

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	France still the focus. Downside is path of least resistance
USD	USD in demand as labour market remains solid
JPY	Back in the intervention zone
GBP	Lack of negatives sees scope for mild GBP appreciation

Overnight comment – Hopes of avoiding the worst case scenario lift EUR

The polls suggest that Le Pen's RN party took the largest share of the vote in Round 1 of the French legislative elections, roughly in line with what was expected. However, the elevated turn-out will mean a lot more 3-way contests than usual. A suggestion by the New Popular Front that they would pull candidates where there are third will make winning a majority harder for Le Pen even if she looks like she will have the most seats. **French equity futures look set to open over 2.0% higher while EUR/USD pushed higher through Asian trade and sits around 1.0780 as Europe opens.** President Biden did not withdraw from the US presidential race over the weekend, despite numerous calls that he should. Friday's CTFC data showed both speculative investors and asset managers increasing short JPY positions, while specs were good buyers of AUD and NZD in the wake of hawkish central bank meetings. China's composite PMI edged lower, led by a softer services PMI. Elsewhere in Asia, the manufacturing PMI data were a little firmer on balance. ZAR firmed a little in wake of Cabinet announcement on Sunday evening.

The BoJ's quarterly Tankan survey showed manufacturing confidence edging higher (13 vs 11 prev) and remaining at elevated levels in the service sector (33 vs 34 prev). Corporate price expectations softened a fraction at the 3yr and 5yr horizons but were still above 2.0% across the board. While expectations for capex in FY24 were slightly softer than expected they were nonetheless still at a high level. Companies lower their expectations for the yen, with companies now seeing USD/JPY at 144.77 (vs 141.42 prev) in FY24. JGB yields nudged higher in the 5-10yr sector, with The Topix hitting a 34-year intra-day high, led by financials. **USD/JPY edged a little higher and sits around 161.00. EUR/JPY hit a record, rising as high as 173.44.**

French equities welcomed the election result as did French bonds. Bunds on the other hand saw previous safe-haven inflows reverse, narrowing the OAT/Bund spread. UK house prices were firm in June, with the YoY rate edging up to 1.5% from 1.3%. **GBP/USD was dragged higher by EUR and sits around 1.2685 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – M4 Ex OIFCs (3m% saar, May)	--/4.6
US – ISM m'fact (DI, Jun)	49.2/48.7

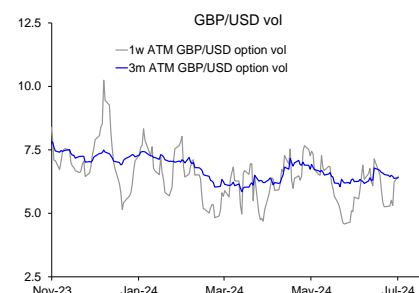
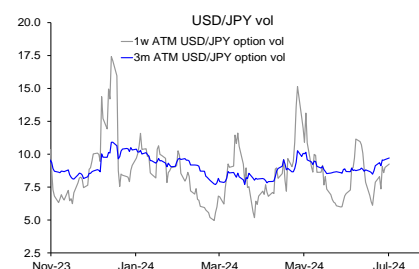
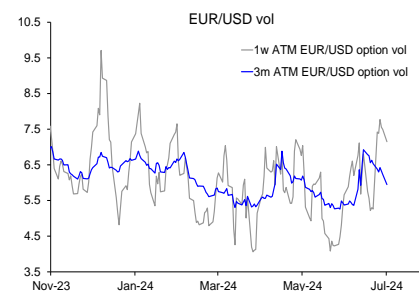
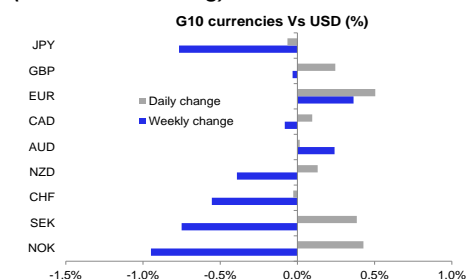
Source: Bloomberg

Europe. German CPI data are due ahead of the eurozone figure tomorrow. Friday's French, Spanish and Italian numbers were in line with expectations. Lagarde gives opening remarks in the evening at the ECB's central banking forum at Sintra in Portugal. This year's theme will be "Monetary Policy in an Era of Transformation". The highlight is likely to be the Wednesday afternoon session on the drivers of equilibrium interest rates chaired by Philip Lane, with Claudio Borio of the BIS going up against John Williams of the FOMC. We suspect that Borio will suggest that equilibrium rates have risen a lot more than Williams does. UK money and credit data are due.

US. Regional Fed surveys imply a slightly firmer manufacturing ISM report.

Market data

(Source: Bloomberg)



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