

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Mild profit taking in prospect. Drifting lower
USD	Rebound in UST yields likely to lift USD
JPY	JPY set to run into profit taking
GBP	Risk rebound to lift GBP

Overnight comment – Carnage. Safe havens surge

The jump in the US unemployment rate on Friday triggered the Sahm rule, which has an excellent record as a coincident indicator of US recessions over the last 50 years. There are currently 51bp of cuts priced in for the September FOMC meeting. Over the weekend the Fed's Barkin, who is a voter, was sanguine on the prospects for the US economy saying that demand was solid, while Goolsebee said the Fed would not over-react to one-month's data. In Friday's sell-off Brent dropped to a 6-month low, as demand side fears outweighed growing risks of a wider conflict in the Middle East, with many countries warning citizens to exit Lebanon.

The carnage continued in today's Asian session, with most currencies appreciating against the US dollar as UST yields dropped even further, with 2yr UST yields around 3.75%. Stocks plunged, with tech stocks leading the drop. Nasdaq futures were down over 5%. Investors are looking for what might stem the rout with most looking to central banks. Central banks likely see the equity correction as healthy, for now, but will be watching for how badly this impacts underlying activity. Some of today's activity is spectacular (AUD/JPY has moved almost 6%) and markets may be deemed to be disorderly, which could prompt official action.

Japan's financial markets remain in turmoil with the yen strengthening further, the Topix plunging 12%, led by financials and JGB rallying hard, with 10yr yields back below 0.8%. The CFTC data showed JPY shorts being trimmed further as of 30 July, with speculative shorts down ~60% from their peak in early July. Recall that the hawkish BoJ meeting was on the Wednesday, followed by the weak payrolls on Friday. There has likely been massive further liquidation of JPY shorts since and we would not be surprised if CFTC positioning was close to flat when it is next released late this Friday. **USD/JPY dropped as low as 142.12, while USD/JPY volatility has surged.** European currency markets were stable for most of the Asian session only to lose ground vs the Greenback in early London time. **EUR/USD sits around 1.0905, while GBP/USD sits around 1.2735.** Recent GBP underperformance vs EUR is a function of both its correlation with risk and a reduction in positioning. GBP longs, which have built up sharply since the election, have likely been trimmed further over the course of the past week.

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – PPI (%YoY, Jun)	--/4.2
EZ – Composite PMI, final (DI, Jul)	50.1/50.1
UK – Composite PMI, final (DI, Jul)	52.7/52.7 (p)
US – Snr loan officer opinion survey	--/--
US – Non-m'fact ISM (DI, Jul)	51.3/48.8

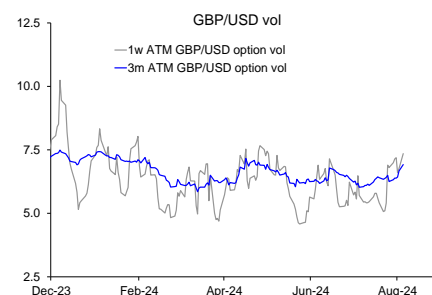
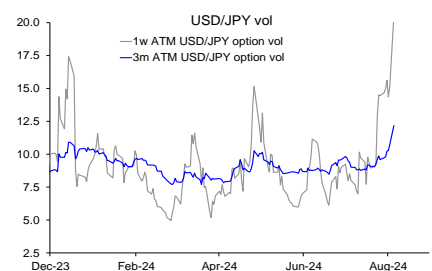
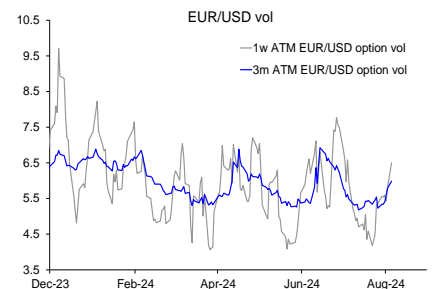
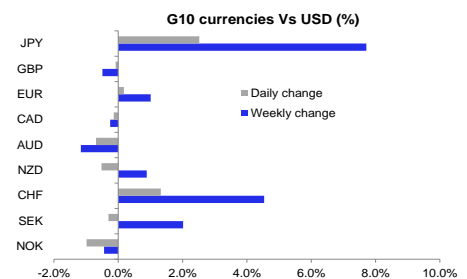
Source: Bloomberg

Europe. It's a slow start to the week, with the final composite PMI reports and the eurozone PPI.

US. In June, both the manufacturing and non-manufacturing ISM data were below 50. In July, the manufacturing index remained below 50, with the employment sub-index especially weak. If the non-manufacturing index remains below 50, then the recession vibes that have been emanating from the economy will appear to have a more valid foundation. The solid Q2 GDP print, which came with better consumption towards the end of the period suggests that recession fears are overdone. The Fed's senior loan officer opinion survey will help the Fed assess demand for and supply of credit in the economy. Goolsebee and Daly speak.

Market data

(Source: Bloomberg)



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