

WED 13 JANUARY 2021 07:28

Daily FX Report

EUR / USD

The Euro briefly moved higher in early European trading on Tuesday, although it was unable to sustain the gains and retreated back below the 1.2150 level as the dollar continued to secure buying support on dips. The Euro was also undermined by reported comments from German Chancellor Merkel that the current lockdown measures were likely to stay in place until early April. In this context, there will be further concerns over near-term developments within the Euro-zone economy.

The US NFIB small-business confidence index declined sharply to 95.9 for December from 101.4 previously and well below consensus forecasts of 100.0.

The JOLTS job-openings data recorded a small decline to 6.53mn from 6.63mn the previous month, although slightly above market expectations. The IBD consumer confidence index strengthened to 50.1 from 49.0 previously with little overall market impact.

Cleveland Fed President Mester stated that monetary policy will not need to change as long as the medium-term outlook remains intact even though downside risks have lessened slightly. Kansas City head George stated that the Fed won't react to any inflation move above 2.0%. The latest CPI data is due for release on Wednesday, although the second-quarter data will be important given that inflation will be pushed higher by a base effect of price declines in the second quarter of 2020.

The dollar was unable to gain fresh traction in New York and the Euro rallied to 1.2170 at the European close. The US currency continued to wilt later in the day with the Euro breaking above the 1.2200 level while commodity currencies strengthened. There was little overall change on Wednesday with the dollar looking to stabilise, but unable to make headway as overall confidence dipped again with the Euro holding above 1.2200.

JPY

China's M2 money supply growth slowed to 10.1% for December from 10.7% previously while there was a slowdown in new lending to CNY1260bn from CNY1430bn previously, although this was slightly above consensus forecasts. Near-term Chinese data will be prone to volatility surrounding the Asian new-year holidays.

The US 10-year bond yield edged higher to fresh 10-month highs in early New York, although the US currency was unable to secure fresh support and drifted lower. Wider losses pushed the US currency below 104.00 later in New York and US bond yields moved lower which also tended to curb US currency support.

Vice-President Pence will not invoke the 25th amendment to remove Trump from office and the House is due to vote on impeachment later on Wednesday with evidence that Trump support is weakening. Fiscal and monetary policy developments will be potentially important with Fed Chair Powell speech due to speak on Thursday while President-elect Biden is due to announce his fiscal policy plans and there will be a significant impact on yields. The Chinese yuan strengthened on Wednesday and the dollar remained on the defensive with a retreat to lows near 103.50 before a slight correction.

GBP

In comments on Tuesday, Bank of England Governor Bailey stated that negative interest rates were a controversial issue and that there are a lot of issues with the transmission of rates dependent on the banking sector. Bailey pointed to near-term downside risks, but was still confident that long-term scarring will be

contained and that there will be a strong recovery later in the year. Overall, Bailey's comments were seen as lessening the potential for negative rates which supported Sterling as markets moved to price out any move until late this year compared with last week when futures were pricing in a move by May.

Despite near-term fears over the outlook, optimism over vaccine developments also helped underpin the UK currency and there was some optimism that the rate of growth in new cases was slowing. Sterling moved back above 1.2600 against the dollar while the Euro weakened to 5-week lows around 0.8930.

As the dollar lost ground, there were further notable gains to above 1.3650 against the US currency. Sterling held a firm tone on Wednesday with a peak close to 32-month highs and near the important 1.3700 area against the dollar and before a slight correction while the Euro edged lower to 6-week lows around 0.8925.

CHF

The Swiss franc edged lower on Tuesday, although overall ranges were narrow with the Euro settling around 1.0820 as the domestic currency continued to resist sustained selling pressure. The dollar hit further selling interest above the 0.8900 level and closed just below this level at the European close.

Optimism over a global recovery later this year curbed franc support to some extent, although moves were still relatively limited. There was little change on Wednesday with the dollar retreating to near 0.8850 amid wider losses while near-term euro-zone coronavirus developments provided some protection.

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.2400	105.00	1.3835
Resistance 2	1.2330	104.50	1.3770
Resistance 1	1.2270	104.00	1.3700
	1.2215	103.65	1.3680
Support 1	1.2200	103.30	1.3630
Support 2	1.2140	102.70	1.3570
Support 3	1.2070	102.00	1.3500

Risk warning

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