

# 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 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 – Hawkish BoJ comments lift JPY

There is little doubt that Harris performed better than Trump in last night's presidential debate but it remains to be seen if she will benefit in the polls. The USD index slipped a little during the debate and continued to slide after its conclusion as UST yields pushed lower in Asian trade, with 10yrs approaching the 3.6% level. Oil prices were flat after dropping below the \$70/barrel level yesterday, the lowest level since late 2021, amid persistent concerns about demand given weakness especially in China. Asian shares were broadly soft, with Japan leading the declines.

Yesterday the media reported that the BoJ saw little need to hike rates in the near term. This is no surprise. Given Deputy Governor Uchida's comments shortly after the last BoJ meeting on not hiking while markets are volatile, we see no chance that the BoJ will hike at the September 20 meeting. FX volatility may be off the recent highs but it is still quite elevated and the equity markets remains under the pump. Furthermore, the weak yen is no longer an urgent problem for the BoJ. Today BoJ board member Junko Nakagawa reiterated the BoJ view that further policy tightening will be appropriate if the economy unfolds as the BoJ expects and that the current level of rates is extremely low. She also noted that there were upside risks to prices. Her comments helped support the yen, which was already appreciating. **USD/JPY briefly pushed below the 141.0 level but now sits around 141.40 as Europe opens.**

The two-day ECB meeting starts today. A 25bp cut in the deposit rate is almost universally expected at its conclusion tomorrow. We suspect that the softening activity backdrop in the eurozone could see the ECB go on to cut a further 25bp in both October and December. Given our expectations for policy in the eurozone and the US and relative market expectations, EUR seems likely to struggle in the near term. **EUR/USD edged higher in Asian trade and sits around 1.1045 as Europe opens.** UK GDP was weaker than expected, coming in flat. There was weakness across the board. GBP/USD had pushed higher through Asian trade and the dip in the wake of the data was small. **GBP/USD sits around the 1.3090 level as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – GDP (%MoM, Jul)	0.2/0.0
US – CPI (%MoM, Aug)	0.2/0.2
US – Core CPI (%MoM, Aug)	0.2/0.2

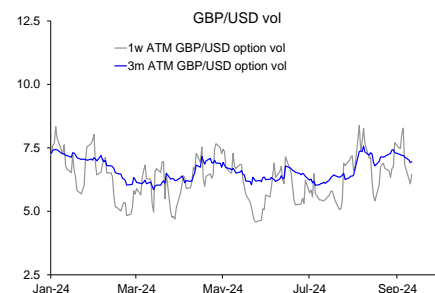
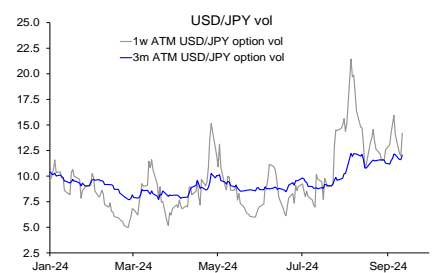
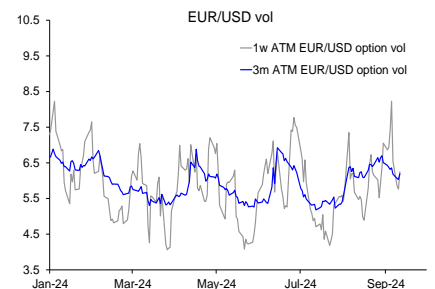
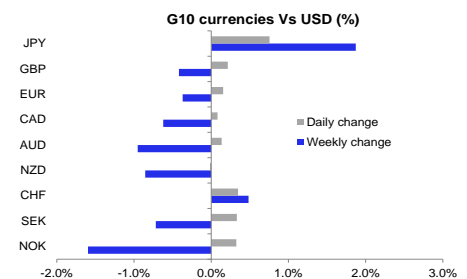
Source: Bloomberg

**Europe.** UK GDP data are due.

**US.** In the wake of Powell's Jackson Hole speech and the clear shift towards a more balanced interpretation of the dual mandate now that inflation risks have diminished sharply, the CPI data may have less market impact in coming months as the labour market data determine the speed at which the Fed eases. The inflation data are likely to appear benign and to be no impediment to Fed easing. A consensus-like 0.2%MoM print in August would see headline CPI running below 2.0% on a 3m and 6m annualised basis, while core would be a little above 2.5%. On balance we see small downside risks to the 0.2%MoM headline print.

## Market data

(Source: Bloomberg)



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