

Mizuho Daily Currency Watch

21 August, 2024

MIZUHO

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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 – DXY on the back foot

Overnight the 3rd candidate in the US election Kennedy said he is considering dropping out of the race and throwing his support behind Trump, which has seen a Trump win edge a little higher on the betting exchanges. Harris remains the favourite with the bookmakers just by less than last week. US stocks ended an 8-day winning streak on Tuesday, edging a little lower. Asian stocks were also lower led by Chinese tech stocks, while USTs hung onto the bulk of yesterday's gains, amid expectations that the labour market will look a little weaker in the wake of today's revisions from the BLS. As with UST yields, the DXY index was a fraction higher but broadly unchanged in Asian trade after yesterday's dip.

Japan's seasonally-adjusted trade balance for July was close to expectations, showing a deficit of ¥755bn. Exports were a little softer than expected at 10.3%YoY, while imports were a little firmer at 16.6%YoY. One of Japan's major life insurers suggest that the time for "constant purchases of JGBs was over" and that relative interest rate moves would likely push USD/JPY down to 135 as interest rate spreads narrowed. There was no sign of repatriation of overseas assets, with the spokesperson noting the potential attraction of declining US yields. Katsunobu Kato, a potential compromise candidate for PM if the parliamentary party struggles to come together around anyone else, spoke today. He said that Japan should aim to keep interest rates and prices moving but he also noted that "The Japanese economy is not yet fully healthy, so stakeholders including the BOJ need to take a careful approach". JGB futures edged a little higher after the Rinban results were published, but they pushed lower again, leaving them down across the curve on the day. **USD/JPY pushed a little higher through the session to sit around 145.95 as Europe opens.**

Yesterday, the Bundesbank monthly report noted collectively agreed wages were up 4.2%YoY in the spring. The report said the combination of an elevated willingness to strike and labour shortages meant wages gains were likely to remain elevated. France's caretaker government is said to be preparing a budget that keeps spending unchanged and allows the deficit to drop to 3% by 2027. Macron will speak to the party leaders on Friday before nominating a candidate for PM. **EUR/USD hit a new year-to-date high yesterday and sits around 1.1120 as European trade gets underway.** GBP also hit a fresh year-to-date high yesterday. **Public finance data this morning had limited impact and the pair sits around 1.3020 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – FOMC minutes	--

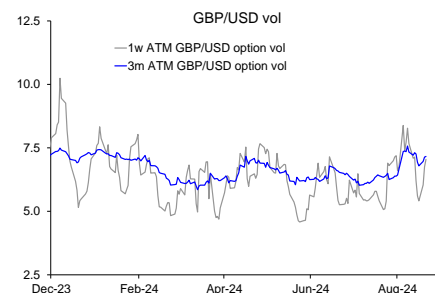
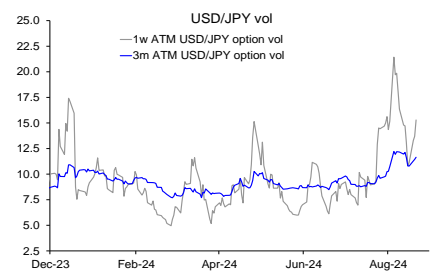
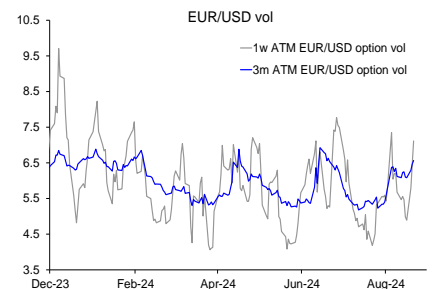
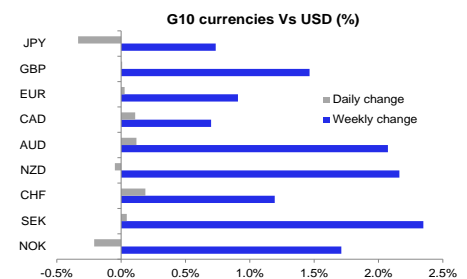
Source: Bloomberg

Europe. The ECB's Panetta, one of the ECB's leading doves speaks today. It is possible he expresses a desire for a faster pace of cuts than 25bp/quarter. Recent eurozone data have been on the soft side. We suspect that tomorrow's PMI data will underscore this, boosting the potential for a faster pace of cuts. Tomorrow also sees the ECB publish its estimate of negotiated wage growth for Q2, which also has market moving potential given the ECB's focus on wages.

US. Ahead of Chair Powell's speech at Jackson Hole on Friday the FOMC minutes will be scrutinised for any clues as to the policy outlook. Note that the weak labour market report (2 Aug) came after the FOMC meeting (31 Jul) so the minutes may be a little stale with regard to the view on the labour market. Early benchmark revisions for non-farm payrolls, due today, are set to show a softer labour market as of March 2024, which would imply a slower pace of labour market growth over the year to March. A number towards the high end of expectations may re-ignite fears of a rapidly slowing labour market. The early benchmark revisions source is tax returns so undocumented migrants will not be counted in the revisions.

Market data

(Source: Bloomberg)



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