

# Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	Quiet week leaves EUR at mercy of events elsewhere
USD	USD to drift higher
JPY	Drifting back up in the absence of MoF
GBP	BoE expectations imply mild downside for GBP

## Overnight comment – Upbeat Q1 UK GDP lifts GBP

US equities closed higher. Most Asian shares were higher too, led by the Hang Seng, which was up over 2.0% amid hopes of tax breaks for individual stock investors. The gains came despite expectations that the Biden administration will announce additional sanctions on China soon. UST yields were fairly stable in Asian trade and the DXY index was rangebound.

News that Japan recorded a record current account surplus in FY23 failed to lift JPY. The monthly surplus in March was in line with expectations at ¥2010bn. Other data were mixed with household spending a little stronger than expected in March, while the economy watchers outlook index was weak, dropping to 48.5, with a number of respondents citing the weak yen as a factor. This is a dilemma for the BoJ. If yen weakness is weighing on consumption, then tighter policy seems to be part of the answer – a message that Governor Ueda seems to have better understood this week in the wake of his conversation with PM Kishida. Indeed, expectations of smaller Rinban ops in the near future have grown, with some expecting a reduction as early as next week. JGB yields were little changed along much of the curve but softer in the 30yr sector following a poor auction that saw 30yr yields approach the 2.0% level, their highest since 2013. **USD/JPY was little changed and sits around 155.65 as Europe opens.**

It has been a quiet start to trade in the eurozone. Bund yields dropped at the open. Yesterday, EUR/USD pushed higher in the wake of the soft US claims data and has broadly held the gain overnight. **EUR/USD sits around 1.0775.** UK Q1 GDP data was much firmer than expected in March, driving an upside surprise in Q1, where GDP was up 0.6%QoQ vs 0.4%QoQ expected. Yesterday's BoE meeting showed a 7-2 vote (with Ramsden switching to the dovish camp as expected) and a lower CPI forecast between the 2~3yr horizon. The firmer GDP and lower unemployment forecasts, notwithstanding, the lower CPI projections certainly imply the time for cuts is coming. In the press conference, Bailey sounded pleased with developments on the inflation persistence front and he noted that there were 2 sets of CPI data ahead of the next meeting on 20 June. **GBP/USD jumped in the wake of the GDP data and sits around 1.2535.** Interestingly, despite the somewhat dovish BoE meeting yesterday, the US weekly jobless claims seemed to have more impact on cable.

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – GDP (%QoQ, Q1)	0.4/-0.3
US – U Mich Consumer confidence (DI, May)	76.2/77.2
US – Monthly budget statement (\$bn, Apr)	250/176

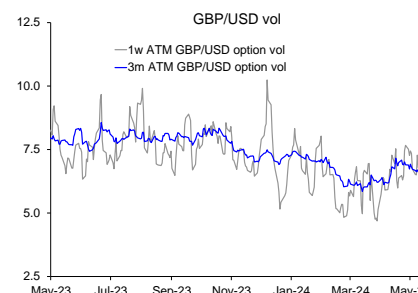
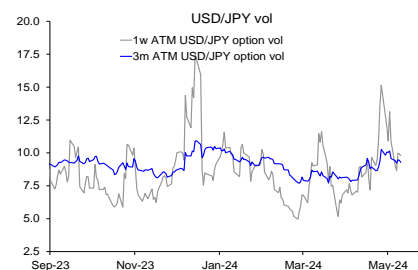
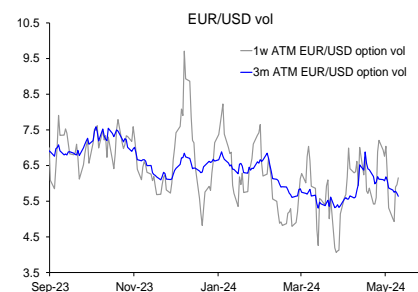
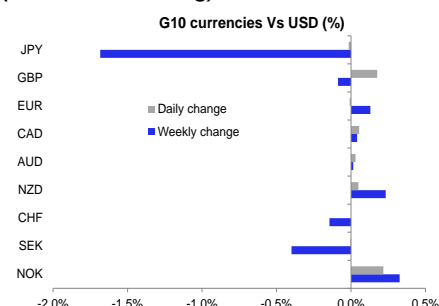
Source: Bloomberg

**Europe.** ECB's Cipollone and Elderson speak and ECB publishes its account of the April ECB meeting. There are also some national industrial production releases. The BoE's Dhingra and Pill speak. In the wake of the MPC meeting, these two speeches will be of interest. The BoE's lower CPI forecast was in part due to the judgment that the pass-through from second round effects from wage and price increases has happened faster and thus there is less pass through to come. Pill will need to be convinced of the case to cut (if our assumption - that he will continue to vote alongside Bailey and when they adopt a dovish stance the policy rate will be lowered - is correct) and it will be interesting to see if there is any difference between his tone and that of Bailey's press conference.

**US.** Consumer inflation expectations in the Michigan consumer sentiment survey will be the focus. I am always surprised by the lack of focus on the monthly budget statement. The Fed's Bowman, Logan, Kashkari and Goolsbee are all scheduled to speak.

## Market data

(Source: Bloomberg)



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