

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 – DXY sinks ahead of payrolls

Asian shares remained under pressure to round out a poor week, with Japan leading the declines amid further JPY strength. The Topix is down over 4% on the week but less than 2% in USD terms. Against a backdrop of limited new news, UST yields dropped further during Asian trade and the DXY index was soft as investors await payrolls in the US later today. Market pricing currently sees a ~40% chance of a 50bp move. The drop in both energy and industrial metals prices in recent weeks have seen inflation expectations ease globally, with soft US labour market data and sluggish China demand adding to concerns about demand. Declining inflation expectations helps central banks in their shift towards easier policy. Longer-term inflation expectations in Europe and the US are close to 2-year lows.

Household spending in July was soft, rising just 0.1%YoY – a remainder that real wage growth remains underwhelming, even if it has been positive the last two months. JGB yields broadly tracked UST yields lower, although 2yrs were little changed, with the curve bull flattening. Ex BoJ official Watanabe note that the BoJ may hike faster than markets expect, a view we share. This helped front end yields shrug off overseas developments. **USD/JPY continued to push lower and sits around the 142.60 level as Europe opens.**

The appointment of Michel Barnier as French PM represents progress but it will be hard for him to make much progress given the lack of support in parliament. After yesterday's pleasant surprise on orders, German industrial production surprised to the downside dropping 2.4%MoM in July. The German trade balance deteriorated, on the back of rising imports. **EUR/USD nudged higher during Asian trade building on yesterday's gains to sit around 1.1120.** UK house prices rose 0.3%MoM, leaving annual growth at 4.3%YoY, its fastest pace since late 2022. **GBP/USD was little changed in Asian trade, retraining the bulk of yesterday's gains, sitting around the 1.3180 level.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Compensation/employee (%YoY, Q2)	--/5.1
US – non-farm payrolls (k, Aug)	165/114
US – Unemployment rate (% , Aug)	4.2/4.3
US – Average earnings (k, Aug)	0.3/0.2

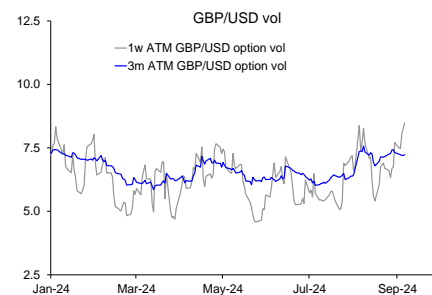
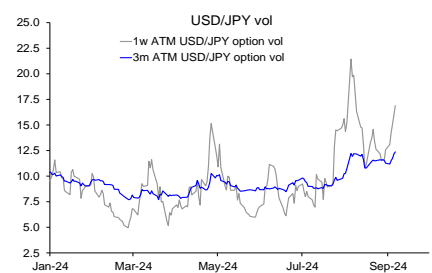
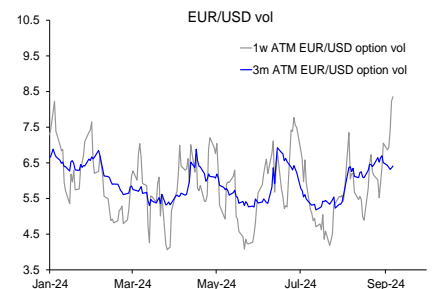
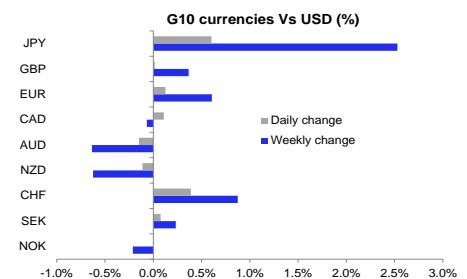
Source: Bloomberg

Europe. The ECB's favoured measure of pay will be released alongside the final Q2 GDP estimate today. Compensation per employee rose by 5.1%YoY in Q1 above levels consistent with the ECB's 2.0% inflation target. A number of other wage measure for Q2 suggest less pressure in the labour market more recently and the compensation per employee measure is seen easing, which should allow the ECB to ease next week.

US. The week has brought mixed data in terms of the labour market. Neither JOLTs (for July) nor weekly claims (for last week) will have any impact on August payrolls. The rest of the data for August has been mixed. The labour sub-indices in the ISM data were also mixed, while the ADP, which has been a poor predictor of payrolls of late, was also weak. On net we see mild downside risks to our 170k payrolls forecast. Almost as important as the data will be the Fed's reaction to it and we have Williams and Waller – arguably the most important speakers excepting Powell, speaking shortly after the release. These two could be termed the most influential dove and the most influential hawk on the FOMC. To date, our reading of Fed commentary is that the FOMC is firmly in the camp that sees the easing cycle starting with a 25bp cut.

Market data

(Source: Bloomberg)



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