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Daily FX Report

EUR / USD

The Euro was unable to make headway after Friday's European open and drifted lower with weakness primarily reflecting losses on the cross rather than dollar gains.

US producer prices increased 0.3% for November with the year-on-year rate declining to 7.4% from 8.1%, but slightly above consensus forecasts of 7.2%. Underlying prices increased 0.4% compared with expectations of 0.2% with the annual rate at 6.2% from 6.8%. There were some concerns that stronger than expected data indicated persistent inflation pressures. The dollar posted gains following the data with the Euro dipping to near 1.0500, but the US currency quickly reversed gains.

The University of Michigan consumer confidence index recovered to 59.1 for November from 56.8 the previous month and above consensus forecasts of 56.9. There were net increases for the current conditions and expectations components for the month.

The 1-year inflation expectations index declined to 4.6% from 4.9% while the 5-year index was unchanged at 3.00% which provided slight relief.

The Euro settled around 1.0535 at the European close with a reluctance to engage in aggressive positioning ahead of key events.

CFTC data recorded a small net increase in long, non-commercial Euro positions and the short dollar position increased to the highest level since July 2021.

Consensus forecasts are for both the Federal Reserve and ECB to increase interest rates by 50 basis points at this week's policy meeting with a 90% chance of the Fed opting for a 50 basis-point hike. Markets will be on alert for any unofficial briefings, especially for the Fed.

The dollar secured limited gains on Monday with the Euro drifting to around 1.0520 as tight ranges prevailed ahead of key events.

JPY

There were suspicions that China was under-reporting coronavirus data which had some impact in dampening risk conditions during Friday and the dollar drifted lower into the US open with lows at 135.60 against the Japanese currency as the yen demonstrated some resilience.

US Treasuries posted significant losses after Friday's New York open with the 10-year yield increasing to around 3.55%. Equity markets were slightly lower, but there was little in the way of yen support and the dollar strengthened to 136.60 at the European close.

China announced a further easing of coronavirus restrictions with the controversial travel card app set to be abandoned on Tuesday. This will be important in improving mobility, although there will still be concerns over the near-term impact on higher case rates and equity markets were cautious.

Overall, the dollar made net headway and traded close to the 137.00 level against the yen before drifting lower as caution prevailed.

GBP

The latest data recorded a small decline in UK 1-year inflation expectations to 4.8% from 4.9%, but there was an increase in the longer-term expectations components.

Although overall confidence in the UK economy remained very fragile, Sterling overall held a firm tone during Friday with a further suspicion that there was a further net covering of long-standing short positions. There was also buying into the London fix which underpinned the currency.

The UK currency posted gains to near 1.2300 against the dollar while the Euro retreated to 0.8575. The UK currency failed to hold its best levels amid reservations over the underlying outlook and retreated to near 1.2250 at the New York close while the Euro recovered slightly to 0.8590.

CFTC data recorded a decline in short Sterling positions to just above 28,000 in the latest week from over 36,500 the previous week, maintaining the potential for further short covering into the year-end period. Markets expect a split Bank of England rate decision which will contribute to volatile trading before and after the rate call.

The latest UK GDP data was slightly stronger than expected with a 0.5% recovery for October after a 0.6% decline the previous month with a stronger than expected reading for construction. The market impact was limited with Sterling trading around 1.2230 against the dollar and Euro fractionally above 0.8600.

CHF

The Swiss franc posted significant gains on Friday with wider Euro losses having an important impact during the day amid doubts whether the ECB would adopt a hawkish stance at the latest policy meeting. The Euro dipped to around 0.9830 while the dollar posted significant losses to 0.9325.

Consensus forecasts are for the National Bank to increase interest rates this week by a further 50 basis points to 1.00% with a minority expecting 25 basis points.

The Euro was little changed on Monday while the dollar edged higher to 0.9365 amid wider gains.

Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0680	138.65	1.2400
Resistance 2	1.0620	138.00	1.2330
Resistance 1	1.0550	137.40	1.2265
	1.0515	136.90	1.2230
Support 1	1.0500	136.70	1.2200
Support 2	1.0440	136.00	1.2135
Support 3	1.0380	135.50	1.2070

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