

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 – Equities plunge, bonds surge

A slew of weak US data including a jump in jobless claims to a 12-month high and a weak manufacturing ISM report (especially the labour market sub-index), saw UST yields plunge, while tech shares led US equity markets lower. 10yr UST yields pushed below the 4.0% level. News of sharp pull back in investment, dividend suspension and job cuts at a US tech bellwether, after the close, added to the concerns about the tech sector outlook. Earnings have been decent but below elevated expectations. US equity futures suggest another difficult session later today. In the Asian session, tech stocks led the declines, with the Topix plunging over 6%, enduring its worst session since 2016. In contrast to bond and equity markets, FX markets were not especially volatile in the last 24 hours. In the Asian session, the DXY index nudged a little lower. Despite elevated geopolitical tensions, oil slid yesterday and was little changed in Asia trade.

With no data to digest, Japanese investors had plenty of time to mull recent market moves in the wake of this week's BoJ meeting. The Topix is down 5.9% on the week but only 3% in USD terms. Front-end JGB yields end the week little changed, reversing the bulk of the reaction to the BoJ meeting but the long-end has rallied. **USD/JPY was little changed during Asian trade, ending the session at the lows around 149.15.** The move looks quite modest given the big drop in UST yields over the past 24 hours.

Global bond markets rallied hard yesterday as heavy rate cuts were priced in. In the eurozone, OIS markets are pricing in two full 25bp cuts and a ~60% chance of a third by year end, while in the UK, one more hike and an 80% chance of a second are priced by year end. European central banks are leaning the other way. Yesterday, BoE Governor Bailey warned investors not to expect too much too fast, while ECB speakers have seemed less certain of a cut in September in recent weeks. **EUR/USD pushed a little higher in late Asian trade to sit around 1.0800 as Europe opens.** GBP remains a little soft lagging the move in EUR. **GBP/USD sits around 1.2740 as European trade gets underway.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – Non-farm payrolls (k, Jul)	175/206
US – Unemployment (% , Jul)	4.1/4.1
US – Average hourly earnings (%MoM, Jul)	0.3/0.3

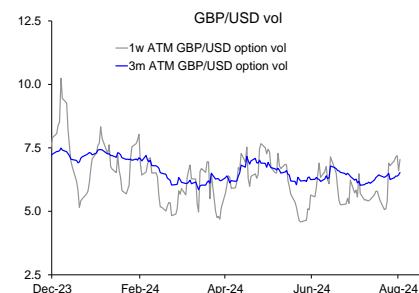
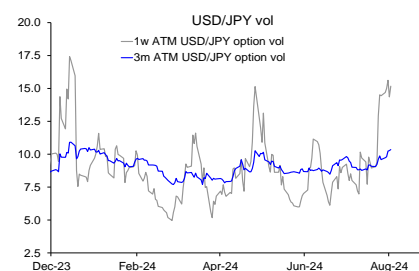
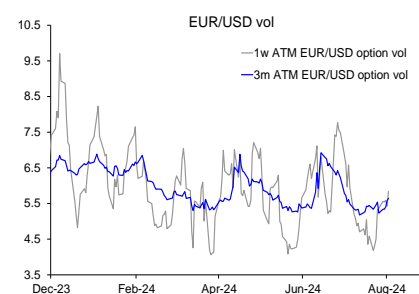
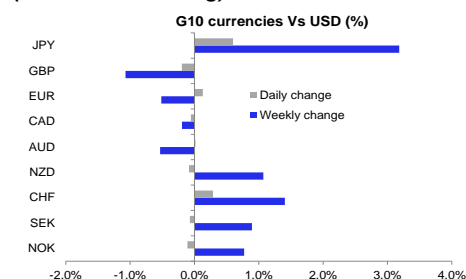
Source: Bloomberg

Europe. It's a much quieter session with just French and Italian industrial production data due. The data during the course of the week have been solid but leading activity indicators remain soft. The BoE's Pill is due to speak to businesses about the BoE's outlook report. Recall that Pill voted against easing at the meeting on Thursday.

US. In the post-FOMC press conference Chair Powell implied that he was increasingly sensitive to labour market weakness as the inflation side of the mandate become less of a concern. Thursday's weekly jobless data saw claims rise just shy of the 250k level, a 12-month high, hinting at a softer labour market. The 6m & 12m moving averages for payrolls are both a healthy ~220k. A figure in line with this would suggest that the labour market remains firm, despite the market angst on display in recent sessions. The unemployment rate will also be watched carefully, given that the Sahm rule (which states that recession has started when the 3m moving average of the unemployment rate rises 0.5pp above the low from the previous 12 months) is close to being triggered, with the current reading at 0.43.

Market data

(Source: Bloomberg)



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