

Mizuho Daily Currency Watch

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MIZUHO

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Currency	Main focus of the week (S-T view)
EUR	Soft PMI to add to downside pressures
USD	Jackson Hole to signal cuts are coming but higher front end UST yields should prove USD supportive
JPY	Ueda to stick to the hiking script. But JPY gains already looking stretched
GBP	Risk appetite to support GBP

Overnight comment – Shifting balance of risks

The minutes of the late July FOMC meeting showed a majority of the Committee saw a rate cut in September as likely to be appropriate, with most seeing the risks as shifting from the inflation to the unemployment side of the mandate. The 18 September FOMC remains priced around 33bp as it has been for most of the last week. In the Asian session, UST yields were little changed, Asian stocks tracked US shares higher and the DXY index was also little changed. Brent crude sits around \$76, near its January low.

The Japan PMI pushed higher to 53.0 in August - its highest level since May '23. Both manufacturing and services improved on the month, though at 46.5, manufacturing is still contracting. Composite new orders showed firmer growth. Input costs rose at their fastest pace for 16 month, even as output prices rose more slowly, indicating squeezed margins. The report will support the BoJ's view that the economy is firm enough to withstand a modest tightening cycle. Koizumi looks as if he is making headway in his campaign to be next PM, with the media reporting that he has won the backing of the Suga faction, while the Aso faction looks to be struggling to exert influence over the process. Koizumi is popular with the public. MoF's weekly portfolio flow data show no signs of widespread repatriation of funds by Japanese investors, especially on the fixed income side. Japanese investors were net buyers of overseas bonds to the tune of ¥1854bn in the week to 16 August. They also bought ¥353bn in overseas stocks. **USD/JPY was little changed around the 145.25 level.** It was a quiet start to trade in the eurozone ahead of today heavy's data schedule. **EUR/USD sits just below year to date highs around the 1.1150 level, while GBP/USD sits around 1.3095.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Composite PMI, flash (DI, Aug)	50.1/50.2
EZ – ECB's negotiated wages indicator (%YoY, Q2)	--/--
EZ – Consumer confidence (DI, Aug)	-12.6/-13.0
UK – Composite PMI, flash (DI, Aug)	53.0/52.6
US – Weekly jobless claims (k)	232/227

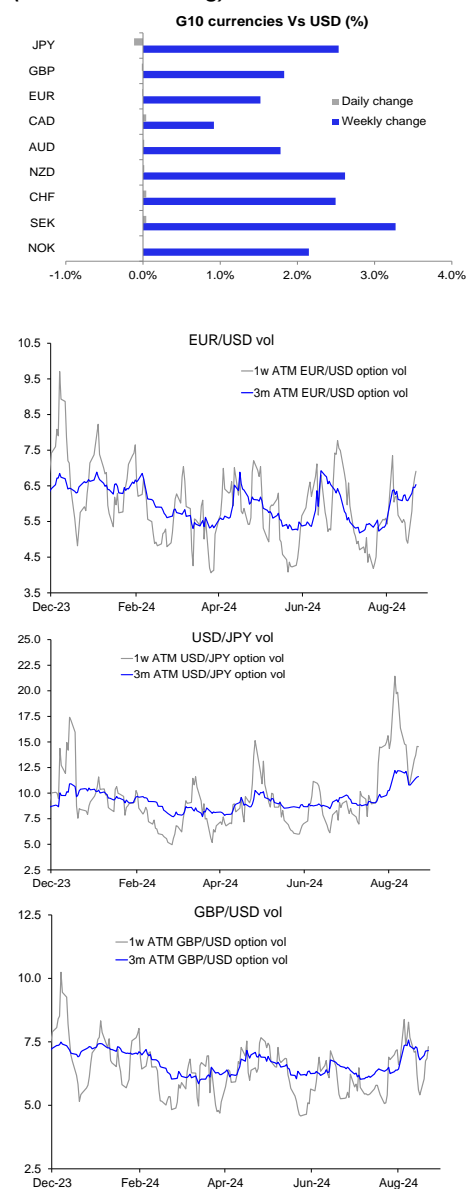
Source: Bloomberg

Europe. The PMI in the eurozone is among the most important cyclical indicators in the region. It provides timely information on both demand and supply. That said, its relationship with underlying activity has been a little looser since the outbreak of Covid. The eurozone PMI sits just above the 50 level and is not expected to change much. At this level, it suggests that eurozone economy is struggling, primarily in manufacturing and especially in Germany. The German manufacturing PMI is languishing around 43.0. The eurozone employment DI is also close to flat. Despite rising input prices in July, the rate of growth of output prices slowed to the weakest pace since October, reflecting weak demand and margins being squeezed. The ECB also releases its estimate of negotiated wages. Early data from Germany and Italy point to negotiated wage growth remaining elevated. In the UK, the PMI looks a little more healthy. The drop in headline inflation should help sentiment remain supported, as should the dip in interest rates at the start of August. The data are likely to underscore diverging prospects between the UK and the eurozone.

US. Jobless claims were among the indicators that set off the market panic at the start of the month. They have subsequently pushed lower helping calm markets, with some of the increase looking weather related. US PMI data are also due but they are less market moving in the US given the plethora of other surveys. Existing home sales are also due.

Market data

(Source: Bloomberg)



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