

# Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Limited data. Drift
USD	Benign CPI inflation to weigh on USD but recession not visible in the data
JPY	Obon drift. Strong GDP a mild +ve for JPY
GBP	Mixed data in prospect. On balance mildly GBP supportive

## Overnight comment – JPY shrugs off Q2 GDP jump

Asian shares were broadly higher, continuing to chip away at the sharp losses at the start of the month. UST yields were little changed in Asian trade while the DXY index was a fraction lower. Chinese house prices continued to fall. Chinese retail sales and industrial production were close to expectations, while investment was soft, with any impact from recent stimulus difficult to discern. Strong jobs data in Australia helped AUD push higher in the Asian session.

In the wake of yesterday's surprise decision by PM Kishida not to contest the LDP leadership election, we see Toshimitsu Motegi as the most likely winner of the contest (which seems to be the market view too) with Katsunobu Kato as also a possibility as a compromise candidate. Whilst Motegi is seen as favouring tighter BoJ policy, we suspect that this is mainly a route to pushing for a firmer yen, as the weak yen had been weighing on the Cabinet's approval rating. In the wake of recent market volatility, we suspect that he will be more inclined to leave the BoJ alone in coming quarters! Few politicians favour steps that result in record stock market declines! Motegi is broadly in the LDP mainstream and likely means no major policy changes. Q2 GDP in Japan rebounded, rising 0.8%QoQ, after a fall of 0.6%QoQ in Q1, leaving H1 GDP marginally positive. The strong result will be a relief for the BoJ and will support rate hike expectations. Nominal GDP was also solid, up 3.0%YoY. Private consumption rose a strong 1.0%QoQ. JGB yields pushed higher, especially at the front end, **while USD/JPY ended the session little changed, around the 147.10 level.**

It was a quiet start in the eurozone, **with EUR/USD off yesterday's highs, sitting around 1.1030 as Europe opens.** UK GDP data for Q2 was in line at 0.6%QoQ. Despite very rapid growth in H1, the YoY rate is only 0.9%, reflecting the impact of the recession in H2-23. The UK transport strike also looks like it is over after the government offered a 14% deal over 3 years. The tendency so far has been for the government to be more generous than its predecessor. **GBP/USD built on modest overnight gains in the wake of the report to sit around 1.2850 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – GDP (%QoQ, Q2)	0.6/0.7
US – Empire m'fact index (DI, Aug)	-6.0/-6.7
US – Retail sales (%MoM, Jul)	0.4/0.0
US – Ex auto Retail sales (%MoM, Jul)	0.1/0.4
US – Industrial production (%MoM, Jul)	-0.3/0.6
US – Weekly jobless claims (k)	235/233
US – NAHB housing index (DI, Aug)	43/42

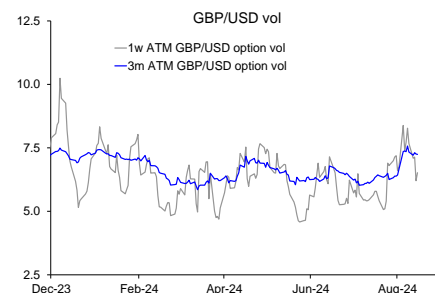
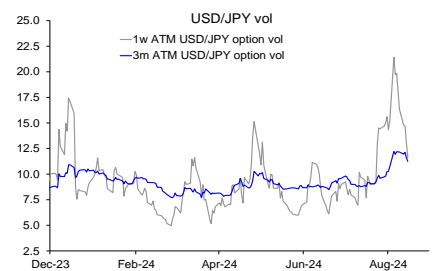
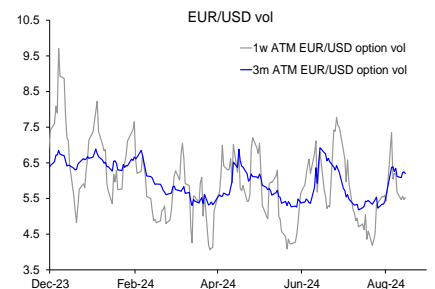
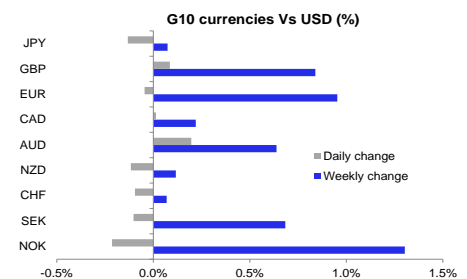
Source: Bloomberg

**Europe.** UK data are expected to show GDP grew above trend for a 2<sup>nd</sup> consecutive quarter in Q2.

**US.** Retail sales and industrial production will detail activity at the start of Q3. Solid auto sales will help headline spending but core spending will be somewhat weaker, allowing concerns about the durability of consumer spending to persist. The NAHB index is seen starting to nudge higher after a period of stability, hinting that the decline in market rates will help stimulate the housing sector. Weekly jobless claims and regional manufacturing sentiment for August are also due.

## Market data

(Source: Bloomberg)



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