

# Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Data not likely to be supportive. Drifting lower
USD	A more volatile political outlook may support USD
JPY	BoJ speculation to support JPY
GBP	Lack of data leaves GBP at risk

## Overnight comment – Minor Trump Trade unwind

President Joe Biden has finally dropped out of the race and endorsed his VP Kamala Harris. Even though she inspires little enthusiasm, she seems the most likely to emerge as the Democratic candidate. The most likely outcome of Biden stepping down is that Trump remains the favourite and the impact is limited but it does inject some potential volatility into the race. Trump standing in the betting odds declined marginally in the wake of the events over the weekend. He remains the strong favourite to win the election. Many people who feel neither Biden nor Trump are suitable will now have a choice. The markets have taken the potential volatility on board and there has been a minor unwind of the Trump Trade. The DXY index is a little lower, while UST yields are lower and the curve a little flatter. A surprise 10bp rate cut from the PBoC also weighed on Asian equities, which were led lower by tech stocks, with Taiwan down over 2.0%. CNH reversed its early gains in the wake of the PBoC move.

The CTFC data for the week to 16 July mainly reflect the soft US CPI print from 11 July and subsequent expectations of Fed easing. Long USD positioning dropped sharply for both asset managers and speculative investors, especially against JPY, EUR and GBP. That said, USD positioning is almost flat over the last 4 months against a backdrop of solid economic activity that has forced the Fed to keep pushing back rate cuts.

JGB yields pushed higher in a quiet session. Weak demand at the liquidity enhancement auction ahead of the 31 July BoJ meeting added to the upside pressure on bond yields. **USD/JPY was little changed at the open but pushed lower through the session and sits around 156.55.** June JSDA data showed trust banks (pensions) as solid buyers but other investor groups remaining cautious.

The ECB's Makhlof said there was no rush to make decisions on rates and that the ECB must keep an eye on strong service inflation. **EUR/USD initially moved higher but gave back the bulk of the move to sit around 1.0885 as Europe opens.** Over the weekend the Chancellor hinted that the government was minded to grant above inflation pay awards to teachers and some NHS staff. She stressed that overall spending would remain prudent, implying spending cuts elsewhere or higher taxes. **GBP/USD sits around 1.2915.**

## Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
No major data due today	

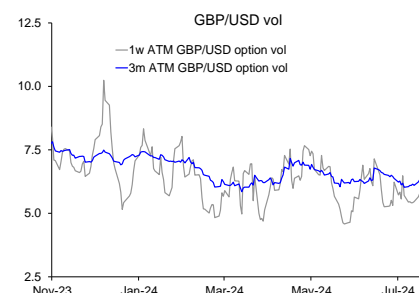
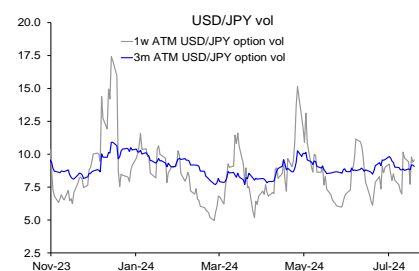
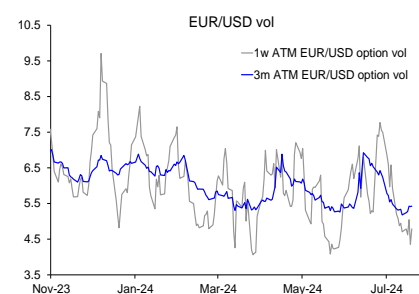
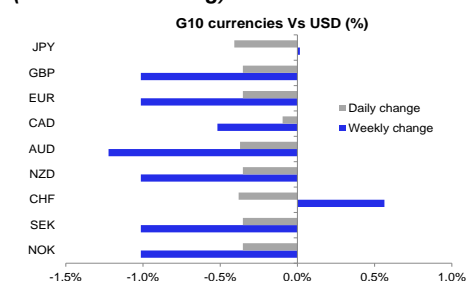
Source: Bloomberg

**Europe.** It promises to be a very quiet session with investors hoping that the IT problems from Friday are now broadly in the rear-view mirror. EU foreign ministers meeting in Brussels are not likely to have much market impact, although they will likely consider events across the Atlantic. Belgium will sell 10yr and 30yr bonds.

**US.** Given the lack of economic events politics will fill the void. Earnings don't pick up until tomorrow and there are no Fed speakers so close to the 31 July FOMC meeting.

## Market data

(Source: Bloomberg)



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