

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	French gridlock to weigh
USD	Another benign CPI print to limit any upside for USD
JPY	Hovering just below the intervention zone
GBP	Lack of negatives sees scope for mild GBP appreciation

Overnight comment – Waiting for Powell

Asian equities were mainly higher, led by Japan and China in a quiet session for news and data, with chip and tech stocks in the lead. It was a quiet session for UST yields ahead of Powell's testimony later today. The DXY index was also little changed during Asian trade.

The BoJ has said it will consult investors in coming days to finalise its plans for reducing Rinban purchases, which implies the announcement of the policy at the July policy meeting. JGB yields pushed lower, supported by a solid 5yr auction. **USD/JPY ended the Asian session little changed around the 160.85 level.** The Topix made a fresh intra-day record high. Yesterday's Sakura Report, the Japanese equivalent of the Beige Book, showed upgrades in two regions and downgrades in two regions but economic activity in the two upgraded regions is much higher than in the downgraded regions.

Yesterday, the ECB's Knot said he was fine with current market expectations and that the September meeting was the next meeting that was "truly" open. We too expect the next step in the easing cycle to be in September. In German, Verdi, the 2nd biggest union, reached a ~2-year pay deal giving a wage rise of 12.6%. This is significantly above inflation but applies only to 190k workers. Recall that IG Metal is looking for ~7.0% for the coming year for a much larger number of workers. Average pay rates in Germany will likely be a lot lower. Nonetheless, it's a sign for the ECB that it is right to be concerned about wage growth. **EUR/USD was little changed during Asian trade and sits around 1.0825 as Europe opens.**

Yesterday, Chancellor Reeves said she had no intention of changing the interest paid on BoE reserves, effectively ruling out a tiering system. Fitch noted that UK's prospects had improved and that the election brought fiscal continuity. BRC retail sales showed spending in June was soft, with total sales down 0.2%YoY. The inconsistent weather is leading to large swings in sales of seasonal goods and poor weather is at least partly to blame for the poor result in June. The election may have also weighed on activity at the margin. **GBP/USD was flat during Asian trade, after easing off yesterday's highs late in the day. The pair sits around 1.2805 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – NFIB small business sentiment (DI, Jun)	90.2/90.5
Fed Chair's semi-annual testimony to Congress	

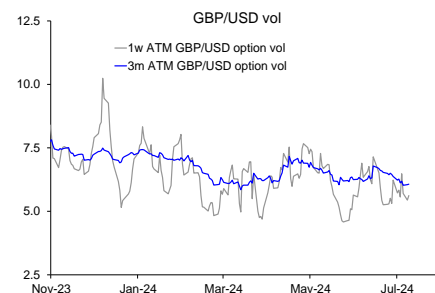
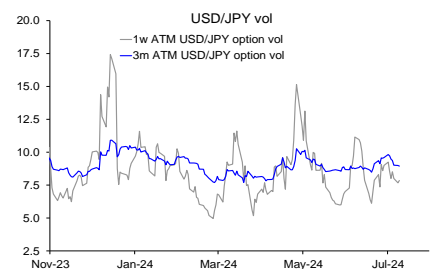
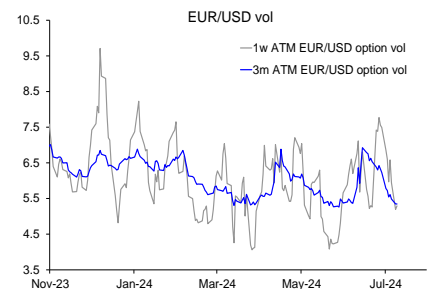
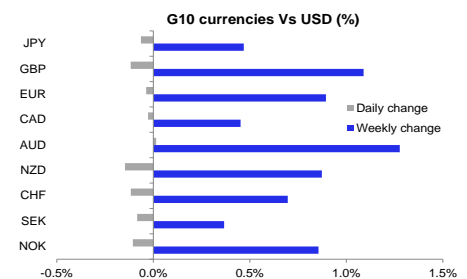
Source: Bloomberg

Europe. France remains in limbo with limited progress as yet on forming a government. President Macron has asked current PM Attal to remain in his post "for the time being". The NFP coalition has said that it will propose a new PM this week, although for now there is no name that is the obvious candidate. Nominations for the Conservative Party leadership are likely to open today. Ex PM Sunak has said he will remain in place for the time being. The Party is split between those wanting a rapid contest and those thinking the Party should take its time.

US. Chair Powell will deliver his semi-annual testimony to Congress this week – to the Senate Banking Committee today and to the House Financial Services Committee on Wednesday. Whilst the Fed has said it still wants more comfort on inflation, it has continued to suggest that progress is steadily being made and the required level of comfort is not so distant. The July FOMC meeting is surely too soon for the FOMC to ease policy but we suspect that Powell's comments, whilst preserving maximum optionality, will be consistent with a cut in September.

Market data

(Source: Bloomberg)



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