

Weekly Highlights

- **DXY undermined by weak data**
- **CPI report to look benign, adding to downside DXE pressure**
- **JPY pressure eased by soft US ISM data**
- **Wage watch**
- **GBP unmoved by Labour's massive majority**
- **EUR enjoys gains spurred weak US data, French politics**
- **CNH hits 8m low of 7.3144**
- **PBoC ready to sell bonds in the market**
- **BoK on hold but could outline conditional pivot path**
- **BNM hold amid improved growth outlook and managed inflation**
- **Poland central bank chief rules out rate cuts**
- **South Africa announces new cabinet**

Contact details:

Colin Asher
Head of Macro Strategy, EMEA,
European Treasury Department
colin.asher@mizuhoemea.com
Tel: +44 20-7012-5262

Ken Cheung
Chief Asian FX Strategist,
East Asia Treasury Department
ken.cheung@mizuho-cb.com
Tel: +852 2306-3352

Serena Zhou
Senior China Economist,
Mizuho Securities Asia Limited
serena.zhou@hk.mizuho-sc.com
Tel: +852 2685 2421

Vishnu Varathan
Head, Economics & Strategy,
Asia & Oceania Treasury Dept.
vishnu.varathan@mizuho-cb.com
Tel: +65 6805-4244

Tan Boon Heng
Economist,
Asia & Oceania Treasury Dept.
boonheng.tan@mizuho-cb.com
Tel: +65 6805-4246

Tan Jing Yi
Market Economist,
Asia & Oceania Treasury Dept.
jingyi.tan@mizuho-cb.com
Tel: +65 6805 4247

Masayuki Nakajima
Senior EMEA FX Strategist,
European Treasury Department
masayuki.nakajima@mizuhoemea.com
Tel: +44 20-7786-2505

US – Weak data spur hopes of rate cuts, DXY dips

Major Events and Data Releases

Date	Event	Survey	Prior
9-Jul	NFIB small business optimism (DI, Jun)	89.0	90.5
	Fed Chair semi-annual testimony	--	--
11-Jul	CPI (%MoM, Jun)	0.1	0.0
	Core CPI (%MoM, Jun)	0.2	0.2
	Weekly jobless claims (k)	--	238
	Monthly budget statement (\$bn, Jun)	--	-347
12-Jul	PPI (%MoM, Jun)	0.1	-0.2
	Core PPI (%MoM, Jun)	0.1	0.0
	U Mich Consumer confidence (DI, Jul)	67.0	68.2

Source: Bloomberg

For currency markets the event of the week was the soft services ISM print. Both the manufacturing and services headline prints are below 50 boosting fears that tight policy is finally having some impact on slowing the economy. UST yields dropped in the wake of the report, dragging the greenback lower. Payrolls were mixed with the headline print a little firmer than expected but revisions subtracted 100k. The unemployment rate pushed higher to 4.1% from 4.0%, while average earnings were in line with expectations. On net, the labour market data were a touch soft vs consensus and the DXY index pushed a fraction lower after the report, alongside a drop in UST yields.

Outlook

Fed Chair Powell's semi-annual testimony to congress and the CPI data are the highlights in the coming week. We suspect that Powell will reiterate much of the post-FOMC meeting press conference, with Powell underscoring that things are going in the right direction but that the Fed still needs more confidence before acting. The CPI prints for June should help Fed members get more comfortable with easier policy, with the consensus looking for a 0.1%MoM gain, which would be a second consecutive decent print, allowing the YoY rate to continue to drift lower. The consensus for the core is 0.2%MoM, which would leave the YoY rate unchanged at 3.4%. The market now sees an 80% chance of a 25bp cut in September, with 2x25bp cuts by year end almost fully priced in. The PPI data are also due. Late in the week, the largest US financial companies get earnings season underway. Given the surge in equities over the last quarter, meeting elevated expectations may be difficult. Through the course of the coming week, Musalem, Bostic, Goolsbee and Bowman all speak but will struggle for attention given the focus on Powell's semi-annual testimony. The President's health will remain a live issue on the campaign trail until the election or he steps down, which ever come first.

