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Daily FX Report

EUR / USD

German unemployment increased 17,000 for November and a slightly larger increase than expected while the unemployment rate edged higher.

The headline Euro-Zone CPI inflation rate declined to 10.0% for November from 10.6% previously and below consensus forecasts of 10.4%. The underlying rate held at 5.0% which was in line with market expectations. The Euro edged lower after the data amid expectations that the ECB could take a slightly less hawkish stance.

The Chicago PMI manufacturing index declined sharply to 37.2 for November from 45.2 previously which was below consensus forecasts of 47.0 and the lowest reading since June 2020. Orders declined sharply on the month, reinforcing reservations over the outlook.

The Euro failed to gain from the weaker US data with sharp losses to lows below 1.0300 near the European close with month-end dollar buying into the London fix.

Fed Chair Powell stated that it makes sense to moderate the pace of rate hikes and that this could be as soon as the December meeting. He did add that it was likely that the terminal rate would be somewhat higher than expected in September, but this shift had already been priced in.

According to Powell, the October inflation data was a welcome surprise, but it will require much more evidence to give reassurance.

He added that a slowing of the economy is a good way to balance risks and restrictive policy will be needed for a considerable period. Powell stated that he did not want to over-tighten, but cutting rates is not something he intends to do anytime soon. The rhetoric overall was seen by traders as dovish with no move to push-back against market expectations. Following Powell's comments, markets were more confident of a 50 basis-point hike this month and expectations of the terminal rate edged lower to just above 5.00%. The dollar posted sharp losses with the Euro advancing to 1.0400 and there was further US selling on Thursday with the Euro just above 1.0450.

JPY

US ADP data recorded an increase in private-sector payrolls of 127,000 for November after a 239,000 increase the previous month and below consensus forecasts of 190,000. Wages increased 7.6% in the year, a slight slowdown from 7.7% the previous month. The ADP commented that there were signs that Federal Reserve rate hikes is having an impact in curbing job creation and wage increases with workers more cautious over quitting jobs.

Job openings slowed to 10.33mn for October from a revised 10.69mn previously and close to market expectations.

Although the US data was mixed, there was strong dollar buying after the New York open with highs at 139.90 into the fix before a limited correction.

The Fed's Beige Book reported that prices increased at a moderate to rapid pace which will maintain reservations over inflation trends. US yields, however, moved lower after Powell's comments while equities rallied strongly and the dollar dipped sharply to lows at 138.00 against the yen.

Bank of Japan member Noguchi stated that monetary easing must be maintained, but the timing of an exit could be brought forward depending on data.

China's Caixin PMI manufacturing index edged higher to 49.4 from 49.2 and slightly above expectations which provided an element of relief and there was greater optimism over coronavirus policies. The dollar overall came under further pressure with the US currency sliding to 3-month lows just below 136.00.

GBP

In comments on Wednesday, Bank of England chief economist Pill stated that further rate hikes were likely, but the base case was that interest rates would not need to increase to 5.25% and inflation was likely to decline sharply over the second half of 2023.

The comments overall had only limited impact with further selling interest above the 1.2000 level against the dollar. There was a slide to lows just above 1.1900 at the London fix with month-end position adjustment having a big impact. There was little net change in the Euro as it settled around 0.8630.

Sterling posted solid gains to above 1.2000 following Powell's comments with stronger risk conditions propelling the UK currency to just above 1.2100 on Thursday.

Global risk conditions are again likely to dominate in the short term, although comments from Bank of England officials will be monitored closely.

CHF

The Swiss KOF business confidence index retreated to 89.5 for November from 90.9 and below expectations of 91.3. The ZEW economic expectations index declined to -57.5 from -53.1. Although the data was below expectations, the franc gained some support with the Euro-Zone inflation data and US data underpinned the Swiss currency. The Euro rallied from lows below 0.9800 after Powell's comments to trade near 0.9850 with the dollar retreating sharply to 0.9430 amid wider losses.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0630	138.00	1.2265
Resistance 2	1.0565	137.30	1.2200
Resistance 1	1.0500	136.70	1.2135
	1.0450	136.10	1.2095
Support 1	1.0440	136.00	1.2075
Support 2	1.0375	135.50	1.2000
Support 3	1.0300	135.00	1.1940

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	01/12	09:00	S&P Global Eurozone Manufacturing PMI	Nov	47.3	47.3
EUR	01/12	10:00	Unemployment Rate	Oct	6.6%	6.6%
USD	01/12	12:30	Personal Income	Oct	0.4%	0.4%
USD	01/12	12:30	Personal Spending	Oct	0.8%	0.6%
USD	01/12	13:30	Initial Jobless Claims	Nov 26	235k	240k
USD	01/12	13:30	Continuing Claims	Nov 19	1570k	1551k
USD	01/12	14:45	S&P Global US Mfg PMI	Nov	47.6	47.6
USD	01/12	15:00	Construction Spending M/M	Oct	-0.2%	0.2%
USD	01/12	15:00	ISM Manufacturing	Nov	49.7	50.2
USD	01/12	15:00	ISM Prices Paid	Nov	45.9	46.6

Source: Bloomberg

Risk warning

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