

Mizuho Daily Currency Watch

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MIZUHO

Currency	Main focus of the week (S-T view)
EUR	Limited data. Drift
USD	Benign CPI inflation to weigh on USD but recession not visible in the data
JPY	Obon drift. Strong GDP a mild +ve for JPY
GBP	Mixed data in prospect. On balance mildly GBP supportive

Overnight comment – Surprise, surprise

Yesterday's benign PPI data helped push UST yields lower, which in turn dragged the DXY index lower too. Asian stocks mainly tracked US shares higher, with China the main exception amid weak lending data. The RBNZ surprised markets by cutting 25bp, with the new rate path sharply lower than at the previous meeting in the wake of soft activity of late. NZD was the worst performing G10 currency overnight. The DXY index was unchanged in Asian trade after dropping sharply yesterday.

Japanese PM Kishida also surprised investors by declaring that he would not contest the LDP leadership elections in September. He has been trailing badly in the polls and we assume his efforts to win support behind the scenes have failed. Toshimitsu Motegi or Taro Kono are the favourites to succeed him, although a few younger candidates are seen as having a chance including Takayuki Kobayashi and Shinjiro Koizumi. The Topix took the news in its stride, rising 1.1%, while JGB yields dropped, in line with developments overseas. **The initially yen dipped but rebounded to end the session little changed around the 147.0 level.**

Yesterday's German ZEW survey was very weak. It is a survey of analysts and is very sensitive to financial market developments. If the survey were taken today, it would likely be more upbeat. Amidst the backdrop of a quiet summer, German wages look to be growing rapidly, despite the economy performing poorly. WSI, a trade union think tank estimates negotiated wages will rise 5.6% in Germany this year. **EUR/USD held yesterday's rise and sits around 1.0990.** UK CPI was weaker than expected in July, with services CPI especially soft dropping from 5.5%YoY to 5.2%YoY – still elevated just a little less so. This is a welcome news for the BoE after the mixed wage data yesterday. **GBP/USD dipped in the wake of the news and trades around 1.2830 as Europe opens.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Industrial production (%MoM, Jun)	0.5/-0.6
UK – CPI (%YoY, Jul)	2.3/2.0
UK – Core CPI (%YoY, Jul)	3.4/3.5
US – CPI (%MoM, Jul)	0.2/-0.1
US – Core CPI (%MoM, Jul)	0.2/0.1

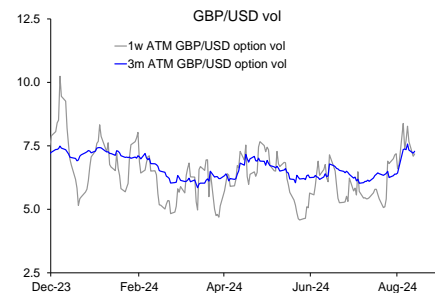
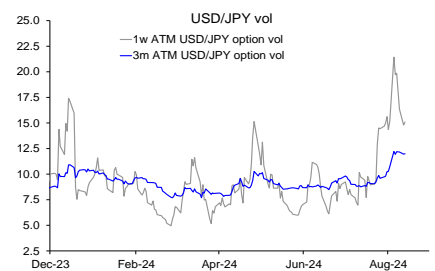
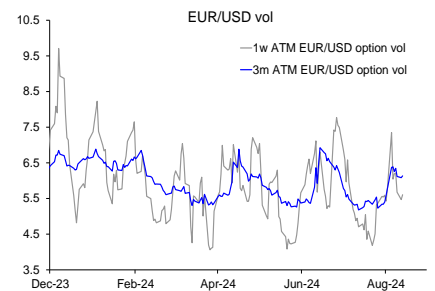
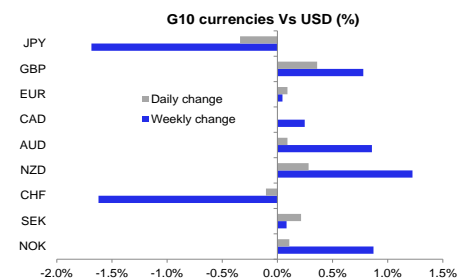
Source: Bloomberg

Europe. Energy base effects are likely to see headline UK CPI rise, even as core glacially eases back towards the BoE's 2% inflation target. The rise in the headline CPI will be driven by base effects in the household energy sector. On net, we judge yesterday's mixed labour market data as making a September rate cut a little less likely. Add a rising headline CPI into the mix and the BoE is likely to be in no rush to ease again. That said, there will be another round of wage/inflation data ahead of the 19 September meeting. We look for policy to remain unchanged in September and the BoE to next ease by 25bp in November. As for eurozone industrial production, large moves in Ireland continue to have a big impact at the headline level.

US. Headline and core CPI are both seen rising 0.2%MoM in July, a benign rate when annualised, especially when one considers that CPI usually runs slightly above PCE. Given last month's CPI prints, 3m annualised rates should look good, while YoY rates are also seen edging lower. We see little in the report that will prevent the Fed from easing 25bp at the 18 Sep Fed meeting. There is another CPI release ahead of the meeting as well as the Jackson Hole symposium (22-24 August).

Market data

(Source: Bloomberg)



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