

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	FOMC hold, solid payrolls to lift USD
JPY	BoJ to underdeliver. JPY to give back some recent gains
GBP	BoE cut to undermine GBP

Overnight comment – Quiet start to busy week

Most Asian shares pushed higher, helped by the dip in UST yields on Friday, as investors priced in Fed cuts later in the year. UST yields edged a little lower still in a quiet overnight session.

CTFC data show carry trades continuing to unwind in the week to 23 July. Again the yen was the currency where speculative positioning changed most. Speculative JPY shorts are ~40% less than they were just 3 weeks ago. Bloomberg's pre-BoJ survey showed only 29% of respondents looking for a hike this week. 27% saw September as the most likely option and 35% saw October as the date of the first hike. Front-end JGB yields underperformed. 2yr JGB yields were little changed as longer-dated JGBs declined, catching up with the drop in UST yields on Friday. **USD/JPY was marginally lower on the day and sits around 153.30 as Europe opens.** We expect that the BoJ will opt for adjusting Rinban purchases and leave its policy rate unchanged at the 31 July policy meeting. But it is likely that a rate hike in Japan is coming soon in which case any asset market disappointment will be short-lived.

Late on Friday, the ECB's Schnabel noted that services prices were proving "particularly sticky" and the freight costs and protectionism could keep the CPI elevated. She said the September meeting was wide open and that some data were not fully in line with the projections, which is why vigilance was required. We expect a 25bp cut in September but it looks like it will be a close call. **EUR/USD was little changed during Asian trade and sits around 1.0860 as Europe opens.** It was a quiet start to trade in the UK ahead of the 1 August BoE decision. Like the BoJ decision, it is a close call. Current market pricing is 50:50. We expect the BoE will lower rates this week. But like the BoJ decision, it seems more a question of when rather than if. **GBP/USD initially pushed higher in Asian trade but gave back much of the move to sit around 1.2875 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – M4 ex OIFCs (3m %saar, Jun)	--/3.6
UK – CBI distributive trades survey (DI, Jul)	--/-9

Source: Bloomberg

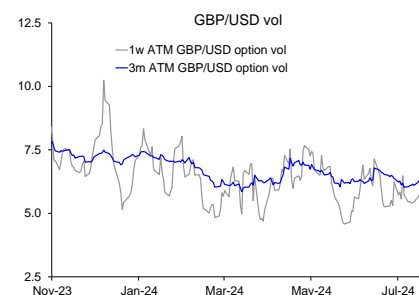
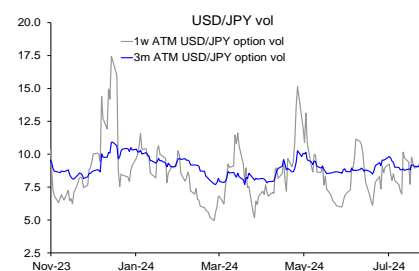
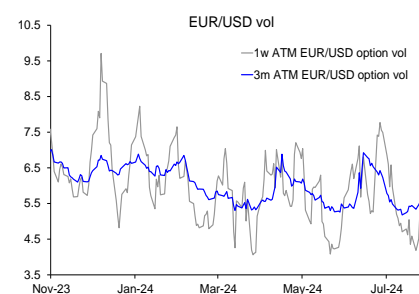
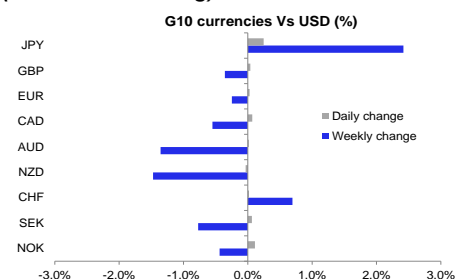
Europe. The eurozone may not have a central bank meeting this week but it does have a slew of important data on Tuesday & Wednesday including Q2 GDP and July CPI data. In the UK money and credit data are due today, as well as the CBI distributive trades survey, which will be interesting to see if the European football spending has helped retailers. Chancellor Reeves is set to speak today, detailing the government's inventory of its financial inheritance from the Conservatives - a broke and broken Britain. This may require additional tax hikes to balance the books and/or some spending delays.

US.

It is a quiet start to a busy week with the FOMC meeting on Wednesday and non-farm payrolls on Friday, as well as earnings season continuing with a heavy focus on the tech sector. The presidential election will also remain a focus ahead of the Democratic Convention.

Market data

(Source: Bloomberg)



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