

# Mizuho Daily Currency Watch

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MIZUHO

Colin Asher

Senior Economist

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

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 – Ueda comments lift JPY

Asian shares were mixed, while US equity futures were a little lower in Asian trade. Iron ore dropped further below the \$100 level and sits close to its post-Covid lows, seeing AUD underperform in Asian time. UST yields opened the week marginally higher after yesterday's Labour Day break, while the DXY index nudged higher.

BoJ Governor Ueda reiterated that should the BoJ's forecasts prove accurate, then the policy rate would be heading higher. He stressed that policy was still accommodative and real interest rates were still deeply negative, as well as noting upside risks to prices. Front-end JGB yields pushed higher in the wake of his comments, although they remain below the multi-year highs seen in the wake of the July policy decision. A soft 10yr auction also weighed on JGBs. Ueda's comments helped the yen outperform overnight after a run of underperformance in recent sessions. The 25bp hike in the policy rate that is priced in for the coming year looks too low to us. We think they BoJ will hike at least twice more in the coming 12 months. **USD/JPY ended the Asian session around 1.4615.**

Yesterday, one of Germany's largest auto makers said it was considering closing factories in Germany for the first time in its history. German autos are among the sectors most under pressure as the German economy is on the brink of recession. **EUR/USD was under modest pressure during Asian time and sits around 1.1055 as Europe opens.** UK BRC sales for August showed better weather persuading consumers to open their wallets, with total sales up 1.0%MoM, the fastest pace of month growth since March. Credit card data also suggested solid consumer activity in August. **Despite the encouraging data, GBP/USD nudged lower in Asian trade to sit around 1.3115 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – ISM manufacturing (Aug, DI)	47.5/46.8

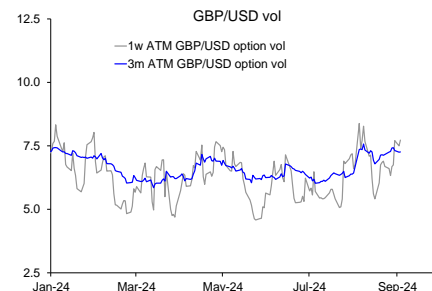
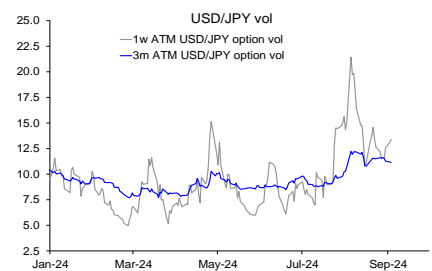
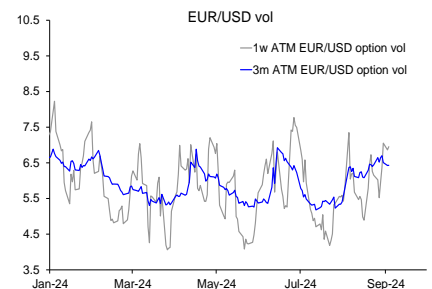
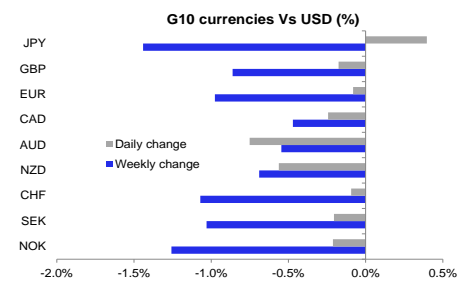
Source: Bloomberg

**Europe.** The ECB's Nagel speaks early in the evening after the market close. Nagel will be one of the final speakers before we enter the quiet period ahead of the 12 September ECB meeting. The BoE's Breeden speaks on supervision. We doubt that she will touch on monetary policy.

**US.** Last month's manufacturing ISM report set the backdrop for the "payrolls panic" the following day. Beyond a very weak headline figure, the near 6 point drop in the employment index to 43.4, a level associated with recession, caught investors' attention. This month's report is not likely to have the same impact. The headline figure should pick up, in part driven by a rise in the employment sub-index. We do not expect it will move into expansion territory but we do see it moving to a level that implies slowdown rather than slump.

## Market data

(Source: Bloomberg)



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