

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Data not likely to be supportive. Drifting lower
USD	A more volatile political outlook may support USD
JPY	BoJ speculation to support JPY
GBP	Lack of data leaves GBP at risk

Overnight comment – Yen on the rise

Disappointing earnings in the US tech sector weighed on Asian stocks. Taiwan was closed due to a typhoon. US equity futures were also lower. The flash composite PMIs in Japan and India both improved, while the Australian composite PMI edged a fraction lower.

The yen is very cheap on most metrics. It is also heavily under-owned. Both these statements have been true for a long time. The heavy short base increases the chances of a sharp bout of JPY appreciation. Expectations of tighter BoJ policy look to finally registering and investors look to be reducing shorts ahead of the 31 July policy meeting, which has seen USD/JPY drop steadily in recent sessions. **The pair sits around 154.60, a 2-month high.** Japan's composite PMI bounced in July to 52.6, from 49.7, led by the service sector, boosting hopes that the lacklustre activity in H1 will give way to a more upbeat H2. JGB yields nudged higher across the curve with a lacklustre 40yr auction weighing.

German consumer confidence continues to rise and now sits at its highest level since mid-2022. A rise in income expectations was the driver. **EUR/USD drifted through Asian trade and sits around 1.0845. GBP/USD pushed lower through Asian trade and sits around 1.2885 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Composite PMI, flash (DI, Jul)	50.9/50.9
UK – Composite PMI, flash (DI, Jul)	52.6/52.3
US – Composite PMI, flash (DI, Jul)	53.9/54.8
US – New home sales (%MoM, Jun)	3.4/-11.3

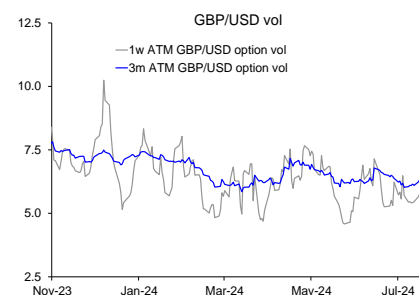
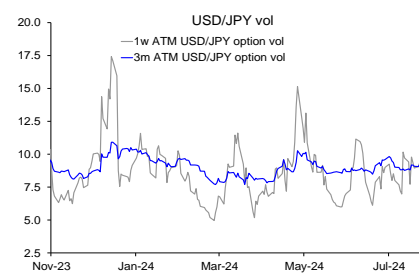
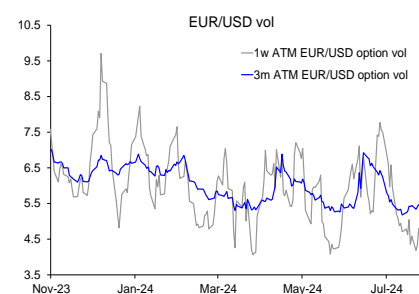
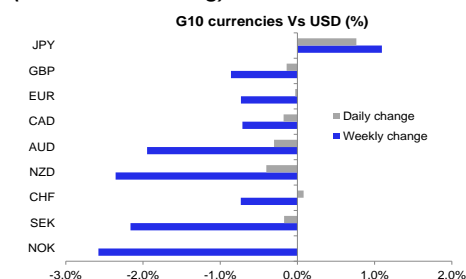
Source: Bloomberg

Europe. The flash PMI is one of the most important cyclical indicators for the eurozone economy. The July flash will mostly likely show an economy growing but not very fast, with manufacturing clearly in recession and modest service growth propping up the economy. In addition to the demand side data on output and orders, there are data on supply and prices, which provide useful information on the outlook. That said, there will be another round of flash PMI data ahead of the 12 September ECB meeting so today's data will not be decisive for the outlook. The ECB's Lagarde and Nagel speak, while Germany taps the Aug-34 Bund. The UK flash PMI will likely show the UK economy in better shape than the eurozone economy. The June PMI report suggested election-related hesitation among respondents and it will be interesting to see if this hesitancy has now dissipated. We suspect that it will have to some extent, although there may be some lingering concern about higher taxes. The PMI price indices will be among the final pieces of data the BoE see before their 1 August policy decision.

US. The flash PMI report is due. It has firmed over the last few months and sits at an elevated 54.8. In contrast, both ISM reports are below 50 making for a less than straightforward view of current developments. Q2 GDP is likely to be solid and imply decent activity levels into Q3. Elevated inventories of new home sales may force builders to boost incentives. The US issues a new 5yr UST today, as well as a 2yr FRN. The BoC is widely expected to lower rates for the second time in the current cycle.

Market data

(Source: Bloomberg)



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