colin.asher@mizuhoemea.com

Japan – Wage watch

Major Events and Data releases

Date	Event	Survey	Prior
8-Jul	Cash earnings (%YoY, May)	2.1	1.6
	Cash earnings, same sample (%YoY, May)	2.1	1.8
	Current account, sa (¥bn, Q2)	2051	2524
	Bank lending (%YoY, Jun)	--	3.0
	Eco watchers' survey, Outlook (DI, Jun)	46.5	46.3
9-Jul	M2 (%YoY, Jun)	--	1.9
10-Jul	PPI (%YoY, May)	2.9	2.4
11-Jul	Machinery orders (%MoM, May)	0.8	-2.9

Source: Bloomberg

The early part of the week was spent watching JPY weaken amid speculation that the US 4 July holiday might be a possible window for MoF intervention. USD/JPY pushed as high as 161.95. However, the pair moved lower in the wake of the soft services ISM report and kept declining alongside lower UST yields over the remainder of the week. That does not obscure the long-term JPY weakness, with the yen hitting a record low vs EUR and 34 year low vs AUD and a 38-year low vs USD. The week started with a firm Tankan but it had little impact on on-going yen weakness.

Outlook

Last week Rengo, Japan's main trade union federation, issued final numbers from the spring wage negotiations earlier in the year. These negotiations, usually conclude in February and March but do not usually show up in the wage data until summer, specifically May and June. The cash earnings data in the coming week cover May. Some of the impact of the jump in wages settlements should be evident in this release. Note that the agreements only cover unionised workers, most of whom are full-time. Part-time and irregular workers as well as management and public sector workers are usually not covered. This is one reason why there was almost no impact from the large spring wage increase negotiated last year, in last year's wage data. We are more optimistic this year but nonetheless the pass-through may not be as large as many hope. The wage data are the main focus in the coming week.

Other data on the week include the current account, bank lending, money supply, machinery orders and the economy watchers' survey. Recent activity data in Japan have been a little soft so the economy watchers' survey, which is sometimes seen as a leading indicator for consumer spending, is always of interest. Alongside the current account report MoF releases data on FDI and portfolio flows. Of late Japanese investors have been selling overseas assets but to date this has had limited impact on the yen. The FDI outflows are generally running in the opposite direction and will be a drag on the yen both this year and in the future, as inbound FDI remains limited.

colin.asher@mizuhoemea.com

Europe – Polls hint French far right short or majority, EUR gains

Major Events and Data Releases

Date	Event	Survey	Prior
8-Jul	UK – Report on Jobs survey	--	--
	EZ- Sentix investor confidence	0.3	0.3
11-Jul	UK – RICS house prices (DI, Jun)	--	-17
	UK – GDP (%MoM, May)	0.2	0.0
	UK – BoE credit conditions survey	--	--

Source: Bloomberg

Politics have loomed large this week, with the polls in France suggesting that Le Pen's RN will only win 200~230 seats in the assembly, well short of the 289 needed for a majority. French assets have enjoyed a recovery, with both stocks and bonds outperforming. In contrast, UK financial markets were more or less unaffected by the UK election. The thumping Labour majority was exactly what the polls had suggested and as such there were no surprises. That said, it is fair to say that the UK looks set to enjoy a period of relative political stability, which may lift GBP in the medium term. NOK lead the G10 complex this week helped by improving risk appetite and higher oil prices but EUR is a close second. GBP has more or less tracked EUR on the week.

Outlook

The first order of business for investors will be to check the French second round election results, with a hung parliament expected. ECB speakers are all Sintra-ed out after their blitz during the conference this week. Only Villeroy and Nagel are scheduled to speak in the coming week.

