

WED 14 DECEMBER 2022 07:00

Daily FX Report

EUR / USD

The German ZEW economic sentiment index improved to -23.3 for December from -36.7 previously and above forecasts of -26.4. The current conditions index also improved slightly to -64.5 to -61.4, although this fell short of market expectations of -57.0. The Euro held a firm tone, although with narrow ranges ahead of the US data.

US consumer prices increased 0.1% for November after a 0.4% increase the previous month and below consensus forecasts of 0.3%. The year-on-year rate declined to 7.1% from 7.7% and also below expectations of 7.3%. Food prices increased 10.6% over the year with a 13.1% increase in energy prices despite a monthly decline

Underlying prices increased 0.2%, slightly below forecasts of 0.3% with the year-on-year rate declining to 6.0% from 6.3% and slightly below forecasts of 6.1%.

There was a sharp decline in the price of used vehicles for the second month in a row with a dip in the cost of medical services while there was a slight moderation in the increase in shelter costs which provided some relief over rent trends.

The data maintained optimism that inflation had peaked in the US economy and the dollar posted sharp losses in immediate reaction to the data. The Euro spiked to 6-month highs just above 1.0670 before a retreat to 1.0620 later in the session while the dollar index posted 5-month lows before a tentative recovery attempt.

The Federal Reserve will announce its latest policy decision on Wednesday. There are very strong expectations that the pace of rate hikes will be slowed to 50 basis points which would take rates to 4.5%. Rhetoric and guidance from Chair Powell will be crucial for the market reaction. There is increased market speculation over a more dovish stance and the potential for rates to peak below 5.00% with a sharp reaction if Powell remains very hawkish.

The Euro settled around 1.0630 on Wednesday as the dollar remained on the defensive, but there was inevitable caution ahead of the Fed decision and rhetoric.

JPY

The US NFIB small-business confidence index strengthened to 91.9 for November from 91.3 the previous month and above expectations of 90.7, although it remained below the long-term average. There was little overall change in inflation pressures during the month.

Treasuries posted sharp gains after the US inflation data with the 10-year yield at 3-month lows around 3.50% which sapped US support. The dollar came under heavy selling pressure after the data with lows around 134.70 as the yen gained net support on the crosses despite gains in equity markets.

There was a tentative rally to 135.50 after the European close, but lower yields continued to sap support.

There were reports that a key Chinese economic meeting had been postponed due to a surge in coronavirus cases. Japan's core machinery orders increased 5.4% for October which provided an element of relief after two months of sharp declines, although global trends tended to dominate.

Relatively narrow ranges prevailed on Wednesday with the dollar settling just below 135.50 from 135.70 highs as Treasuries maintained a firm tone.

GBP

The slightly stronger labour-market data failed to have a major impact on Tuesday, but Sterling held a firm overall tone as expectations surrounding peak Bank of England interest rates edged higher given a stronger increase in wages. The UK currency held a firm tone despite a warning from the Financial Stability Report that conditions were deteriorating and that stresses on household and business budgets would increase further.

Sterling jumped higher after the US inflation data with a peak at 6-month highs just above the 1.2440 level. Sterling was underpinned by a weaker dollar as well as a stronger tone surrounding risk appetite amid hopes for that central banks could be less aggressive. There was a correction later in the session with a retreat to 1.2350 as the dollar attempted to recover while the Euro settled with small-scale gains to just above the 0.8600 level.

The headline UK CPI inflation rate declined to 10.7% for November from 11.1% previously and slightly below expectations of 10.9% while core inflation retreated to 6.3% from 6.5%. Market reaction was limited with Sterling trading just above 1.2350 against the dollar while the Euro held just above 0.8600.

CHF

The Swiss franc overall edged lower on Tuesday as firm global risk conditions curbed potential defensive demand. The Euro advanced to the 0.9900 level before hitting a correction while the dollar dipped to lows below 0.9250 before a rebound to near 0.9300.

There will be caution ahead of Thursday's National Bank decision given uncertainty over the size of the latest rate hike with the dollar below 0.9300 on Wednesday.

Technical Levels

| | EUR/USD | USD/JPY | GBP/USD |
|--------------|---------|---------|---------|
| Resistance 3 | 1.0820 | 137.20 | 1.2500 |
| Resistance 2 | 1.0750 | 136.50 | 1.2430 |
| Resistance 1 | 1.0675 | 135.80 | 1.2365 |
| | 1.0630 | 135.40 | 1.2355 |
| Support 1 | 1.0620 | 135.25 | 1.2300 |
| Support 2 | 1.0550 | 134.60 | 1.2235 |
| Support 3 | 1.0500 | 134.00 | 1.2170 |

Calendar

| Currency | Date | Time | Indicator | Period | Survey | Prior |
|----------|-------|-------|----------------------------|--------|--------|-------|
| GBP | 14/12 | 09:30 | House Price Index Y/Y | Oct | 11.2% | 9.5% |
| EUR | 14/12 | 10:00 | Industrial Production Y/Y | Oct | 3.3% | 4.9% |
| EUR | 14/12 | 10:00 | Industrial Production M/M | Oct | -1.5% | -1.5% |
| USD | 14/12 | 12:00 | MBA Mortgage Applications | Dec 9 | - | -1.9% |
| USD | 14/12 | 13:30 | Import Price Index M/M | Nov | -0.5% | -0.5% |
| USD | 14/12 | 19:00 | FOMC Rate Decision (Lower) | Dec 14 | 4.25% | 3.75% |
| USD | 05/12 | 15:00 | FOMC Rate Decision (Upper) | Dec 14 | 4.50% | 4.00% |

Source: Bloomberg

Risk warning

This is a marketing communication. The information in this report is provided solely for informational purposes and should not be regarded as a recommendation to buy, sell or otherwise deal in any particular investment. Please be aware that, where any views have been expressed in this report, the author of this report may have had many, varied views over the past 12 months, including contrary views.

A large number of views are being generated at all times and these may change quickly. Any valuations or underlying assumptions made are solely based upon the author's market knowledge and experience.

Please contact the author should you require a copy of any previous reports for comparative purposes. Furthermore, the information in this report has not been prepared in accordance with legal requirements designed to promote the independence of investment research. All information in this report is obtained from sources believed to be reliable and we make no representation as to its completeness or accuracy.

This report is not subject to any prohibition on dealing ahead of the dissemination of investment research. Accordingly, the information may have been acted upon by us for our own purposes and has not been procured for the exclusive benefit of customers. Sucden Financial believes that the information contained within this report is already in the public domain. Private customers should not invest in these products unless they are satisfied that the products are suitable for them and they have sought professional advice. Please read our full risk warnings and disclaimers (www.sucdenfinancial.com/en/risk-warning-and-disclaimers).