

Mizuho Daily Currency Watch

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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 – Inflation watch

Asian equities were higher across the board, despite a mixed session in the US. Whilst many Asian equity markets are lower on the month, when looked at in USD terms losses are much smaller, with some markets making positive returns. The US dollar is on track for its worst month of the year ahead of the first cut. UST yields remains near yesterday's highs, while the DXY index was little changed.

Japan's month-end data deluge produced mixed results. The Tokyo CPI data were firmer than expected. Ex fresh food and energy CPI edged up from 1.5%YoY to 1.6%YoY, vs expectations of a small decline in the YoY rate. Service prices firmed a little. We do not expect that the BoJ will be spurred into action at the next meeting but the firmer price outlook does support the case for tighter policy. Other data today were less supportive. Industrial production rose 2.8%MoM but was well shy of expectations. Retail sales also rose a little less than expected, up just 0.2%MoM, while the jobless rate jumped from 2.5% to 2.7%. That said the job offers/applicants ratio did push higher on the month, suggesting the underlying market remains firmer than the rise in unemployment suggests. The long end of the JGB curve continued to underperform, while USD/JPY was little changed during Asian trade, after reversing the bulk of yesterday's jump ahead of the open. **The pair sits around 144.90 as European trade gets underway.**

Yesterday's uptick in economic sentiment in the eurozone in August was mainly a function of a pick-up in France, which we expect to be short-lived, especially given the political vacuum, which we expect to weigh on investment sentiment. We suspect that resolution will be difficult to come by. Ahead of difficult state elections in Germany on Sunday, EUR was little changed in overnight trade, maintaining the bulk of yesterday's drop. **EUR/USD sits around 1.1075 as Europe opens.** UK house prices dropped 0.2%MoM in August, while the Lloyds business barometer was unchanged as elevated levels. **GBP/USD nudged a little higher in overnight trade and sits at 1.3170.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – CPI (%YoY, Aug)	2.2/2.6
EZ – Core CPI (%YoY, Aug)	2.8/2.9
EZ – Unemployment (% , Jul)	6.5/6.5
US – Personal income (%MoM, Jul)	0.2/0.2
US – Core PCE (%MoM, Jul)	0.2/0.2

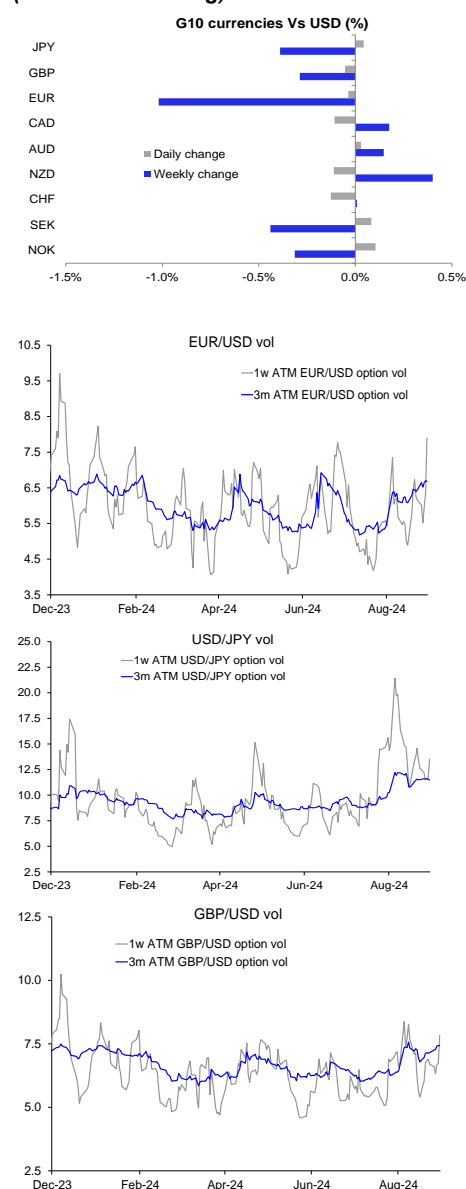
Source: Bloomberg

Europe. Both Spanish and German headline CPI for August were weaker than expected, driven by energy. In both cases the drop in core CPI was much smaller. National core CPI in Germany is running at 2.8%YoY, while Spanish core CPI is running at 2.7%YoY. Both only slowed 0.1pp vs July. Headline CPI will come in below the 2.2%YoY consensus call, which dates from the start of the week and may even hit the ECB's 2.0% target if this morning's French and Italian data play ball. Eurozone unemployment for July is also due. The consensus is for the print to be unchanged but we see mild risks that the labour market is softening a little faster than the ECB expects. In the UK money supply data are due

US. While the core PCE is the Fed's official inflation target the bulk of the information is already released in the CPI and PPI reports making misses in the PCE usually smaller. Personal income and spending data are also due as is the final University of Michigan consumer sentiment survey.

Market data

(Source: Bloomberg)



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