We haven't heard from the BoE since the election was called. This week only Haskel (hawk), Pill (centrist) and Mann (hawk) are due to speak. We suspect that Haskel and Mann will continue to vote to leave policy unchanged but Pill's vote at the August meeting is a lot more uncertain. If he sounds dovish, then a 25bp cut seems almost certain. Even if he sounds somewhat cautious on rate cuts as he did last time he spoke, we still see a decent chance that Bailey, Breeden and new member Lombardelli will vote for a cut, alongside doves Dhingra and Ramsden. Obviously Lombardelli is something of an unknown quantity and a dovish Pill would increase our confidence in a cut at the August meeting.

It is pretty quiet on the data front in the eurozone, with just Sentix investor confidence due. Indeed, there us a sense that summer markets are arriving early this year. There are more data in the UK. The REC Report on jobs is one of the indicators investors are using to take the temperature in the labour market, while the official data are under a cloud. Its one of the more downbeat indicators but looks to be turning a corner in recent months. Monthly GDP for May are due, with a 0.2%MoM gain seen. The pick up is likely led by a sizable rebound in retail sales, driven by less bad weather in May vs April.

colin.asher@mizuhoemea.com

China – PBoC ready to sell bonds

Major Events and Data Releases

Date	Event	Survey	Prior
9~5-Jul	Money Supply M2 (%YoY, Jun)	6.8	7.0
	New loan growth YTD (CNY bn, Jun)	13286.4	11136.4
	Agg. Financing YTD (CNY bn, Jun)	18122.3	14801.8
10-Jul	CPI (%YoY, Jun)	0.4	0.3
	PPI (%YoY, Jun)	-0.8	-1.4
12-Jul	Exports (%YoY, Jun)	8.0	7.6
	Imports (%YoY, Jun)	2.9	1.8
	Trade Bal. (USD bn, Jun)	84.7	82.62

Source: Bloomberg

Spot CNH weakened toward an 8m low of 7.3114 before settling near 7.29 level, as the PBoC continued to set the CNY fixing weaker above the 7.13 level, signalling its intension to allow CNY depreciation pressure. Spot CNY also slid to an 8m low of 7.2738 and remained near the top of its 2% trading band. Lately, a USD retracement provided some relief, sending spot CNH back to near the 7.29 level, resulting in narrowing \$CNH-\$CNY spread to below +300pips.

The PBoC reversed month-end liquidity injections via open market operations (OMOs) and mopped up CNY 740bn of liquidity over the week. The 7-day interbank rate settled at 1.8% after month-end. In the bond market, the PBoC announced that it has decided to borrow government bond from some primary dealers, indicating that the bond selling operations are on the cards. Subsequently, the PBoC revealed that it has hundreds of billions of CNY worth of medium-term and long-term bonds at its disposal to borrow, after signing agreements with several major financial institutions. The 10Y China Government Bond (CGB) yield rebounded to 2.26% after hitting a 22-year low at 2.18%.

Outlook

While the USD retracement provided temporary relief for CNH, it may be premature to conclude that CNY fix weakening has run its course. If the PBoC intends to unleash CNY depreciation pressure, the CNY fix weakening pattern may continue until spot CNY deviates from the top of the trading band. At that point, spot CNY will be settling at a new equilibrium level and market participants will not rush to sell spot CNY upon recognizing weaker CNY fixing. However, estimating this equilibrium level is challenging due to the headwinds of higher-for-longer US rates and rising risks of Trump's policies after his victory. On the data front, the money supply data will likely show subdued credit demand. CPI inflation is expected to remain low on PPI deflation and soft consumption demand. Exports will likely remain supportive due to robust trade activities in the Asian region.

ken.cheung@mizuho-cb.com

serena.zhou@hk.mizuho-sc.com

EM Asia – Tentative

Major Events and Data Releases

Date	Event	Survey	Prior
8-Jul	Thailand Consumer Confidence (DI, Jun)	--	54.3
9-Jul	Philippines Unemployment Rate (% , May)	--	4.0
	Taiwan Exports (%YoY, Jun)	14.7	3.5
10-Jul	South Korea Unemployment (% , Jun)	2.8	2.8
	Philippines Exports (%YoY, May)	-1.0	26.4
11-Jul	Bank of Korea Base Rate (%)	3.50	3.50
	BNM Overnight Policy Rate (%)	3.00	3.00
12-Jul	India Industrial Production (%YoY, May)	4.8	5.0
	India CPI (%YoY, Jun)	4.8	4.8
	Malaysia Industrial Production (%YoY, May)	3.7	6.1
	Singapore GDP (%YoY, Q2)	2.7	2.7

