

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 – Waiting for Powell

US stocks closed lower and UST yields rose as some of the more dovish FOMC members implied that a 50bp cut was unlikely. In Asian trade, UST yields edged a little lower and the DXY index was soft. Asian stocks were mixed ahead of Powell's Jackson Hole speech.

BoJ Governor Ueda spoke in the Diet today saying that the Q2 GDP and recent wage data show the economy moving in line with the BoJ's forecast. He confirmed that if the data continue to move in line with the forecast further hikes will be appropriate. The CPI for July was more or less in line with expectations, with ex fresh food and energy measure dipping below 2.0% for the first time since Nov-22. The CPI is in for a bumpy ride in coming quarters as the impact of subsidies come in and fall out of the data, with jumps expected in early 2025 and again in autumn next year. Regardless of the gyrations in headline CPI, we suspect that underlying price pressures will remain around 1.5% level for most of the period. A Nikkei poll showed Shinjiro Koizumi as the leading candidate among people who identified themselves as LDP supporters. He was seen as best qualified to be LDP president (and thus Prime Minister) by a little under 40% of respondents who expressed a preference. 11% of respondents said they didn't have a preference. He also seems to have the support of at least one of the LDP kingmakers – Suga, putting him in a strong position for the first round. **USD/JPY dipped in the wake of Ueda's comments and sits around 145.65 as Europe opens.** This morning the ECB's Kazaks said a gradual approach to rate cuts would be best. **EUR/USD sits around 1.125 as European trade gets underway.** UK consumer confidence was unchanged at -13 in August. The climate for major purchases picked up and sits at its highest since early 2022. **GBP/USD moved steadily higher in Asian trade and sits around 1.3110, just below yesterday's high.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
UK – Consumer confidence (DI, Aug)	-12/-13
EZ – ECB's inflation expectations, 1yr (%YoY, Aug)	2.7/2.8
US – New home sales (%MoM, Jul)	1.0/-0.6
US – Fed Chair Powell speaks at Jackson Hole	--

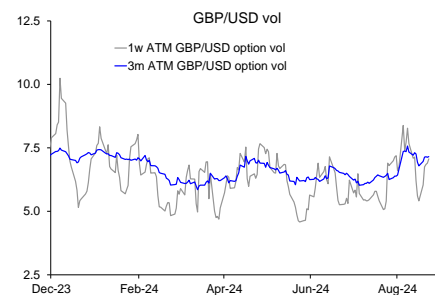
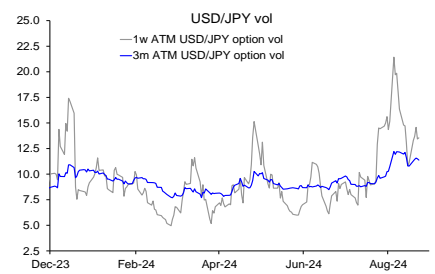
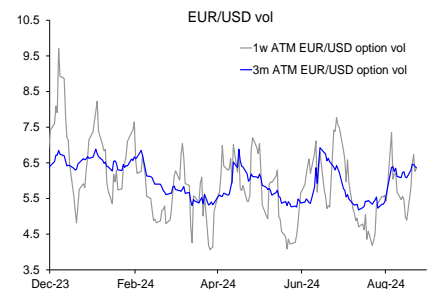
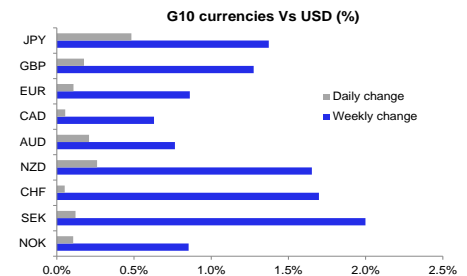
Source: Bloomberg

Europe. The ECB's inflation expectations data are due. Whilst 1yr expectations remain elevated around 2.8%, the ECB will draw much more confirm from the recent dip in the 3yr measure which sits 2.3%. At 20.00 (BST), BoE Governor Bailey will speak, but the text is released at 16.00 (BST). Bailey voted for a cut at the early August policy meeting but we suspect that he will not be keen to encourage the market to price in a September cut. Currently just 7bp are priced for the September BoE meeting, which we see Bailey as comfortable with. Recent PMI data support a gradual pace of policy easing. On Saturday, the ECB's Chief Economist Lane will speak at Jackson Hole. The ECB is fully priced for a 25bp move in September and is 50/50 for another 25bp in November. Recent eurozone data have been soft but we doubt the Lane will give much away on the policy front.

US. The Fed Chair will speak at the Kansas Fed's annual symposium at Jackson Hole at 3.00pm (BST). The FOMC minutes have already suggested that a rate cut at the September FOMC meeting is highly likely. Chair Powell is not likely to discuss the size of any potential cuts, although investors will be looking for phrases such as a "measured pace of reduction", which would imply that a 50bp cut is unlikely. Note that on Thursday, Collins, who lines up close to Powell on the Hawk/Dove spectrum, said a gradual, methodical pace of cuts was most likely appropriate. Harker, also at the dovish end of the spectrum, made similar comments, which suggests that if Powell does give any hints as to the scale and pace of easing, they will be similar.

Market data

(Source: Bloomberg)



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