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 – Rebound

Late yesterday the Fed's Daly reiterated the message from other recent Fed speakers – prepared to act if required but the jobs report was not that bad and there are plenty of data to come before the September FOMC meeting that will drive the decision. There is no panic and no sign of an inter-meeting rate cut. We note that the Fed undertook intermeeting cuts in 2001, 2008 and 2020. However, the cuts in early 2001 more than 12 months after the Nasdaq peaked. The Nasdaq was down over 50% by the time the Fed cut in early 2001. The Fed remains more concerned with mopping up the economic consequences of a bubble bursting than preventing it bursting in the first place. UST yields were higher across the board in the Asian session but mildly so. Japanese stocks reversed much of yesterday's drop, while shares elsewhere in Asia rose less. The RBA left policy unchanged and noted that near-term rate cuts were unlikely.

Japan's wage data were pretty upbeat, albeit with caveats. Cash earnings in June rose 4.5%YoY, the fastest rate of increase since 1997. Furthermore, real wages turned positive for the first time in over 2 years. However, the bulk of the gains were in bonus payments, with the pace of base pay increases unchanged at 2.7%YoY. Furthermore, higher wages aren't yet feeding through to spending as household spending in June remained soft, dropping 1.8%YoY. Today's 10yr auction saw weak demand with the bid/cover ratio dropping to 2.98x and the biggest tail in 2 decades. While 2yr JGB yields were little changed, longer-end JGB sold off and the curve steepened sharply, with 30yrs up over 15bp. **USD/JPY continued to move off yesterday's lows ending the session around the 146.0 level**.

There is some EGB supply this due morning, which will likely bias yields higher. German factory orders were firmer than expected at 3.9%MoM in June but have been very weak all year and remain down 11.8%YoY. The June bounce is welcome but more likely volatility in the data rather than the start of strong rebound. **EUR/USD was little changed in Asian trade and sits around 1.0940 as Europe opens**.

UK BRC retail sales for July showed modest spending at 0.5%YoY, up from the 0.2%YoY decline in June. Better weather on the month was a factor. GBP has underperformed amid recent volatility. GBP positioning was startling to look stretched in the wake of the optimism following the election. Some of these positions have now been trimmed and GBP looks a little more stable. **GBP/USD sits around 1.2760 as Europe opens**.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
EZ – Retail sales (%MoM, Jun)	*-0.1/0.1*
US – Trade balance ($bn, Jun)	*-72.5/-75.1*

Source: Bloomberg

Europe. German factory orders are due but this week the data will have limited impact given the focus on financial markets. The tech sector is at the centre of the surge in global volatility and it thus has smaller relative impact on eurozone financial markets. It is also the case that much of the sharp declines is a function of positioning. UK equity markets, where investors have been very downbeat for a long time are outperforming in the downswing, given the absence of profit taking.

US. The US economy is showing few signs of recession. Both the non-manufacturing ISM report and the Fed Senior Loan Officer Opinion survey suggest recession calls are premature. Wider credit spreads and falling equity markets will tighten financial conditions, while plunging UST yields and a weaker US dollar will ease the pressure on financial conditions. Over the past week, US financial conditions are only marginally tighter.

Market data

(Source: Bloomberg)