Source: Bloomberg

While the RBA minutes cleared some of the air that the bar for a hike still appears high, any cuts look to be far out on the horizon and aided AUD outperformance. In particular, the minutes were inconclusive on the drivers behind upwardly revised consumption, noting that a hike may require a tighter labour market, and did not view some spare capacity as necessary to bring back inflation. Even as this week showed a surge in building approvals to 5.5% (Apr: 1.9%) and higher retail sales, rentals remain high while the increase in retail sales was on the back of sales/discounts campaigns. Meanwhile, despite BSP signalling the possibility of a cut at their last two meetings, this prospect remains tentative as moderating inflation print in June belies a further acceleration of food prices (the strongest driver of inflation). In contrast, policy adjustments by SBV remain on the table with a pressured VND near the top of SBV's trading range, even as inflation remains contained and growth outperformed (Q2: 6.9% vs exp: 6.0%).

Outlook

While the BoK is expected to hold rates, they could plot out conditional trajectories for a policy pivot with dis-inflation remaining on track, given that upside growth risks are mostly externally driven. Prudence would likely be a key theme, insofar as further KRW weakness on pre-mature cuts risks fuelling price pressures.

The BNM looks on course to stand pat amid an improved growth outlook while inflation remains manageable, and could be the outlier abstaining from the global easing cycle given relatively fewer cumulative hikes. While the diesel (and likely forthcoming fuel) subsidy reduction would add to the headline number, PM Anwar had previously assured that the subsidy rationalisation would not burden the majority of the consumers. Elsewhere, Singapore could show a growth pick up in Q2 on a seasonally-adjusted basis led by the electronics recovery while wholesale and retail trade could pose a drag on growth. Nonetheless, the print would likely be a growth moderation on a YoY basis compared to Q1 (2.7%) due to base effects.

jingyi.tan@mizuho-cb.com

EMEA – Poland central bank chief rules out rate cuts**Major Events and Data Releases**

Date	Event	Survey	Prior
9-Jul	Hungary CPI (%YoY, Jun)	3.9	4.0
10-Jul	Czech CPI (%YoY, Jun)	2.4	2.6
	Turkiye Industrial Production (%YoY, May)	-	-0.7
12-Jul	Turkiye Current Account (\$USD, May)	-1.50	-5.29

Source: Bloomberg

Last week in EMEA, the performance of EMEA currencies was mixed. While PLN and HUF were stable, CZK, TRY, and ZAR depreciated against EUR.

Monetary policy divergences among the central banks of Central and Eastern European are getting clearer again. The Czech National Bank (CNB) cut its policy rates by 50bp to 4.75% on 27 June. Only 5 of 25 economist surveyed by Bloomberg expected the decision, with most forecasting a 25bp cut. CZK weakened after the announcement. On the other hand, the National Bank of Poland (NBP) kept its policy rate at 5.75% on 3 July, and the Governor Glapinski signalled rates might not be cut until 2026.

In South Africa, President Ramaphosa announced a new cabinet in which some of the coalition parties participated. The market reacted positively and ZAR appreciated against USD initially. But after the initial reaction, ZAR depreciated maybe party due to profit taking.

In Turkiye, CPI inflation decelerated to 71.6%YoY in June from 75.5%YoY in June, slowing for the first time in eight months. While the market has not reacted to CPI print, we see this as a positive sign, since it confirmed Turkiye's disinflation process has started.

Outlook

Next week, June CPI in Hungary and the Czech Republic will be worth watching. May Industrial Production and the current account in Turkiye will also be announced.

masayuki.nakajima@mizuhoemea.com

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