

Mizuho Daily Currency Watch

8 August, 2024

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 – What repatriation?

US Treasury investors showed limited appetite for yesterday's 10yr auction, adding to the momentum for higher yields after the stunning push lower in late July and early August. Markets are now pricing in "just" 46bp of cuts for the September Fed meeting, down from a peak of 61bp on Monday. Blue-chip companies also rushed to take advantage of the low yield environment, with issuance topping \$30bn, the biggest issuance day in the ear to date. The weak auction seemed to unnerve equity investors and US stocks closed lower too. In the Asian session, tech shares led markets lower, with the Taiex down 2.0% and the Topix down 1.1%. UST yields edged lower during Asian trade and the DXY index was also fractionally lower.

MoF's weekly flows data for the week ending 2 August, which includes payrolls and the BoJ/Fed meetings showed Japanese investors as heavy buyers of US stocks, which we suspect will be driven by trust banks buying into weakness. The ¥1291bn of overseas equity purchases was the largest in the last 2 decades. Japanese investors were also net buyers of overseas bonds to the tune of ¥670bn. Note no sign of mass repatriation of overseas assets here! Overseas investors were net sellers of both Japanese stocks and bonds in the wake of the BoJ meeting. The monthly economy watchers' survey for July (survey dates 25 July–end of the month) showed a marginal improvement in sentiment. It seems likely that it will decline next month. Today's 30yr auction saw solid demand with the bid/cover rising to 3.47x from 2.97x. The JGB yield curve bull flattened. USD/JPY was a little lower in early trade as the summary of opinions of the 31 July BoJ meeting saw 1 member suggested that the natural rate was around the 1.0% level. **However, by the end of the session, the USD/JPY was only a little lower around the 146.15 level.** Japanese civil servants will receive their largest pay rise since the early 1990s.

Yesterday, the ECB's Rehn noted that recent market moves seemed like an over-reaction due to uncertainty and low liquidity. Note that European gas prices jumped to their highest levels this year on concern over the war in Ukraine disrupting pipeline supplies. **EUR nudged higher though the Asian session to sit around the 1.0940 level.**

In the UK the RICS house price balance eased back a little in July but the broader survey was quite upbeat with expectations for both prices and activity moving higher in the wake of the recent BoE cut. The July REC Report on Jobs (survey dates 11-25 July) suggested that the labour market continued to soften, even if rates of pay are still high and the softening is marginal. Yesterday the ONS revised up GDP for end 2022 by just under 1.0pp. **GBP/USD nudged higher through Asian trade and sits around 1.2710 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – RICS house price balance (DI, Jul)	-11/-17
US – Weekly jobless claims (k)	240/249

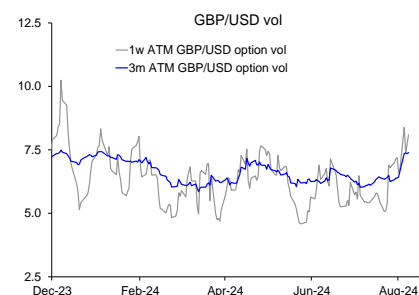
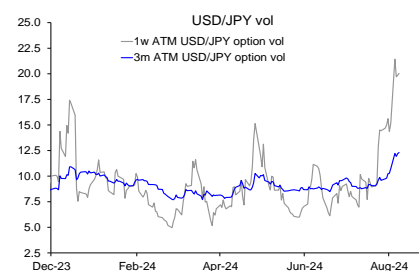
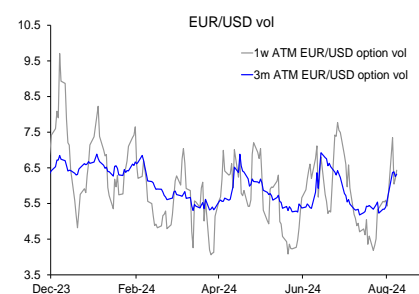
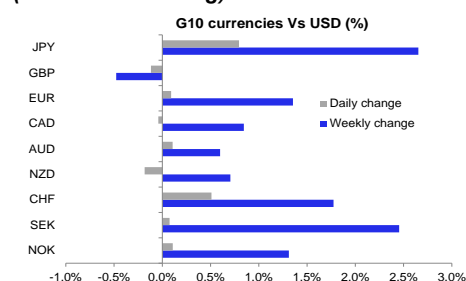
Source: Bloomberg

