

Mizuho Daily Currency Watch

12 July, 2024

MIZUHO

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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 – DXY index holds post-CPI weakness

In the wake of the soft CPI yesterday, Fed speakers broadly welcomed the news, with Goolsbee noting “*this is what the path to 2% inflation looks like*”. San Francisco President Daly said that a policy adjustment likely will be warranted at some stage, while St Louis Fed’s Musalem the June CPI data point to further encouraging progress. A September 25bp Fed cut is now fully priced in. President Biden’s speech was mixed. He was sound on complex policy issues but less so on names which are deeply familiar to him. We see the speech failing to address concerns about his candidacy. Asian tech shares followed US tech stocks lower, while the weak US dollar weighed on a number of Asian stock indices. UST yields ended the Asian session little changed, while the DXY index was also little changed after paring around half the big post-CPI drop late in the US session.

Shortly after Thursday’s US weak CPI report, USD/JPY pushed sharply lower. It was the largest daily move since the last intervention at the start of May. The large move sparked suspicions of fresh intervention. MoF’s Kanda said he wasn’t in a position to say if Japan intervened or not and that any intervention would be revealed at month end as usual. His comments were ambiguous. He also spoke during Asian trade but neither confirmed nor denied intervention. USD/JPY was volatile during Asian trade amid suspected rate checks in EUR/JPY by the authorities. Daily BoJ balance sheet data due later today should give a hint if the BoJ intervened yesterday. **USD/JPY currently sits around 159.05, well below yesterday’s 161.80 high.**

Yesterday, the press reported that the EU told France that it needs to find ~€15bn in extra revenues each year to bring its budget into line with the EU’s demands in its excessive deficit procedure. The current political situation in France makes negotiations difficult. France seems almost certain to request an extension of the time frame from 4 to 7 years. France is supposed to send medium-term budget plans to Brussels by 20 September. **EUR/USD sits around 1.0865, while GBP/USD trades around 1.2907.** Cable sits at a 12-month high.

Today’s Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – PPI (%MoM, Jun)	0.1/-0.2
US – Core PPI (%MoM, Jun)	0.2/0.2
US – U Mich consumer confidence (DI, Jul)	68.5/68.2

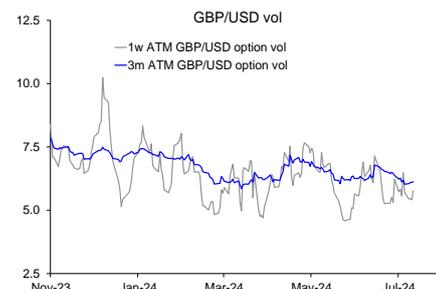
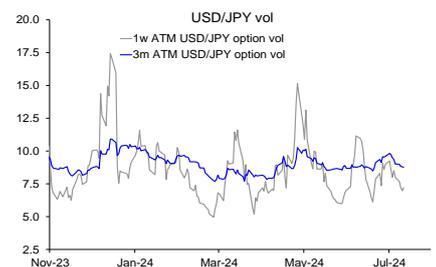
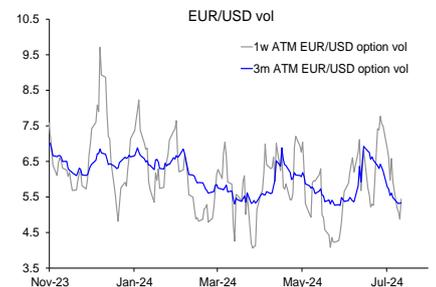
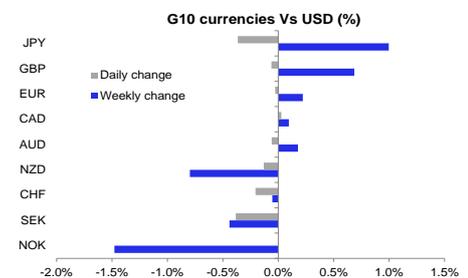
Source: Bloomberg

Europe. Its will be a quiet session in Europe with no data and no central bank commentary scheduled.

US. Following the soft CPI report the focus switches to the PPI, which also feeds into the PCE, albeit to a lesser extent. The PPI is also likely to be quite benign. Consumer inflation expectations in the Michigan consumer confidence report are also a focus, while bank earnings will also be closely watched.

Market data

(Source: Bloomberg)



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