

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	EUR macro backdrop softening. EUR to be soft
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	Wage dip to keep BoE easing hopes alive. GBP to soften

Overnight comment – DXY on the up

Friday's Fed speak, when both Williams and Waller spoke in the wake of the payrolls report, suggest that the Fed will only cut 25bp at the 18 September FOMC meeting, although market pricing still holds out a 1/3 chance of a 50bp cut. Williams noted that the economy was growing close to trend and thus the totality of the data suggested no urgency to ease aggressively. Waller's speech provided more headlines and he was keen to note that if things did deteriorate, he would be open to moving faster. But for now he seems content with 25bp. Payrolls clearly suggest the labour market is softening but the Fed seems happy with the idea that it is "softening not soft". In today's Asian session, equity markets were under the pump in early trade amid fears of slower US growth, following the softish payrolls data on Friday, although the tone improved as the session wore on. China's inflation data were also on the soft side, with both the CPI and PPI a little weaker than expected. Tech stocks led the declines. Iron ore slid to a 22-month low, dropping below \$90/ton. However, oil, UST yields and the DXY index were all a little higher in the session

Japan's seasonally-adjusted current account jumped to ¥2808bn in July, near record levels. The gains were mainly on the primary income side. The FDI data confirm that Japan is investing less in China. FDI into China is running close to last year's multi-year low. The portfolio flows data for August showed record buying of overseas bonds on the month at ¥7.3trn, as Japanese investors anticipate Fed cuts. Banks (¥3.9trn) and trust banks (¥2.8trn) led the way. The data also show solid buying of overseas equities (¥1.4trn), led by trust banks (¥0.76trn) and investment trusts (¥0.77trn). There is no sign in this month's data of trust banks pulling back from overseas markets, as one might expect if the GPIF were planning on reducing its overseas asset allocation, although arguably it's a little early, with over half the fiscal year still to go. Friday's CTFC data showed speculative investors adding modestly to their long JPY positions in the week to 3 September. JGB yields pushed higher, especially at the front end. **USD/JPY bounced off Friday's lows and trades around 142.85 as Europe opens.**

Over the weekend the French government submitted a request to the European Commission to allow it to present its budget, due 20 September, late. New PM barrier will need to find a new finance minister to replace Bruno Le Maire, who has said he will not remain in his post. The ratings agency Scope upgraded Spain over the weekend. **EUR/USD pushed lower in the Asian session to sit around 1.1070 as European trade gets underway.** The UK report on jobs showed the labour market continue to soften. Placements (especially permanent ones), salaries and vacancies (marginally) were all softer vs July. That said, the wages DI remains elevated, even as placements dropped sharply. **GBP/USD end the Asian session marginally lower vs Friday's close around the 1.3115 level.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Sentix investor confidence (DI, Sep)	-11.0/-13.9
UK – Report on Jobs survey (Sep)	--
US – Consumer credit (\$bn, Jul)	11.2/8.9

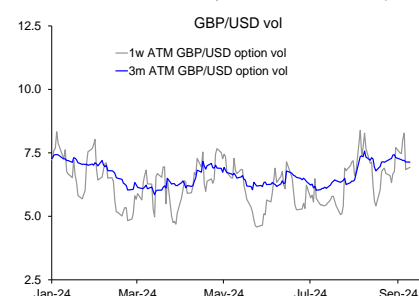
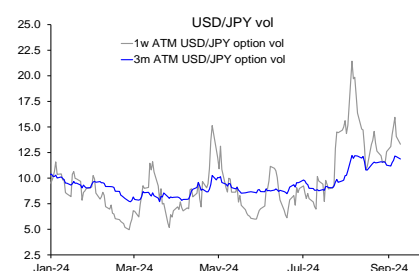
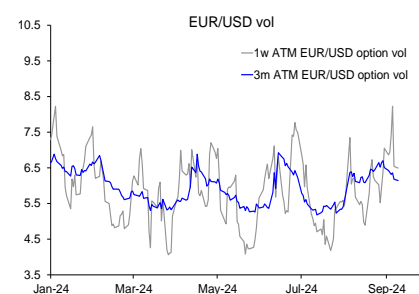
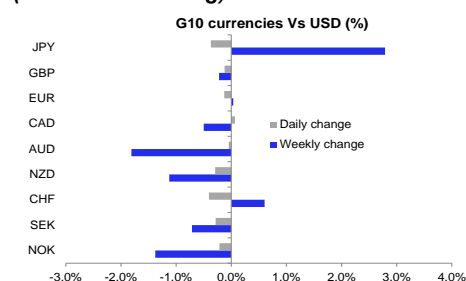
Source: Bloomberg

Europe. The Sentix investor confidence index is running well below its long-run average of 1. Germany remains a drag on European sentiment. The Report on Jobs is currently attracting greater interest while the ONS reworks its labour market survey. Mario Draghi's report on competitiveness in the region will also be released today.

US. Consumer credit data are due.

Market data

(Source: Bloomberg)



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