

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 – Solid GDP helps GBP build on post-Pill gains

Solid gains in US equities helped Asian equities push higher, with tech stocks leading the way. UST yields edged a little higher but the DXY index dipped a little in Asian trade.

In Japan, machinery orders were soft but revisions left the YoY rate both firm and firmer than expected. Tokyo office vacancies eased lower. Indeed, the pace at which vacancies are declining looks to be accelerating. JGB yields nudged higher, with 20yrs outperforming a little after a solid auction. The Topix continued to make new highs, **while USD/JPY dipped early but gave back the move to sit around 161.70 as Europe opens.**

It was a quiet start to trade in Europe, **with EUR/USD maintaining yesterday's gains around the 1.0840 level.** In the wake of Pill's comments on Wednesday, we still see 2x25bp cuts from the BoE this year, most likely in August and November. That said cuts in Sep & Dec look more possible than they did at the start of the week. If there is a 25bp at the August meeting, it seems likely to be a close call, if we assume that his lack of comfort with high service prices leaves Pill voting the leave rates unchanged. This would mean that Governor Bailey, new Deputy Governor Lombardelli and Financial Stability Deputy Governor Breeden would all need to join the two doves (Ramsden and Dhingra). The RICS house price index was unchanged at -17, disappointing expectations for a small rise. RICS noted "Current conditions remain subdued but the market is expected to regain some impetus in the months ahead". UK GDP rose 0.4%MoM, twice the pace expected. Recent UK GDP data have been upbeat. At the margin, in the wake of Pill comments, today's report suggests less urgency for easier policy. **GBP/USD sits around 1.2860 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house price index (DI, Jun)	-15/-17
UK – GDP (%MoM, May)	0.2/0.0
UK – Credit conditions survey (Q2)	--
US – CPI (%MoM, Jun)	0.1/0.0
US – Core CPI (%MoM, Jun)	0.2/0.2
US – Weekly jobless claims (k)	235/238

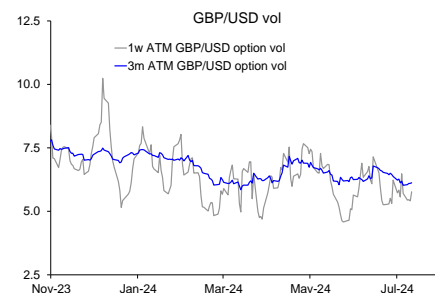
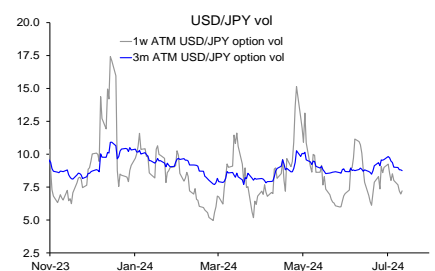
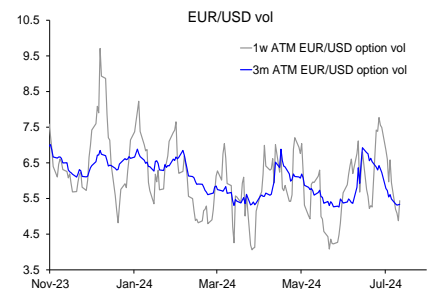
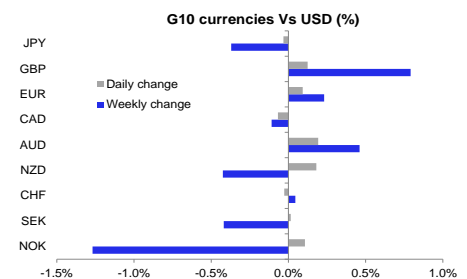
Source: Bloomberg

Europe. UK house prices for June and monthly GDP for May are due. The BoE's quarterly credit conditions survey may also make an appearance.

US. Inflation prints in Q1 were a shock to the Fed. In Q1 MoM headline (core) CPI printed 0.3% (0.4%), 0.4% (0.4%) and 0.4% (0.4%). Q2 has been better at 0.3% (0.3%) and 0.0% (0.2%). The June headline print is seen at 0.1%MoM, which would leave the Q2 average on track to come in below the Fed's inflation target. For core the consensus print is another 0.2% print which would leave the Q2 annualised rate at 2.8%. If one assumes the usual gap between CPI and PCE (and a consensus-like print for June), inflation is close to the Fed's PCE target, if marginally above. In his semi-annual testimony to Congress, Powell suggested more confidence is needed for the Fed to ease policy. Today's report looks likely to add to Fed confidence that cuts are coming. July looks too early so that makes September a possible for the first easing move of the cycle. Despite the step up in weekly jobless claims, they look to have stabilised at still quite low levels – that imply the labour market remains solid, even if not as super-strong as it has been for the last few quarters.

Market data

(Source: Bloomberg)



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