

Mizuho Daily Currency Watch

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Currency	Main focus of the week (S-T view)
EUR	EUR macro backdrop softening. EUR upside capped
USD	Higher front-end UST yields, as 50bp cut is priced out, should prove USD supportive
JPY	BoJ hiking cycle intact. JPY to remain firm
GBP	Lack of data to leave GBP tracking higher

Overnight comment – Disinversion

Overnight the Fed's Daly noted that the labour market had softened but there was little evidence that it was faltering. This echoes Bostic's comments yesterday. That said markets are somewhat sceptical with 36bp now priced in for the Sep FOMC meeting and 111bp of cuts in total by the end of the year. This was sufficient for the 2x10s UST spread to dis-invert for the first time since early July 2022. In Asian trade UST yields drifted close to yesterday's lows, while most equity markets were lower. In FX, safe havens were in demand with JPY and CHF firm and volatility rising.

Japan wage data were upbeat, with real wages remaining positive and scheduled pay on a same sample basis nudging higher still. This supports the BoJ's view that a benign wage/price spiral is underway and paves the way for additional hikes. MoF's weekly flows data showed Japanese investors as heavy buyers of overseas bonds for a fourth consecutive week. The 4-week moving average is near multi-year highs as Japanese investors anticipate a change in Fed policy. Despite chatter about the unwinding of the carry trade and repatriation, there is no sign of that in recent MoF data. The monthly data (due 9 Sep) will be interesting to see what trust banks are doing given the focus on GPIF asset allocation changes. We suspect that banks are leading the dash into foreign bonds. The JGB curve bull flattened. Front end yields were little changed despite the drop in the UST yields, while longer-dated JGBs took more of a cue from overseas and a solid 30yr auction. **USD/JPY was a little firmer in Asian trade, with the yen building on yesterday's gains in the wake of the soft US JOLTS data. The pair sits around the 143.15 level.** German factory orders were strong in July and June was revised higher. The German stats agency noted large orders, which are not likely to be repeated anytime soon. We doubt that this heralds brighter times for the German economic outlook. **EUR/USD was a little higher after the data and sits around 1.1085 as Europe opens, with GBP/USD around 1.3150.**

Today's Major Events and Data Releases

Events over coming 24 hours	Survey/Prev
EZ – Retail sales (%MoM, Jul)	0.1/-0.3
UK – BoE's DMP 1Y Inflation expectations (%YoY, Aug)	2.6/2.5
US – ADP job openings (k, Aug)	145/122
US – Weekly jobless claims (k)	230/231
US – ISM non-manufacturing (DI, Aug)	51.2/51.4

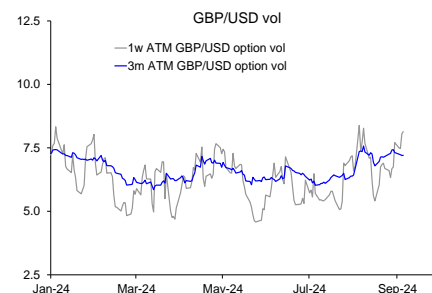
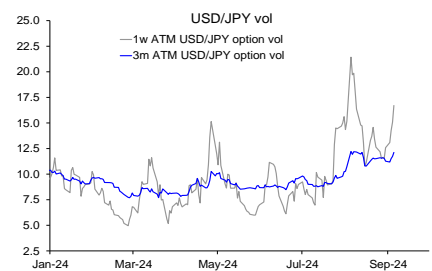
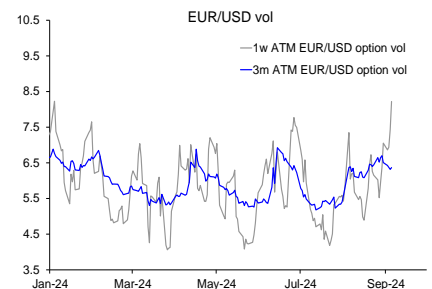
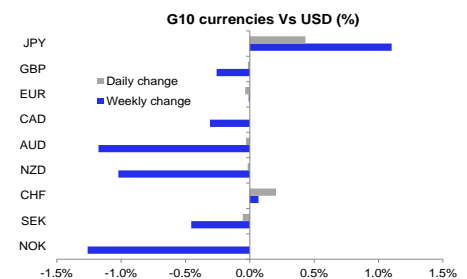
Source: Bloomberg

Europe. German factory orders are one of the few monthly hard data points on investment but given they lag the survey data the market impact is usually limited. Eurozone retail sales lacks coverage and also rarely troubles investors. In the UK, the BoE's Decision Makers' Panel has provided useful information on how companies are viewing the labour market wrt both wages and prices.

US. Yesterday, the Fed's Bostic, a key voter in the current FOMC, noted that the US labour market was weakening but not weak. He also noted that he was "not quite" prepared to declare victory over inflation. Neither comment suggests an urge to cut aggressively (ie 50bp rather than 25bp). The JOLTS data were for July and line up with soft claims, soft ADP and soft payrolls during the month. Claims have dipped since and today we have the ADP report, which we are inclined to see as more noise than signal. Claims on the other hand are among the best coincident labour market indicators. The non-manufacturing ISM will also be in focus, especially the employment component, which surged 5 points last month to 51.1. In the wake of the slump in manufacturing new orders, service sector new orders are also a focus.

Market data

(Source: Bloomberg)



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