

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	EUR macro backdrop softening. EUR upside capped
USD	Higher front-end UST yields, as 50bp cut is priced out, should prove USD supportive
JPY	BoJ hiking cycle intact. JPY to remain firm
GBP	Lack of data to leave GBP tracking higher

Overnight comment – Fiscal focus

Yesterday's jump in US consumer confidence saw US equities close fractionally higher. Asian equities were mixed with Japanese shares edging higher, while the CSI 300index dropped to its lowest since February as investors remain concerned about a rebound in activity in China. UST yields were little changed in the Asian session, while the DXY index pushed higher, despite an absence of obvious factors driving the move.

Yesterday, Taro Kono formally entered the LDP race, joining Ishiba and Kobayashi. Campaigning is due to start on 12 September and a number of other candidates are expected to put their names forward. Kono called for fiscal discipline. Today Deputy Governor Himino reiterated the Bank's view that if its forecasts were correct, then policy would be tightened. However, he did note that markets remained unstable suggesting a move is not imminent. We expect that the next hike will come around year end. JGB yields edged higher in the 2–10yr sector ahead of the 2yr auction tomorrow. Despite the move higher in JGB yields, **USD/JPY pushed modestly higher through the session to end around 144.50.**

Yesterday the press reported that in Italy Meloni's coalition government is seeking to raise a further €12bn for the 2025 budget. The EU Commission is expecting Italy budget by 20 September. **EUR/USD was under pressure through the Asian session to sit around 1.1145 as Europe opens.** In the UK, PM Starmer's warning of short-term pain in the late-October budget did little to interrupt GBP's strength on the foreign exchanges. Some fiscal consolidation seems likely, although we expect mild spending cuts and a modest increase in borrowing to share the burden with tax increases. The markets seem to be focused on diverging monetary policies but diverging fiscal policies (mild consolidation in the UK vs on-going laxity in the US) will possibly mean less divergence in monetary policy than markets are pricing. **GBP/USD tracked EUR/USD lower and sits around 1.3225 as European trading gets underway.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – M3 (%YoY, Jul)	2.5/2.2

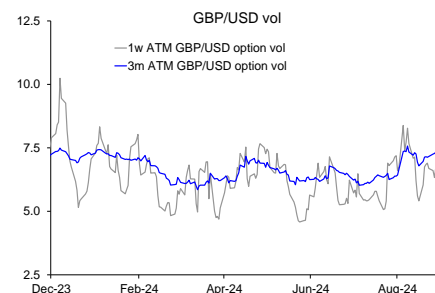
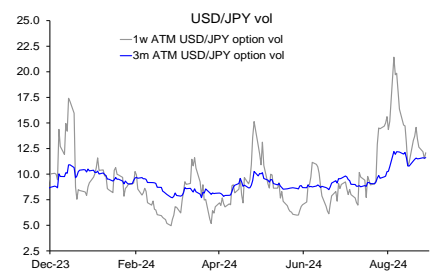
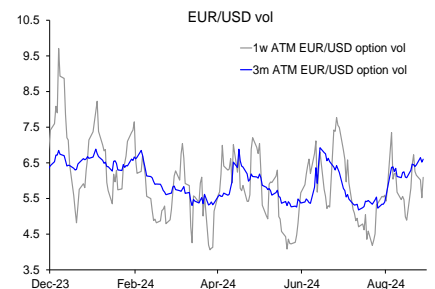
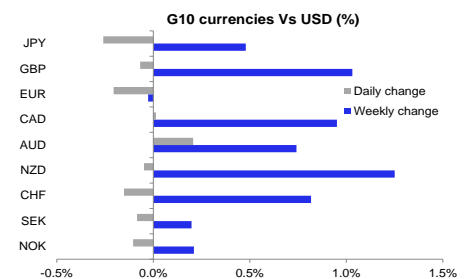
Source: Bloomberg

Europe. The eurozone money and credit data have been looking considerably less downbeat in recent months. M3 is expected to jump in YoY terms in July. The BoE's leading hawk, Catherine Mann speaks later today.

US. In the US, the focus is on earnings in the tech sector, with the key report due after the equity market close. The US Treasury will auction \$70bn of 5yr notes.

Market data

(Source: Bloomberg)



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