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# Daily FX Report

## EUR / USD

The Euro held a firm tone after the European open on Monday and challenged levels around 1.0575 as the dollar drifted lower. There were no significant data releases during the day with further position adjustment ahead of key central bank policy decisions this week.

Euro-Zone equities were unable to make headway during the day which hampered and there were still concerns over energy costs despite a slight retreat in gas prices during the day. After choppy trading at the US open, the dollar recovered from a brief move lower and secured significant buying interest into the London fix with the Euro retreating to the 1.0520 area before stabilising around 1.0530.

Ahead of the key interest rate decisions this week, the latest US consumer prices data on Tuesday will be very important for market sentiment. Consensus forecasts are for the headline rate to decline to 7.3% from 7.7% the previous month with the underlying rate expected to dip to 6.1% from 6.3%.

In line or softer than data for the month would boost optimism over peak inflation and underpin risk appetite with net dollar losses while stronger than expected data would increase inflation fears and potentially strengthen the dollar, although there will inevitably be high volatility, especially with the Fed decision on Wednesday.

Narrow ranges prevailed on Tuesday as markets waited for the US release with the dollar slightly weaker amid hopes for favourable data and the Euro near 1.0560.

## JPY

There were talks between US and Chinese trade officials on Monday with some positive assessment from the US side which had a limited impact in underpinning risk sentiment. There were also further hopes that economic re-opening would continue.

China recorded a strong increase in loan growth of CNY1210bn for November after CNY615bn the previous month, although this was slightly below consensus forecasts. Overall social financing also increased to CNY1990bn from CNY908bn the previous month which should offer some reassurance over growth trends.

The latest New York survey recorded a decline in 1-year inflation expectations to 5.2% from 5.9% the previous month while the 3-year inflation expectations declined marginally to 3.0% from 3.1%. The decline in inflation will provide an element of optimism that inflation pressures are peaking.

Despite a decline in inflation expectations, there was selling pressure in Treasuries with the 10-year yield

increasing to near 3.60%.

The dollar was underpinned by higher yields and strengthened to highs at 137.60 at the European close with the Euro posting net gains.

The dollar briefly advanced to highs just below 138.00 against the yen in Asia on Tuesday as the US 10-year yield held around 3.60% before a retreat to near 137.50.

## GBP

The slightly stronger than expected October GDP data provided an element of Sterling support, although there were still important reservations surrounding the outlook with expectations that the economy was already close to recession and vulnerable to a further slide after the new-year period with a sharp retrenchment in consumer spending. Sterling overall was again resilient with further evidence of a covering of short positions into the year-end period and some expectations that a lot of bad news surrounding the economy had been priced in. Sterling advanced to highs at 1.2300 before correcting to near 1.2250 with dips still tending to attract solid buying.

The Euro was unable to hold tentative gains and retreated to near 0.8580 at the European close.

UK labour-market data recorded a slight increase in the unemployment rate to 3.7% from 3.6%, but with a further increase in employment as the inactivity rate declined. Overall earnings growth increased slightly to 6.1% from 6.0%, but marginally below expectations. Sterling overall held a firm tone to re-test 1.2300 against the dollar while the Euro was held below the 0.8600 level. The latest UK inflation data will be released at Wednesday's European open.

## CHF

Total Swiss sight deposits declined to CHF542.3bn in the latest week from CHF549.8bn previously, maintaining the strong and persistent run of declining deposits as the National Bank continues to drain liquidity. The National Bank will release its latest monetary policy decision on Thursday with consensus forecasts for a further rate increase of 50 basis points to 1.00%, although some investment banks are expecting a larger rate move.

The franc was unable to make headway during Monday with the Euro strengthening to 0.9570 while the dollar posted highs around 0.9370 before settling around 0.9350. There was little change on Tuesday with the dollar holding close to 0.9350.

## Technical Levels

	EUR/USD	USD/JPY	GBP/USD
Resistance 3	1.0750	139.30	1.2430
Resistance 2	1.0680	138.65	1.2365
Resistance 1	1.0620	138.00	1.2300
	1.0555	137.65	1.2290
Support 1	1.0550	137.40	1.2235
Support 2	1.0500	136.70	1.2170
Support 3	1.0440	136.00	1.2100

## Calendar

Currency	Date	Time	Indicator	Period	Survey	Prior
USD	13/12	11:00	NFIB Small Business Optimism	Nov	90.5	91.3
USD	13/12	13:30	CPI M/M	Nov	0.3%	0.3%
USD	13/12	13:30	CPI Y/Y	Nov	7.3%	7.7%
USD	13/12	13:30	CPI Ex Food and Energy Y/Y	Nov	6.1%	6.3%
USD	13/12	13:30	Real Avg Hourly Earnings Y/Y	Nov	53.3	54.4

Source: Bloomberg

### Risk warning

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