

# Mizuho Daily Currency Watch

20 August, 2024

Colin Asher

Senior Economist

[colin.asher@mizuhoemea.com](mailto:colin.asher@mizuhoemea.com) | +44 20 7012 5262/+44 7387 139164

MIZUHO

Currency	Main focus of the week (S-T view)
EUR	Soft PMI to add to downside pressures
USD	Jackson Hole to signal cuts are coming but higher front end UST yields should prove USD supportive
JPY	Ueda to stick to the hiking script. But JPY gains already looking stretched
GBP	Risk appetite to support GBP

## Overnight comment – Rehn hints at ECB cut in September

US equities closed higher for an 8<sup>th</sup> consecutive session, the longest winning streak this year. The S&P is now just -1.0% from its prior peak in mid-July. Asian equities followed suit, although Chinese shares lagged as the banks held lending rates unchanged, as widely expected. UST yields were a little higher in Asian trade, mainly in the longer maturities, while the DXY index edged a little higher in Asian trade, mainly due to JPY weakness.

Yesterday, Takayuki Kobayashi (49) put his hat into the ring for the LDP leadership contest. Yoko Kamikawa (71) also said she would run. Today Shigeru Ishiba said he had almost secured the required 20 backers to stand in the contest. A recent Kyodo poll showed 25% of respondents thought Ishiba (67) would be most suitable as new PM, followed by Koizumi (43) on 20%, with Takaichi (63) in third place on 10%. In our opinion, none of the three are likely to become PM. We do not expect Koizumi to run. At 43 we still see it as too early for him, while other two are not popular enough among Diet members, who we believe will be the key to winning the election, as they usually are when it goes to a second round, as seems likely given the number of candidates. The one candidate whose policies stand out is Takaichi. If she were to run and win, it is likely she would adopt pro-growth policies including attempting to keep BoJ policy loose. Demand at today's 20yr JGB auction was reasonable, with the curve ending a little steeper on the day. **USD/JPY reversed much of yesterday's drop, to sit around 147.10 as Europe opens.**

The ECB's Rehn spoke yesterday noting "In my view, the recent increase in negative growth risks in the euro area has reinforced the case for a rate cut at the next ECB monetary policy meeting in September — provided that disinflation is indeed on track". He seemed especially concerned about the manufacturing sector. We expect inflation progress will be sufficient for the ECB to deliver another 25bp cut in September. **EUR/USD was little changed in Asian trade, broadly holding onto the bulk of yesterday's gains to sit around 1.1075 as Europe opens.** It was a quiet overnight session for GBP, with **GBP/USD little changed for most of the session only to edge a little higher at the London open to sit around 1.3000.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Current account balance, sa (€bn, Jun)	--/36.7
EZ – Construction output (%MoM, Jun)	--/0.9
EZ – CPI final (%YoY, Jul)	2.6/2.6 (p)

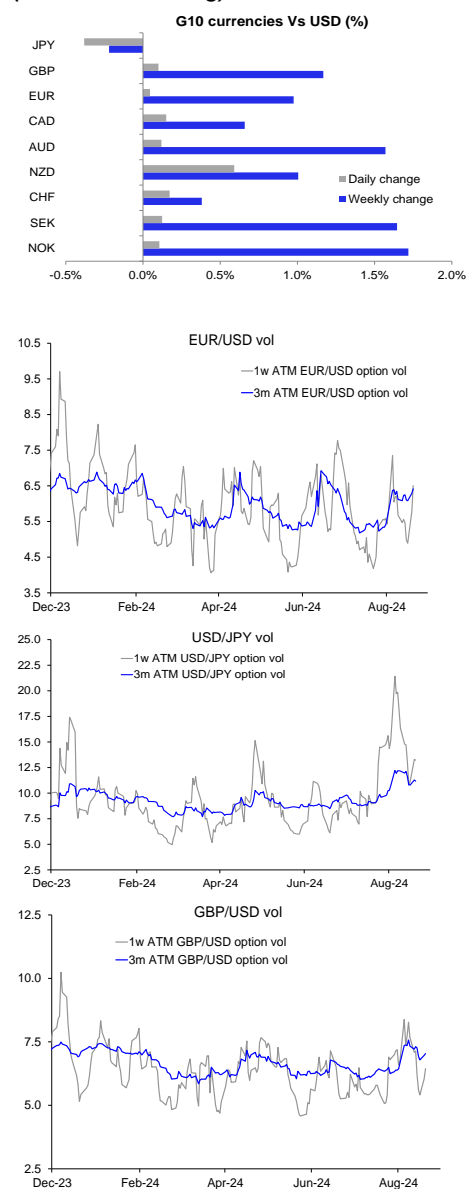
Source: Bloomberg

**Europe.** Eurozone current account rarely receives much market attention in part because the data lags so much. The June current account is likely to track the trade balance higher. Weak imports will likely keep the trade balance elevated over the remainder of the year. In early summer ECB Chief Economist Lane gave a speech in London in which he noted his preference for the second estimate of the CPI, given its rich data set. The initial CPI print could be said to be like the speedometer denoting the speed, while the second estimate gives you more information on how the engine is performing at a given speed and whether there are underlying problems.

**US.** The Philly Fed non-manufacturing index is rarely a market mover, although with Pennsylvania a key swing state in the November, it may get a little more focus than usual albeit from a political angle. Both Bostic and Barr (both voters) speak today but neither speech title seems especially promising in terms of policy-rich commentary. Barr speaks on cybersecurity and Bostic on innovating for inclusion. Yesterday, Kashkari (hawk, non-voter) suggested a 25bp cut in September would be appropriate. He implied that larger moves were not required and questioned how tight policy is.

## Market data

(Source: Bloomberg)



This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies' financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

**United Kingdom / European Economic Area:** In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

**Singapore:** Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

**Japan:** Mizuho is authorised and regulated by the Financial Services Agency of Japan.

**United States:** This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

**Brazil:** Banco Mizuho do Brasil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd