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Daily FX Report

EUR / USD

The German IFO business confidence index recovered further to 86.3 for November from a revised 84.3 previously and significantly above consensus forecasts of 85.0. The current conditions component dipped to 93.1 from 94.2 previously, but there was a significant improvement in the expectations index to 80.0 from 75.9 in October.

According to the IFO, the German economy is sending signals of hope and there was a net easing of supply bottlenecks. Nevertheless, close to 50% of companies are looking to increase prices within the next three months, maintaining concerns over inflation pressures.

Minutes from October's ECB meeting stated that there was a very large majority for the 75 basis-point increase and that there was a widely shared view that the inflation outlook continued to worsen. There were ECB source reports that the December rate increase was likely to be 50 basis points which triggered a Euro correction.

ECB council member Schnabel stated that the central bank will probably need to raise rates into restrictive territory while incoming data suggests that the room for slowing down the pace of interest rate adjustments remains limited. She added that there is a risk that monetary and fiscal policies will pull in opposite directions.

She added that there was no sign of an actual wage-price spiral, but that it is much worse to underestimate the persistence of inflation rather than over-estimate it.

The more hawkish rhetoric from Schnabel provided an element of Euro support while the dollar remained on the defensive, although there were no US developments given the Thanksgiving Holiday. The Euro, however, was unable to make significant headway and traded around 1.0400 at the European close.

There was little change on Friday with the Euro trading around 1.0420 with trading likely to be very subdued ahead of an early close on Wall Street.

JPY

The US markets were closed for the Thanksgiving Holiday on Thursday, but Treasury futures posted further gains with the 10-year yield trading below 3.70% and close to 6-week lows. The dollar was also still undermined by the weak PMI data released on Wednesday and dovish elements in the Fed minutes.

The US currency dipped to weekly lows near 138.00 before staging a limited recovery with choppy trading amid underlying position adjustment.

The latest Japanese inflation data recorded a 3.6% annual increase in the underlying Tokyo rate and the highest level since 1982. The data will maintain expectations that the Bank of Japan will shift monetary policy, but there is still no sign of a turn at this stage, limiting yen support.

There were further concerns over China's coronavirus trends with another record high reading for new cases, increasing concerns over the outlook, although there were also hints that the central bank is considering a further relaxation of monetary policy which limited the reaction.

US yields remained at lower levels on Friday, but the yen was unable to gain further support and the dollar recovered to the 138.60 area at the European open.

GBP

Bank of England Deputy Governor Ramsden stated that he expects further interest rate increases will be required and he was not convinced that domestically-generated inflation pressures are starting to ease. He added, however, that he would consider the case for cutting rates if the economy develops differently and he favours a watchful approach to policy setting. There were expectations of a less hawkish Bank of England policy, but the impact was offset by shifting global rhetoric.

The UK CBI industrial orders index edged lower to -5 for November from -4 previously, but slightly better than consensus forecasts of -9. Output increased in the latest 3-month period, but companies expect a renewed contraction over the next three months. Inflation pressures are expected to remain high in the short term.

Bank of England MPC member Mann stated that the UK wage and price dynamics are not consistent with the 2% inflation target, but there is not a spiral in progress. She added that expectations were too high ahead of the November meeting, but offered little in the way of fresh guidance. Overall Sterling sentiment remained stronger and it posted fresh 3-month highs near 1.2150 on short covering before a limited correction. The Euro also dipped to 7-week lows near 0.8570 before a marginal recovery. There was a limited correction on Friday with Sterling trading just above 1.2100 against the dollar as UK sentiment held firm.

CHF

The Swiss franc was unable to make further headway on Thursday amid solid global risk conditions. The Euro found support just below the 0.9800 level before edging higher while the dollar found support below 0.9400 and edged higher to 0.9435. There were still reservations over the global economy which provided an element of franc protection. The dollar traded around 0.9440 on Friday with global policy trends in focus.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0565	140.00	1.2265
Resistance 2	1.0500	139.40	1.2200
Resistance 1	1.0450	138.80	1.2135
	1.0415	138.60	1.2105
Support 1	1.0375	138.20	1.2070
Support 2	1.0300	137.50	1.2000
Support 3	1.0240	137.00	1.1940

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