

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	ECB to leave EUR little changed
USD	Politics the focus
JPY	Intervention watch in wake of recent MoF moves
GBP	Heavy data week may impact BoE outlook

Overnight comment – Rather reasonable

Asian equities tracked US stocks lower, with chip stocks still under pressure. There was little positive news out of China's Third Plenum which also left investors disappointed. 2yr UST yields pushed back up towards the 4.5% level to the high for the week late on Thursday with a modest further rise in Asian trade. In turn, this helped lift the DXY index, which reversed much of the drop in the wake of Trump's currency comments on Wednesday.

Japan's CPI was a little soft at the headline level but ex fresh food and energy it was in line with expectations at 2.2%YoY, nudging up from 2.1%YoY. It remains above the BoJ's target. The report will not likely have much impact on BoJ thinking ahead of the 31 July policy meeting. **USD/JPY pushed higher in late Thursday trade and continued its climb during Asian trade to sit around 157.80.**

In the wake of yesterday's ECB meeting a headline noting that the ECB was considering if only one more cut is feasible in 2024 emerged. We see this as mainly an effort by the ECB to remind markets that it is data dependent. The ECB's Muller spoke this morning noting that it was important not to pre-commit on September. He also said the outlook was slightly poorer and that to cut again more confidence was needed. Ahead of the September meeting the ECB will have another estimate of it wage tracker in late August and the compensation pre capital data for Q2. We expect that the ECB will cut 25bp in September. Villeroy this morning noted that market expectations seemed "rather reasonable". He also noted the more uncertain growth outlook. **EUR/USD dropped through 1.09 to sit around 1.0890 as Europe opens.** UK retail sales and consumer confidence were both a little softer than expected with weather and the election cited as causes, boosting the case for a cut in August at the margin. Only the flash PMI data (24 Jul) may impact the BoE's decision but with this week's data now in the rear-view mirror, we still think there is most likely a narrow majority for a cut on 1 August. In part, this view relies on the as yet untested Lombardelli. It also assumes that Governor Bailey, from whom we have not heard for a couple of months. If the BoE do skip August, then we expect that they will go in September and we still expect 2x25bp of cuts this year. **GBP/USD pushed lower still in Asian trade to sit around 1.2930 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Consumer confidence (DI, Jul)	-12/-14
UK – Retail sales (%MoM, Jun)	-0.6/2.9
EZ – Current account, sa (€bn, May)	--/38.6
EZ – ECB survey of professional forecasters	

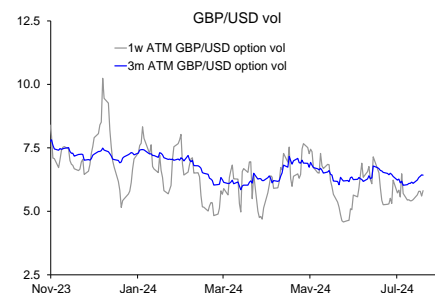
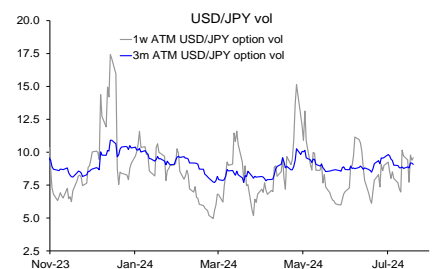
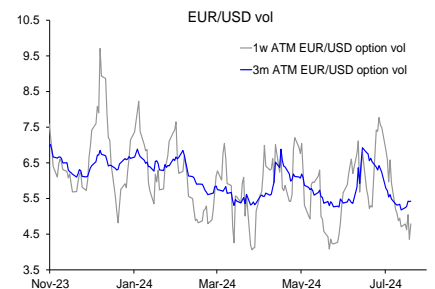
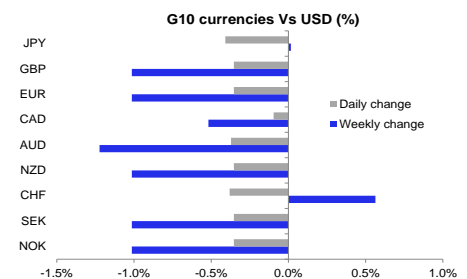
Source: Bloomberg

Europe. Yesterday's ECB meeting was a non-event from a market perspective. The ECB survey of Professional forecasters is due. We expect modest growth and declining inflation in 2025.

US. It will be a quiet end to the week in the US. We note the surge in the AtlantaNow Q2 GDP forecast in July, pushing the figure up from 1.6% in early July to 2.7% after the industrial production numbers. US Q2 GDP is reported on 25 July. At the same time Fed speakers have gone out of their way to say that while they are encouraged by recent inflation developments and the labour market section of the dual mandate is now much more of a focus, they still need additional confidence that inflation will come down and stay down, which seems to rule out a cut at the 31 July FOMC meeting, while hinting at action later in the year.

Market data

(Source: Bloomberg)



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