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Daily FX Report

EUR / USD

Relatively narrow ranges prevailed for much of Tuesday with no major data releases during the day on either side of the Atlantic, although volatility increased later in the day. ECB council member Herodotou stated there will be further rate hikes, but added that rates are very close to a neutral rate. At this stage, markets expect that the central bank will increase interest rates by a further 50 basis points at next week's policy meeting, although there is still an element of uncertainty. The Euro posted net gains after the European open with highs just above 1.0530 against the US dollar.

Equities lost ground during after the US open which limited the potential for Euro support while there was also an element of defensive dollar demand amid a less confident risk tone. In this environment, the Euro retreated back below the 1.0500 level with lows near 1.0480 at the European close.

As far as next week's Federal Reserve policy decision, markets are also expecting a rate increase of 50 basis points and any deviation from these expectations will have an important impact on exchange rates. The Democrats won the run-off in Georgia and will, therefore, have control of the Senate with a majority of 2.

The dollar overall held a firm tone on Wednesday with the Euro sliding to lows just below 1.0450 against the US currency before stabilising.

JPY

The overall US trade deficit widened to \$78.2bn for October from a revised \$74.1bn the previous month with a monthly decline in exports while imports increased.

There was choppy trading in Treasuries after the US open with overall yields tending to edge lower which limited potential dollar support and the yen also gained an element of support from weaker equities, although with little in the way of sustained buying for the Japanese currency.

From highs just below the 137.50 level, the dollar dipped to lows at 136.00 before a recovery to 136.80 at the European close.

The Japanese Tankan index for manufacturing increased to 8 for December from 2 previously with the outlook unchanged for January. The services-sector reading also strengthened to a 3-year high of 25 from 20, although there were expectations of a limited correction for next month.

China's November trade data was weaker than expected with exports declining 8.7% over the year while imports

posted a 10.6% contraction. The trade data reinforced unease surrounding domestic and global economic trends.

The Chinese Politburo, however, announced that there would be a notable easing of coronavirus restrictions including wider use of home quarantine and a move away from quarantine camps. There will be further announcements later and the Chinese move helped underpin risk appetite, although equities still struggled to make much headway. The dollar overall posted net gains to just above 137.50 against the yen as the Japanese currency failed to gain significant support.

GBP

The UK PMI construction index dipped to 50.4 for November from 53.2 the previous month and below consensus forecasts of 52.0. Although there was a small increase in new orders, overall business confidence declined to a 30-month low and, excluding the initial pandemic period, this was the weakest level of confidence since 2008.

Net price pressure eased on the month, but remained elevated in historic terms, especially with an important impact from higher energy prices.

Overall confidence in the UK outlook remained very weak with further concerns that consumer spending and investment would be damaged by high energy costs while strike action hurt sentiment. Sterling was also undermined by weaker risk appetite as equities retreated, although the UK currency did demonstrate some resilience and there was also some buying into the London fix amid underlying position adjustment into the year-end period.

Sterling settled below 1.2200 against the dollar and retreated to below 1.2150 after the European close as equities moved lower while the Euro overall was little changed as markets tested both ends of the trading ranges during the day. Sterling retreated to near 1.2100 against the dollar on Wednesday with Euro gains to 0.8630.

CHF

The Swiss franc struggled for any traction in early Europe on Tuesday, but gradually gained support as equities moved lower. The Euro retreated to near 0.9850 after failing to hold above the 0.9900 level while the dollar edged lower to 0.9420 from highs above 0.9850.

There was an element of caution ahead of next week's policy meeting with consensus forecasts for a further increase in interest rates.

The franc was unable to gain further support on Wednesday as risk appetite stabilised with the dollar around 0.9425.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0630	139.30	1.2265
Resistance 2	1.0570	138.60	1.2200
Resistance 1	1.0500	138.00	1.2135
	1.0450	137.60	1.2110
Support 1	1.0440	137.40	1.2070
Support 2	1.0370	136.65	1.2000
Support 3	1.0320	136.00	1.1935

Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
EUR	07/12	10:00	GDP Q/Q	Q3	0.2%	0.2%
EUR	07/12	10:00	GDP Y/Y	Q3	2.1%	2.1%
EUR	07/12	10:00	Household Cons Q/Q	Q3	0.5%	0.9%
USD	07/12	12:00	MBA Mortgage Applications	Dec	-	-0.8%
USD	07/12	13:30	Non-farm productivity	Q3	0.6%	0.3%
USD	07/12	13:30	Unit Labour Costs	Q3	3.1%	3.5%

Source: Bloomberg

Risk warning

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