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Daily FX Report

EUR / USD

US non-farm payrolls increased 263,000 for November above consensus forecasts of around 200,000, and the October increase was revised up to 284,000 from the original reading of 261,000. There was, however, a smaller increase in private-sector payrolls growth which was offset by a stronger gain in government jobs. There was a significant decline in retail jobs for the month with transport and temporary jobs also recording a decline on the month.

The unemployment rate was unchanged at 3.7% and in line with expectations with a reported 138,000 decline in the number of employed in the household survey as the participation rate edged lower. Average hourly wages increased 0.6% for November, double consensus forecasts of 0.3% with the annual increase at 5.1% from a revised 4.9% and well above expectations of 4.6%. The dollar posted sharp gains following the data release with the Euro dipping to lows just below 1.0430.

There were expectations that the Federal Reserve will increase rates by 50 basis points at the December policy meeting. Chicago President Evans stated that there was scope to slow the pace of rate hikes, but that there is likely to be a slightly higher peak than expected previously.

The dollar, however, failed to hold the initial gains and steadily lost ground into the European close with the Euro back above 1.0500 and trading around 1.0530.

CFTC data recorded a small decline in long, non-commercial Euro positions to 122,000 with a net reduction in dollar longs.

The US currency came under further pressure in Asia on Monday on hopes for Chinese re-opening with the Euro strengthening to fresh 5-month highs around 1.0580.

JPY

The dollar was hit by further selling against the yen ahead of Friday's US open with a further clear-out of long dollar positions and lows at 133.65 before stabilising.

Treasuries dipped after the stronger than expected US jobs data with the wages data a key element of concerns given the potential impact on Federal Reserve policy. The 10-year yield, however, was unable to move above the 3.60%. The dollar surged after the jobs data with highs close to 136.00 against the yen, but it was unable to sustain the gains and steadily retreated to trade back below 135.0 with a further slide to 134.30 at the US close.

There should be no further Fed comments on monetary policy with the silent period coming into effect ahead of the December 14th decision.

The latest Chinese PMI data was weaker than expected with the Caixin services index dipping to 46.7 from 48.4 previously, reinforcing near-term economic concerns.

Over the weekend, however, China announced some easing of coronavirus restrictions and there were also indications that President Xi was willing to adopt a less restrictive stance given that the Omicron variant posted less risk to the population. These hopes sparked fresh optimism over an economic recovery and offset the data. Regional equities posted gains while the yuan posted further gains to below 7.00. The yen lost ground on the crosses with the dollar strengthening to near 135.00.

GBP

There were again no significant domestic developments on Friday with global moves again dominating. Sterling dipped sharply after the US jobs data with a retreat to below 1.2150 against the US currency. There was, however, solid buying on dips and there were strong gains to 1.2280 at the European close. Overall expectations of a Chinese economic recovery continued to provide net support to the UK currency with US indices paring losses and the Euro retreated to lows near 0.8550.

CFTC data recorded a small net increase in short, non-commercial Sterling positions which suggests that the Sterling recovery has not been driven by short covering and will maintain scope for short-term position adjustment and Sterling buying, especially if risk appetite holds firm.

Bank of England MPC member Dhingra maintained a dovish stance with comments that there would be the risk of a deeper and longer recession with higher interest rates while there were few signs that demands for higher wages risked a wages-prices spiral given that rates are declining in real terms. She also pointed to weak employment and investment surveys. The CBI also issued a downbeat stance on the economic outlook, reinforcing recession fears.

Global risk conditions dominated with gains to fresh 5-month highs just below 1.2350 against the dollar before a correction with the Euro edging higher to 0.8575.

CHF

The Euro closed little changed against the Swiss franc on Friday with choppy trading during the day. The dollar strengthened to highs near 0.9440 after the US jobs data before a fresh retreat to 0.9370 at the European close. There are expectations that the National Bank will raise interest rates at this month's policy meeting.

Stronger risk conditions undermined the franc on Monday with the Euro strengthening to near 0.9900 before stabilising with the dollar retreating to just below 0.9350.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0700	136.00	1.2465
Resistance 2	1.0630	135.50	1.2400
Resistance 1	1.0570	135.00	1.2335
	1.0560	134.95	1.2310
Support 1	1.0500	134.35	1.2265
Support 2	1.0440	133.75	1.2200
Support 3	1.0375	133.00	1.2135

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
GBP	05/12	09:00	New Registrations Y/Y	Nov	-	26.4%
GBP	05/12	09:30	Official Reserve Changes	Nov	-	\$779m
GBP	05/12	09:30	S&P Global/CIPS UK Services PMI	Nov	48.8	48.8
GBP	05/12	09:30	S&P Global/CIPS UK Composite PMI	Nov	48.3	48.3
EUR	05/12	09:00	S&P Global Eurozone Services PMI	Nov	48.6	48.6
EUR	05/12	09:00	S&P Global Eurozone Composite PMI	Nov	47.8	47.8
EUR	05/12	10:00	Retail Sales Y/Y	Oct	-2.6%	-0.6%
USD	05/12	14:45	S&P Global US Services PMI	Nov	46.1	46.1
USD	05/12	14:45	S&P Global US Composite PMI	Nov	46.3	46.3
USD	05/12	15:00	Factory Orders	Oct	0.7%	0.3%
USD	05/12	15:00	Durable Goods Orders	Oct	1%	1%
USD	05/12	15:00	ISM Services Index	Nov	53.3	54.4

Source: Bloomberg

Risk warning

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