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – REC Report on Jobs survey	--
EZ – Sentix Investor confidence (DI, Jul)	0.3/0.3
US – Consumer credit (\$bn, May)	11.0/6.4

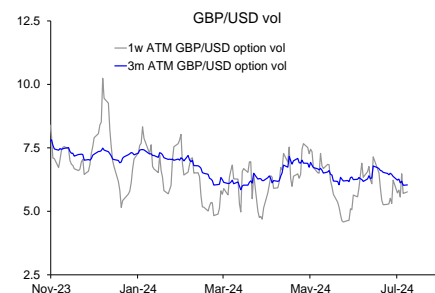
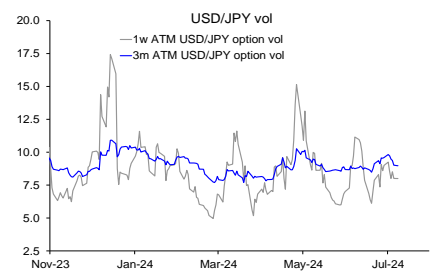
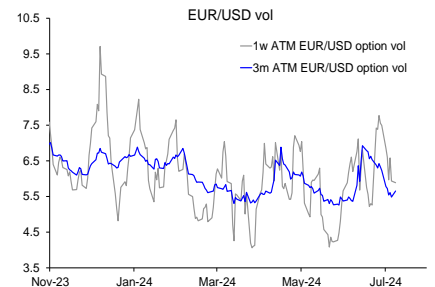
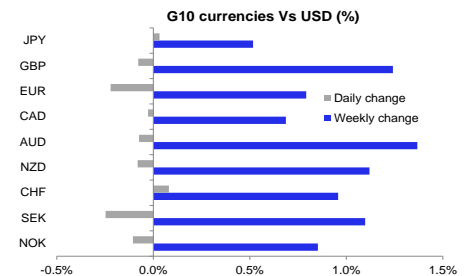
Source: Bloomberg

Europe. The BoE's Haskel will be the first BoE speaker since the election was called. We suspect that he will stick to his guns on the risks of inflation proving persistent. We see his stance as unlikely to play much role in the easing cycle as it will be driven by the doves (Dhingra, Ramsden) and the centrists around the Governor (Breedon and possibly Pill & Lombardelli).

US. It will be a quiet session in US, giving investors plenty of time to consider the recent payrolls data and the assess price trends when the CPI and PPI data come out.

Market data

(Source: Bloomberg)



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