

Mizuho Daily Currency Watch

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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 – Recession. What recession?

US equities jumped in the wake of a slew of solid US data on Thursday. Both the Atlanta and NY Fed GDP nowcasts for Q3 are tracking above 2.0%, suggesting few signs of recession. The S&P is now just in positive territory in the month to date, while the Nasdaq is virtually flat. Asian stocks pushed higher, with Japan in the lead. The Topix is up 3% today, 9% on the week and is down just 4% in the month to date. UST yields nudged lower during Asian trade, continuing to unwind yesterday's sharp jump in the wake of the strong retail sales data, especially at the long end. The DXY index also drifted lower. Brent crude futures remain around \$80/barrel as tensions in the Middle East continue to simmer just below the surface. They are little changed on the week.

MoF weekly portfolio flow data for the week ending 9 August showed massive overseas activity in Japanese equities. The net figures on the week showed decent but not spectacular purchases on the week by overseas investors at ¥521bn. The interest was in the gross figures which were at record levels for both inflows and outflows, with presumably record selling early in the week as the Topix dropped more than 10% and then record buying over the remainder of the week. The gross totals were ~50% bigger than the average volumes of prior weeks. Overseas investors were also buyer of Japanese bonds, while Japanese investors were net buyers of overseas bonds but net sellers of stocks. JGB yields jumped tracking USTs, while USD/JPY was little changed, maintaining the bulk of the post retail sales jump. **The pair sits around 148.95.** The fact that financial markets have recovered so quickly from the plunge in early August has likely prompted some investors to re-set carry trades. Certainly, the carry remains attractive for now although we expect it to shrink over the balance of the year, with the BoJ hiking late in the year and the Fed cutting at each meeting over the balance of the year. USD/JPY will likely push higher in the short run but we see the pair lower by year end.

It remains quiet in continental Europe, although from a data perspective there will be a pick up next week. **EUR/USD was little changed in Asian trade and sits around 1.0985 as Europe opens.** UK retail sales have been volatile in recent months with unusual weather, the elections and football tournaments and the cost of living crisis first surging and then easing. Today's data for July were more or less in line with expectations showing a rebound from June's decline. GBP/USD pushed higher in Asian trade. With equity markets having rebounded and risk appetite re-emerging, GBP is again among the better performing G10 currencies. This week's broadly upbeat UK data have also helped a little. **GBP/USD sits around 1.2885.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Retail sales (%MoM, Jul)	0.6/-1.2
EZ – Trade balance, sa (€bn, Jun)	13.5/12.3
US – Housing starts (%MoM, Jul)	-1.5/3.0
US – U Mich Consumer confidence (DI, Aug)	66.9/66.4

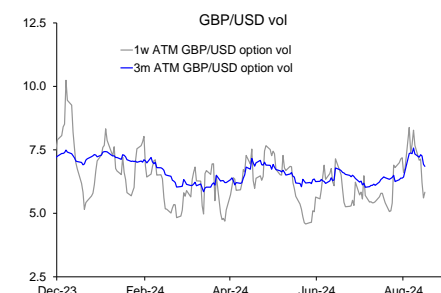
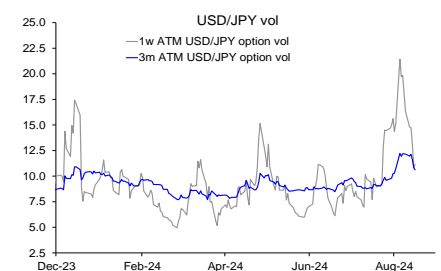
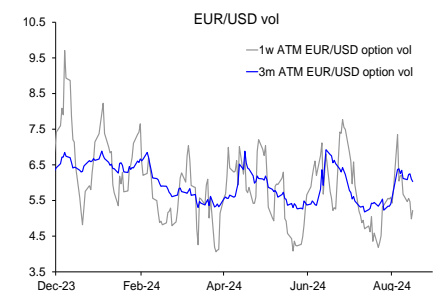
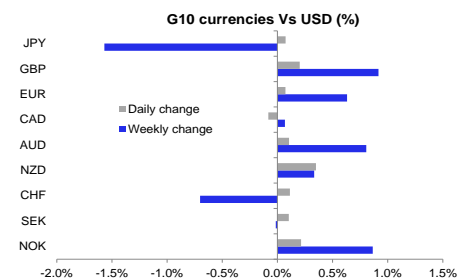
Source: Bloomberg

Europe. The eurozone trade balance gets limited attention but it remains elevated having rebounded sharply after a deep plunge in 2022 due to the surge in energy costs. It remains a prop for EUR.

US. Limited change in consumer confidence is expected. With the election just around the corner, the Democrats would like to see the number edging higher. Most pollsters now see the race as a close call after the significant Democrat gains over the last month.

Market data

(Source: Bloomberg)



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