

Mizuho Daily Currency Watch

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Colin Asher

Senior Economist

colin.asher@mizuhoemea.com | +44 20 7012 5262/+44 7387 139164

MIZUHO

Currency	Main focus of the week (S-T view)
EUR	Mild profit taking in prospect. Drifting lower
USD	Rebound in UST yields likely to lift USD
JPY	JPY set to run into profit taking
GBP	Risk rebound to lift GBP

Overnight comment – More cautious BoJ lifts sentiment, hits JPY

Asian equities were mainly higher, with tech shares leading the way. US and European equity futures are higher too, with comments from Deputy BoJ Governor Uchida helping sentiment. UST yields were marginally higher during the Asian session, as was the DXY index.

We believe USD/JPY has fallen too far too fast and that higher front-end UST yields in coming weeks, as the Fed refuses to validate extreme easing expectations, will mean that the pair has scope to move higher in the near term. Yesterday's wage data were supportive of the BoJ's recent move but even so, we still think that a near-term rate hike by the BoJ is unlikely given the market reaction. It will be hard for the BoJ to move in the near term. Our current estimate is that the BoJ will have to wait until December to hike again. On this front, today BoJ Deputy Governor Uchida said today that factors have emerged to make him more cautious about a rate hike and that the BoJ was unlikely to hike while markets were unstable. These comments helped support Japanese equities and the Topix rose over 3% to be almost flat on the week. **The comments also undermined JPY with USD/JPY pushing up above 147 before settling around 146.90 as Europe opens.**

German industrial production was a little firmer than expected at 1.4%MoM. That said, production remains in the doldrums, with the YoY rate down 4.1%. The German manufacturing PMI suggests limited relief any time soon. The media report that the Italian government is again looking at ways to tax financial services against a backdrop of tight fiscal constraints. **EUR/USD nudged a fraction lower during Asian trade to sit around 1.0910 as Europe opens.** In the wake of recent financial market volatility and the run of soft macro data we now think that the ECB will ease in September, November and December. UK house prices rose 0.8%MoM and 2.3%YoY. The UK housing market is weathering higher rates surprisingly well. **GBP/USD sits around 1.2700 as European trade gets underway.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
US – Consumer credit (\$bn, Jun)	-72.5/-75.1

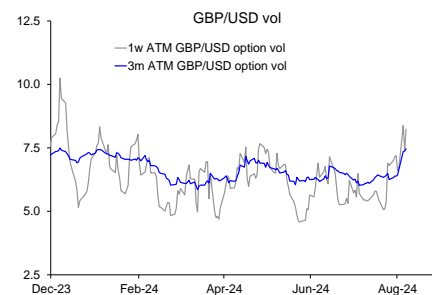
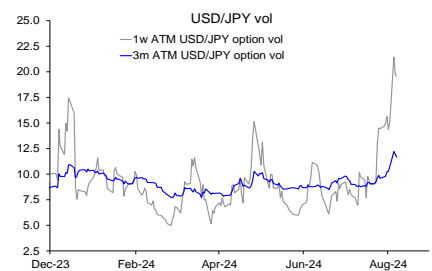
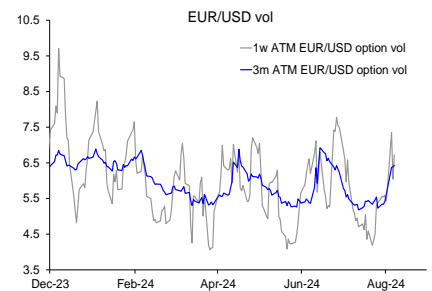
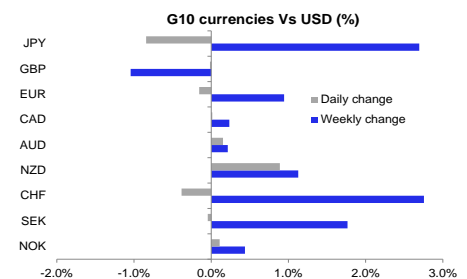
Source: Bloomberg

Europe. The ECB is enjoying a summer vacation. ECB speakers have been few and far between so far in August. Yesterday, the Austrian government announced that Labour Minister Martin Kocher will succeed Robert Holzmann. The government has made the announcement more than a year in advance on the pretext that a hung parliament in the wake of the 29 September elections may struggle to make a choice. Holzmann's hawkish voice will continue to be heard until September 2025.

US. The latest polls suggest that the election in November will be highly competitive. VP Harris has proved surprisingly popular and her choice of Walz as running mate contrasts with the Republican choice of Vance. Walz broadens the appeal of the ticket in ways that Vance does not. Harris has also been very successful in raising funds and large swathes of the electorate seem energised in ways that they were not when Biden was the democratic candidate. A number of polls now have the Democrats as the favourite, even leading in a number of the key swing states. We no longer expect that Trump will win the election in November. The Senate remains the biggest hurdle for the Democrats given the backdrop. We expect a divided government in the wake of the November election that likely means less fiscal spending in 2025, which means that fiscal policy will be less of a hinderance for Fed cuts in 2025.

Market data

(Source: Bloomberg)



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