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Daily FX Report

EUR / USD

The October headline Euro-Zone inflation rate was revised down marginally to 10.6% from the flash reading of 10.7%. The Euro overall was unable to make any headway ahead of Thursday's New York open with weaker risk appetite undermining single currency support and also underpinning the US dollar.

The US Philly Fed manufacturing index dipped further to -19.4 for November from -8.7 previously and well below consensus forecasts of -6.2. New orders remained in contraction territory and unfilled orders also declined sharply for the month with smaller growth in shipments.

There was a smaller increase in employment for the month with a small net increase in inflation pressures which will cause some concern. Companies remained generally pessimistic over the outlook with inflation pressures expected to weaken slightly with the data overall increasing reservations over the outlook.

The Euro overall dipped to lows just above 1.0300 in immediate reaction to the data as equity futures lost further ground with hawkish Fed rhetoric also underpinning the US currency. The dollar was unable to make further headway with a tentative Euro recovery as equity markets recovered from intra-day lows and oil prices declined.

The Euro settled around 1.0360 with little net change on Friday as markets monitored global risk conditions closely.

JPY

The dollar posted net gains in Thursday's New York open with a move to the 140.00 area against the yen amid a wider dollar advance.

US initial jobless claims declined slightly to 222,000 in the latest week from 226,000 and close to consensus forecasts while continuing claims increased to 1.51mn from 1.49mn and the highest reading for over six months which suggested that there had been a net weakening in the labour market. Housing starts retreated to an annualised rate of 1.42mn for October from 1.49mn the previous month, but slightly above consensus forecasts while building permits declined to 1.53mn from 1.56mn.

St Louis Fed President Bullard stated that monetary policy is not yet in a range to be sufficiently restrictive and called for a policy hike to at least 5.00-5.25% with the possibility that rates will need to be much higher than this. There were still indications that the Fed will slow the pace of rate hikes in December.

Treasuries overall were unable to make headway with the 10-year yield increasing to above 3.75% and the dollar hit highs around 140.75 before a correction.

Japan's core inflation rate increased to a 40-year high of 3.6% from 3.0% previously and above expectations of 3.5%. Bank of Japan Governor Kuroda, however, insisted that there would be tightening of monetary policy until wages increases accelerate. As far as the yen is concerned, Kuroda stated that one-sided yen declines were absolutely undesirable. The yen gained some net support with the dollar around 139.75 in early Europe.

GBP

In the Autumn Statement, Chancellor Hunt announced fiscal tightening of £55bn over the next five years. Most tax allowances will be frozen for six years which will contribute to major fiscal drag. Spending levels will be capped, although most tightening will take place after the next scheduled election. Hunt announced that windfall taxes will be increased and the overall tax burden will increase to a 70-year high. The Office for Budget Responsibility stated that the overall debt/GDP ratio will increase while there will be a decline in real disposable incomes of over 7% by 2024, the sharpest 2-year decline on record which will sap the outlook for spending.

Sterling lost ground following the statement with an underlying lack of confidence in the longer-term outlook, although much of the more was related to a weaker tone in risk appetite as US and domestic equity markets lost ground. The overall reaction was muted with most of the measures flagged in advance.

Bank of England chief economist Pill reiterated that further monetary tightening is likely to be needed to curb inflation and gilt yields edged lower.

Sterling dipped to lows around 1.1765 against the dollar before a recovery to 1.1820 at the European close as equities rallied while the Euro secured a net gain to 0.8745 from highs at 0.8775. UK consumer confidence improved slightly for November while retail sales posted a slightly stronger than expected recovery of 0.6% for October after a revised 1.5% previously. Sterling was able to make net gains with underlying short covering in evidence as it traded around 1.19 against the dollar.

CHF

The Swiss franc lost ground on Thursday despite an underlying retreat in equities with some relief over the developments in Ukraine with lower oil prices also curbing potential franc support. The Euro posted a net advance to 0.9860 with the dollar securing a strong advance to highs above 0.9550 before a limited correction.

National Bank member Maechler stated that the bank will raise interest rates again if inflation is above 2.0%. The dollar settled around 0.9520 on Friday.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0570	141.30	1.2065
Resistance 2	1.0500	140.70	1.2000
Resistance 1	1.0430	140.00	1.1930
	1.0380	139.75	1.1905
Support 1	1.0375	139.50	1.1865
Support 2	1.0300	138.80	1.1800
Support 3	1.0230	138.20	1.1735

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	18/11	15:00	Existing Home Sales	Oct	4.4m	4.71m
USD	18/11	15:00	Existing Home Sales M/M	Oct	-6.6%	-1.5%
USD	18/11	15:00	Leading Index	Oct	-0.4%	-0.45

Source: Bloomberg