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Daily FX Report

EUR / USD

The Euro held a firm tone ahead of Thursday's New York open with solid underlying buying on dips and a lack of underlying support for the US dollar.

Lower global oil prices also continued to provide an element of Euro support. European gas prices, however, increased to a 7-week high which maintained some reservations surrounding the outlook, especially with cold weather conditions continuing. Overall, the Euro edged higher to 1.0525 against the dollar as the US open.

US initial jobless claims increased slightly to 230,000 in the latest week from a revised 226,000 previously and in line with consensus forecasts. Continuing claims increased to 1.67mn from 1.61mn which was higher than expected and the highest reading since early January. Although initial claims remained low, the gradual increase in continuing claims suggested that companies were more cautious over hiring policies.

The Euro moved higher after the US open with highs close to 1.0550. Although relatively narrow ranges prevailed, the dollar continued to edge lower as risk appetite held steady and the Euro advanced to highs at 1.0585 in early Europe on Friday.

The US producer prices data will be released on Friday ahead of the key consumer prices release next week and the latest consumer confidence data will also be watched closely, especially with the latest update on inflation expectations. The data will help set the tone for the key events next week with position adjustment a key element. Consensus forecasts are that both the ECB and Federal Reserve will decide on 50 basis-point rate hikes at next week's policy meetings.

JPY

After Thursday's European open, Hong Kong announced that there would be a reduction in covid isolation times and there was also a further easing of restrictions in Shanghai which gave a small lift to risk appetite, although the overall impact was limited given underlying reservations over the global economic outlook.

Treasuries were little changed ahead of the New York open before drifting lower with the 10-year yield just below the 3.50% level.

The dollar was unable to make renewed gains and dipped to below 136.50 after the US open with the yen resilient.

US yields briefly recovered towards the US close, but faded again in Asia amid reservations over a potential US recession.

Chinese inflation data was close to expectations with consumer prices increasing 1.6% in the year to November, maintaining expectations of further measured monetary policy easing by the central bank. Asian equity bourses were able to make headway on Friday with a solid risk tone.

The yen was resilient on the crosses amid lower US yields and the dollar dipped to lows just below 135.80 before creeping back to just above the 136.00 level.

Chinese coronavirus developments will continue to be monitored closely in the short term and will also be significant for risk appetite.

GBP

There were again no major UK developments during European trading on Thursday, although there were further reservations surrounding the housing sector following a run of weak data this week. Following the Bank of Canada comments on Wednesday, there was further speculation that that weakness in the sector would lead to a more cautious Bank of England monetary policy stance over the next few months.

There was also a lack of commitment ahead of key events next week with some covering of short Sterling positions in evidence. Overall risk conditions were mixed, but there were still important reservations surrounding the global growth environment. Energy-market trends will also be important for UK currency sentiment

Sterling found support just above 1.2150 against the dollar and moved back above the 1.2200 level in Europe as the US currency retreated while the Euro secured a limited net advance to 0.8630. The soft dollar tone continued on Friday with Sterling trading above 1.2250 against the dollar.

Consensus forecasts are for a further Bank of England interest rate increase of 50 basis points to 3.50% and there will be position adjustment ahead of next week's decision. Overall risk conditions will also be a key element for Sterling in the short term with markets also watching energy-market developments closely.

CHF

The Swiss franc regained some ground on Thursday with the Euro retreating to 0.9865 after again failing to break above the 0.9900 level. The dollar retreated to lows near 0.9350. There was an important element of caution ahead of key monetary policy meetings next week.

Although there are concerns over the global economy, risk appetite held steady with the dollar drifting lower to 0.9335 amid a soft US currency tone.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0730	138.00	1.2400
Resistance 2	1.0680	137.40	1.2330
Resistance 1	1.0620	136.70	1.2265
	1.0580	136.05	1.2260
Support 1	1.0550	136.00	1.2200
Support 2	1.0500	135.50	1.2135
Support 3	1.0440	135.00	1.2070

Risk warning

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