Europe. In the UK, the RICS housing report and the REC report on Jobs are due. It remains to be seen if fundamentals will have much impact amid recent volatility. With sentiment surveys, it will pay to carefully look for the survey dates

US. Weekly jobless claims are the highlight. Given recent focus on the labour market, the potential market impact is high, especially if the report is notably weak.

Market data

(Source: Bloomberg)



This publication has been prepared by Mizuho Bank, Ltd. ("Mizuho") and represents the views of the author(s). It has not been prepared by an independent research department and it has not been prepared in accordance with legal requirements in any country or jurisdiction designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research.

This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605 promulgated pursuant to the U.S. Commodity Exchange Act and is not intended to provide information upon which to base a decision to enter into a derivatives transaction regulated by the CFTC. Any discussion in this publication of derivatives is limited to commentary on economic, political, or market conditions and statistical summaries of multiple companies' financial data, which may include lists of current ratings.

This publication is not intended to be relied upon as advice to investors or potential investors and does not take into account investment objectives, financial situation or needs of any particular investor. It is not intended for persons who are Retail Clients within the meaning of the United Kingdom's Financial Conduct Authority rules nor for persons who are restricted in accordance with US, Brazilian, Japanese, Singapore or any other applicable securities laws. This publication has been prepared for information purposes only and is not intended by Mizuho to market any financial instrument, product or service or serve as a recommendation to take or refrain from taking any particular course of action or participate in any trading or other strategy. This publication is not an offer to buy or sell or a solicitation of any offer to buy or sell any security or any of the assets, businesses or undertakings described herein, or any other financial instrument, nor is it an offer to participate in any trading or other strategy, nor a disclosure document under applicable laws, rules, regulations or guidelines. These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation.

The information contained in this publication may not be current due to, among other things, changes in the financial markets or economic environment. Mizuho has no obligation to update any information contained in this publication. Past performance is not indicative of future performance.

This Publication has not been nor will be submitted to, or reviewed by, any regulatory authority. Without limiting the generality of the foregoing, nothing contained herein is in any way intended by Mizuho to offer, solicit and/or market any financial instrument, product or service, or to act as any inducement to enter into any contract or commitment whatsoever. A recipient must complete its own independent analysis of the financial instrument, product or service and receive all information it requires to make its own decision, investment or otherwise, including, where applicable, a review of any prospectus, prospectus supplement, offering circular or memorandum describing such item. The information contained in this Publication has been obtained from public sources and such information is believed to be correct and reliable but has not been independently verified.

United Kingdom / European Economic Area: In the UK, Mizuho is authorised by the Prudential Regulation Authority and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of MHBK's regulation by the Prudential Regulation Authority are available upon request. This publication may also be distributed by Mizuho International plc ("MHI"). MHI is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Singapore: Mizuho is licensed as a bank under the Banking Act (Chapter 19) of Singapore, and is regulated by the Monetary Authority of Singapore.

Japan: Mizuho is authorised and regulated by the Financial Services Agency of Japan.

United States: This publication is not a "research report" as defined in Commodity Futures Trading Commission ("CFTC") Regulations 1.71 and 23.605. The content of publications distributed by Mizuho Securities USA Inc. ("MSUSA") is the responsibility of MSUSA. The content of publications distributed directly to US customers by Mizuho is the responsibility of Mizuho. US investors must effect any order for a security that is the subject of this report through MSUSA.

Brazil: Banco Mizuho do Brasil S.A. is authorized to operate and regulated by the Brazilian Central Bank.

This publication is available free of charge to clients. However, if you no longer wish to receive it then please specifically request to unsubscribe from the distribution list.

© 2018 Mizuho Bank Ltd