

# 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 speak fails to lift JPY

The lack of a downside surprise in the CPI data saw investors finally capitulate on expectations for a 50bp cut at next week's FOMC meeting. Currently 28bp of cuts are priced in - the least easing expected since the start of August, when the weak ISM report was released. Despite the rise in UST yields, US equities ended sharply higher, led by the tech sector. The Asian session was much calmer, with UST yields little changed and Asian equities tracking US shares higher. The DXY index was also little changed around yesterday's high. Oil prices also recovered some of the ground lost in recent sessions.

The BoJ's leading hawk Tamura spoke today suggesting that the BoJ may need to hike to at least 1.0%. Demand at today's 20yr auction was reasonable. The PPI came in soft, while the MoF quarterly survey was firm. Despite the hawkish BoJ commentary, **USD/JPY was little changed in Asian trade and sits around 142.60 as Europe comes in.** German wholesale prices pushed lower. They had been paring YoY declines for much of the year to date, threatening to turn positive but the downdraft in commodity prices in the past few months is showing up, pushing back an eventual move into positive territory and possibly allowing the ECB more scope to ease, via keeping inflation expectations subdued. **Ahead of today's ECB meeting, trading was subdued and EUR/USD sits around 1.1020 as European trade gets underway.** The UK's RICS house price index surged, sharply topping expectations, jumping from -18 to +1, the first positive print since autumn 2022. **The news had little impact on sterling and GBP/USD trades around 1.3050 as Europe opens.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house price index (DI, Aug)	-14/-19
EZ – ECB meeting (% dep rate)	3.50/3.75
US – PPI (%MoM, Aug)	0.1/0.1
US – Core PPI (%MoM, Aug)	0.2/0.0
US – Weekly jobless claims (k)	227/227
US – Flow of funds (Q2)	

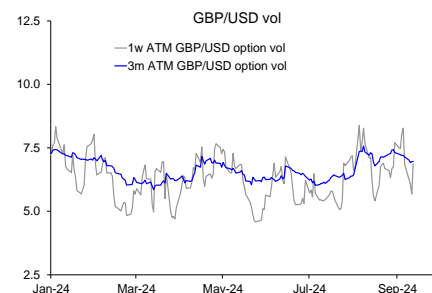
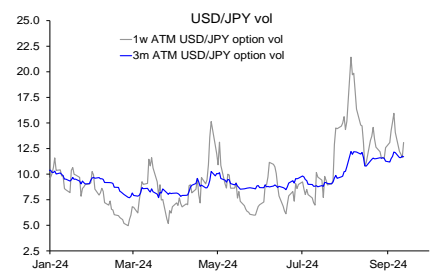
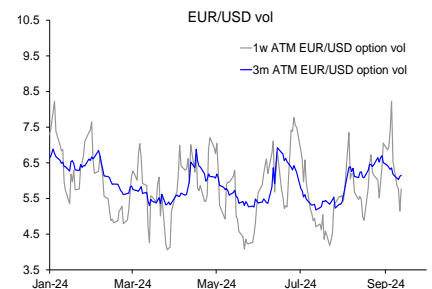
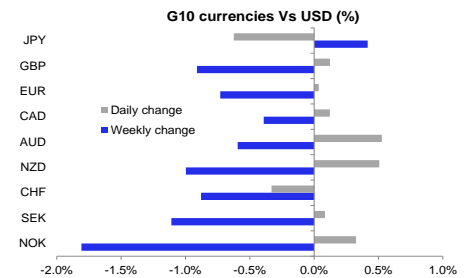
Source: Bloomberg

**Europe.** The market has been pricing in a 25bp move from the ECB since early August, with very little volatility. We concur and see the policy decision as the least interesting part of Thursday's meeting. In the press conference, we expect that President Lagarde will make minimal commitments on future policy moves, although we expect she will be happy to indicate that the bias for the policy rate is lower, with the usual caveat – as long as the data come in line with the ECB's expectations. The ECB will produce new forecasts at the upcoming meeting. Downward revisions are likely but should be small. The RICS house price index will be of interest. It has been down for 4 months in a row. The prospect of lower rates should help arrest the decline. If it doesn't the housing outlook may be weaker than we expect.

**US.** The PPI has generally been the poor relation to the CPI and will be even more so now that the CPI has been dethroned by the labour market report as the key data on the month. It does provide some of the inputs into the PCE report but fewer than the CPI. Weak energy prices may see headline come in soft but core PPI is likely to be around 0.2%MoM. The weekly jobless claims figure, if shockingly elevated, might shift Fed policy expectations, while the flow of funds data will likely underscore that private sector balance sheets are in decent shape as the economy slows.

## Market data

(Source: Bloomberg)



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