

# Mizuho Daily Currency Watch

1 August, 2024

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 – BoE cut a close call

The Fed Chair laid the groundwork for a rate cut in September in yesterday's post-FOMC press conference. UST yields dropped sharply with the market now pricing in almost 3 x 25bp cuts by year end. Asian manufacturing PMI data were mainly a little weaker than last month with the China Caixin PMI conspicuously so, dipping just below the 50 level from 51.8. Asian equities were mixed with the strong yen weighing on Japanese shares, while equities elsewhere were broadly a little higher. The DXY index was little changed in Asian trade, holding most of the post-FOMC move. Despite rising geopolitical risks, the impact on financial markets seemed limited.

In the wake of the BoJ meeting USD/JPY briefly pushed down below the 150 level. It pushed lower again overnight, bottoming out at 148.51. We suspect that it may run out of steam given that the RSI sits below the 25 level and we think the Fed will struggle to validate current market pricing. Long-end JGB yields dropped but 2yr JGB yields nudged a fraction higher and are approaching the 0.5% level. **USD/JPY sits around 149.95 as Europe opens.**

Yesterday's slightly-firmer-than-expected eurozone CPI data, combined with the slightly-firmer-than-expected GDP data on Tuesday many increase the risks to our base case for the ECB but they don't change it. We still expect that the ECB will cut interest rates 25bp in September. There is still plenty of key data ahead of the September meeting including the compensation per capita data for Q2. **EUR/USD sits around 1.0820 as Europe opens.** Solid UK house price failed to support sterling. **GBP/USD dropped early in the European session to sit around 1.2820.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – BoE meeting (%)	5.00/5.25
EZ – Unemployment (% Jun)	6.4/6.4
US – Weekly jobless claims (k)	236/235
US – ISM m'fact index (DI, Jul)	48.8/48.5
US – Vehicle sales (mn saar, Jul)	16.2/15.3

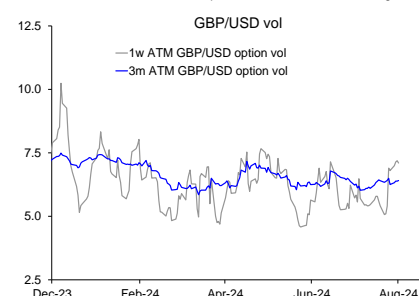
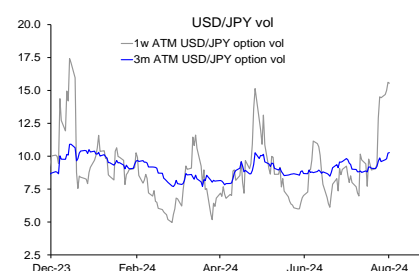
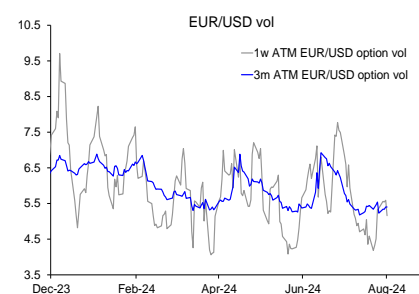
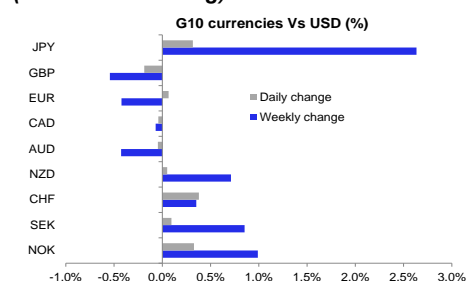
Source: Bloomberg

**Europe.** There are some signs that the eurozone labour market is softening but as yet they are not showing up in the unemployment rate. The EU commission's labour hoarding index continues to ease, suggesting companies see less value in hoarding labour as the activity backdrop softens. The ECB publishes its economic bulletin, which often hints at topics the ECB deems of interest. The BoE's Chief Economist Pill has already said that a cut is a case of "when not if" even as he suggested that, for him, it was not quite time to ease just yet. We haven't heard from Governor Bailey for since before the election but in the wake of the last meeting we judge his commentary puts him in the easing camp and we expect that he will drag Breeden and Lombardelli with him, making a 5-4 majority for a cut. Even if the cut doesn't come today, we still think that the BoE will ease twice this year. The labour market appears to be softening, albeit on some metrics a lot more than on others. The BoE is still operating without a full set of official labour market data, which makes its policy decision easier. The BoE also produces new forecasts. we expect them to be similar to the May forecasts, albeit the bias seems to be for slightly less slack and thus a slightly higher CPI forecast.

**US.** Vehicle sales are one of the first hard data prints of the month. Recent consumption data suggest a bit of a pick up in summer and the vehicle sales data will likely suggest that run will continue, pushing above the 16mn (saar) level for the first time since 2021.

## Market data

(Source: Bloomberg)



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