

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

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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 – Still accommodative, just less so

Asian shares shrugged off geopolitical concerns and declines in the US overnight to push sharply higher. Chinese PMI data were a little soft but government plans to boost fiscal policy adjustments helped support Chinese equities. Australian CPI data were elevated but a fraction softer than expected. UST yields were little changed in Asian trade, holding yesterday's drop. The DXY index was little changed.

The BoJ hiked its policy rate to 0.25% and said that it would reduce JGB purchases by ~¥400bn/quarter until gross purchases were in the ¥3trn region, which it expected by end Q1 26, with an interim review of the reductions in Jun-25. The policy decision was 7-2 with the 2 dissenters voting to leave policy unchanged. On wages the policy statement noted "On the wage side, moves to raise wages not only have been seen for large firms, which achieved wage increases that were significantly higher than those seen in the previous year in this year's annual spring labor-management wage negotiations, but also have been spreading across regions, industries, and firm sizes." The statement also noted that real interest rates remained significantly negative and that "if the outlook for economic activity and prices presented in the July Outlook Report will be realized, the Bank will accordingly continue to raise the policy interest rate and adjust the degree of monetary accommodation." Today's data in Japan were a little firmer than expected. The Topix rose led by banks while JGB yields were 6~9bp higher across the curve. **USD/JPY was a little volatile around the announcement but ended the session a little higher around 152.90 after rallying overnight.**

German import prices turned positive in YoY terms for the first time since February 2023. French CPI was a little soft vs expectations. **EUR/USD pushed higher early in Asian trade but gave back some gains into the European open to sit around 1.0820.** The Loyds business barometer showed sentiment picking up, which is a sharp contrast to the CBI survey. the Chancellor noted that taxes would likely rise in her autumn budget. **GBP/USD edged a little higher during Asian trade to sit around 1.2845.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – CPI (%YoY, Jul)	2.5/2.5
EZ – Core CPI (%YoY, Jul)	2.8/2.9
US – FOMC meeting (% mid)	5.375/5.375

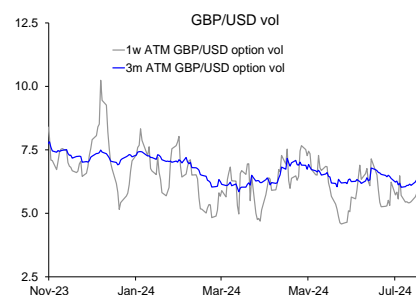
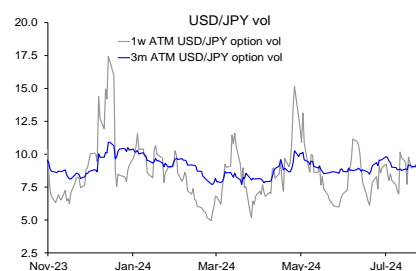
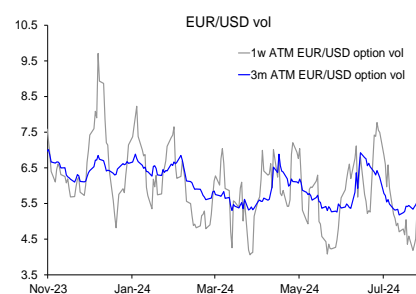
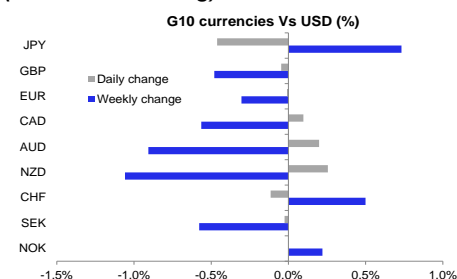
Source: Bloomberg

Europe. Tuesday's Spanish and German CPI reports surprised in opposite directions, leaving the consensus view for today's CPI looking broadly correct, although this morning's French print (2.6%YoY vs 2.8%YoY expected) suggests downside risks. The Spanish core CPI was in line with expectations hinting that the eurozone core CPI may be less benign than the headline print. Italian CPI is released at 10.00 BST, at the same time as the eurozone figure.

US. The Fed is not expected to change policy and neither will it produce new forecasts, leaving the focus on the statement and Chair Powell's press conference. In the wake of the run of better inflation data, the Fed has been hinting that the time for a rate cut is coming, even if we don't yet have sufficient data. Chair Powell is expected to suggest that the time for rate cuts is approaching. Recall that the latest Dot Plot, published alongside the June policy meeting showed just one cut this year. Granted, the run of better CPI data mean that some members may be starting to think about a second cut. However, some will be wary of finding themselves in the same situation they were in at the end of the first quarter – having more or less promised a rate cut but with the data not playing ball. We see Powell hinting at but not promising cuts in the not too distant future.

Market data

(Source: Bloomberg)



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