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 – Chip slip

The chip sector led US equities lower yesterday in the wake of the weak manufacturing ISM print with the Philadelphia Semiconductor index down 7.8%, with the Nasdaq down 3.3%. The ISM employment sub-index improved a large 2.6 points but is still only at the depressed level of 46.0. In the Asian session, semiconductor-related shares led the declines with the Topix down 3.8%, Taiwan's Taiex down 4.5% and the Kospi down 3.1%. In the wake of the weak ISM print UST yields plunged. Late in the session UST yields recovered some of the drop but are now back down at yesterday's lows. The DXY index is down in Asian trade but is close to yesterday's lows. The session has a strong whiff of the meltdown seen at the start of August, with the safe havens outperforming and volatility rising. Asian PMI data remain broadly soft. Oil prices are also under pressure, with Brent crude at $73.40, near 1 year lows, amid expectations that Libyan supply may come back on line. Both energy and industrial metals prices are down sharply over the past week.

Japan's final composite PMI was revised down 0.1pp to a still respectable 52.9. The main focus was on market moves. JGB yields tracked UST yields lower, with futures leading the rally. Recall Deputy Governor Uchida's promise, made in the wake of the meltdown in early August, not to hike if markets were volatile. A Bloomberg poll showed ~50% of respondents expecting that the GPIF will boost domestic equity holdings at the expense of overseas bonds in the new fiscal year. **USD/JPY pushed lower yesterday and is a little firmer still in Asian trade, sitting around 145.25**.

ECB's Simkus said that there were clear reasons for a September cut but that one in October was not likely. However, he did note that the economic risks were tilted to the downside – a view that we very much agree with. In a press interview, Nagel noted that "inflation was on the right track" while Cipollone said there were no signs of a wage price spiral and that there was a real risk that the ECB stance could be too restrictive. There is a strong consensus for a 25bp cut at next week's meeting but a lot less agreement about subsequent steps. **EUR/USD sits around 1.1049 as Europe opens**. It was a quiet start to trade in the UK. **GBP/USD edged off yesterday's lows, with the pair sitting around 1.3110 as Europe opens**.

Today's Major Events and Data Releases

Events over coming 24 hours	*Survey/Prev*
EZ – PPI (Jul, %YoY)	*-2.5/-3.2*
US – JOLTS job openings (k, Jul)	*8100/8184*
US – Beige Book	*--*

Source: Bloomberg

Europe. Currently, weak goods price inflation is offsetting still elevated services prices. Today's PPI for July should underscore that the peak easing in goods prices is now likely in the rear view mirror. The ECB will need to see lower service prices in coming quarters if it is to sustainably meet its inflation target as goods prices revert to more normal rates of inflation. Fortunately for the ECB there are signs that labour hoarding in the region is easing, which means the threat from the labour market is also easing to some extent. The final composite PMI data for the UK and the eurozone 1) don't usually get revised much and 2) don't usually move markets.

US. The low response rate of the JOLTS survey has seen it fade from its position as the key monthly labour market release that it briefly held in the post-Covid period. Payrolls is back in the ascendancy. Recall that the JOLTS report is for July and payrolls on Friday are for August. That said the JOLTS report seems to confirm that the labour market is gently softening. The ratio of openings to unemployed is back to levels last seen just before Covid arrived, when the labour market was tight. The Beige Book will be watched for signs of labour market weakness given Powell's focus there.

Market data

(Source: Bloomberg)